

kubell Co., Ltd.

4448

Tokyo Stock Exchange Growth Market

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■ Contents

■ Summary	01
1. Company profile	01
2. Results trends	01
3. FY12/25 forecasts	01
■ Company profile	02
1. Company profile	02
2. History	03
■ Business overview	04
1. Business chat business	04
2. BPaaS business	05
3. Incubation business	05
4. Company strengths	06
■ Results trends	07
1. Overview of FY12/24 results	07
2. Core KPI highlights	09
3. BPaaS domain	10
4. Financial position	10
■ Outlook	11
1. FY12/25 forecasts	11
2. Topics	12
■ Growth strategy	14
1. Key strategies	15
2. Sustainability vision	17
■ Shareholder return policy	18

Summary

Significantly exceeded forecast, and operating profit returned to profitability. Dramatic growth is expected through the expansion of the BPaaS business

1. Company profile

kubell Co., Ltd. <4448> (hereafter, also the “Company”) offers Chatwork, Japan’s largest business chat service, promotes the digital transformation (DX) of business operations, and provides Business Process as a Service (BPaaS) such as Chatwork Assistant, a business process outsourcing service which supports efforts to improve productivity at small and medium-sized enterprises (SMEs). The Company’s strength lies in providing precise solutions to the structural issues faced by Japan’s domestic labor market. To address labor shortages caused by a declining birth rate and aging population, as well as the need to improve the productivity of SMEs, the Company has centered its efforts on Chatwork, a tool which can be easily introduced and utilized even by companies with low IT literacy, contributing significantly to many SMEs. Chatwork has been adopted by 620,000 companies in Japan (as of the end of December 2024), successfully differentiating itself from competitors by offering services targeted especially at SMEs. Further, the Company is promoting a new cloud-based service model called BPaaS, which supports DX at SMEs by outsourcing business processes to the cloud. This approach represents a significant strength, as it provides a solution that is easy to introduce even for the majority market, which tends to lag in DX due to low IT proficiency.

2. Results trends

In the FY12/24 cumulative results, the Company reported revenue of ¥8,470mn (up 30.6% year on year (YoY)), operating profit of ¥96mn (loss of ¥677mn in the previous fiscal year), ordinary profit of ¥75mn (loss of ¥686mn), and loss attributable to owners of parent of ¥1,172mn (loss of ¥620mn). Revenue in the mainstay Chatwork segment saw sharp growth, increasing 32.2% to ¥8,323mn. As a result, consolidated revenue showed a steady increase of 30.6%, confirming that the Company’s main business continues to exhibit robust performance in the market. Further, EBITDA has remained in positive territory for five consecutive quarters and the Company shifted to positive results with respect to operating profit. The Company has accelerated investment aimed at achieving medium- to long-term growth, particularly focusing on raising recognition rates and building its operating framework to address the substantial increase in demand attributable to the COVID-19 pandemic. The return to profitability in operating profit is a result of these investments.

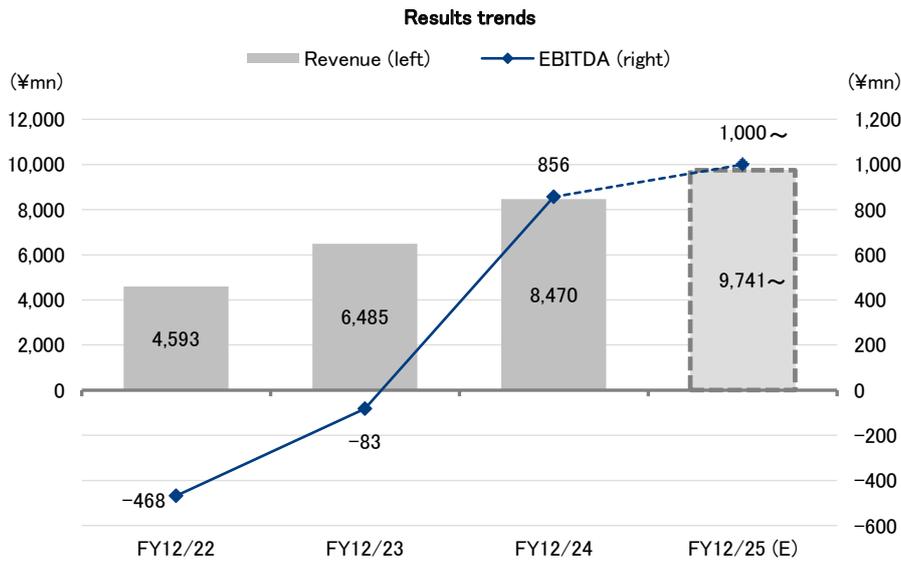
3. FY12/25 forecasts

For its FY12/25 results, the Company is forecasting revenue of ¥9,741mn or more (up 15.0% YoY) and EBITDA of ¥1,000mn or more (up 16.7%). In terms of priority measures in each business, the Chatwork business is steadily increasing the number of paying IDs and ARPU, as can be seen from the detailed disclosure of each KPI. The sales and marketing department has also become a strong organization, and further acceleration of its growth is expected. In addition, with the appointment of Kentaro Iwamoto as division head and Nozomi Tokuhara as deputy head of the division responsible for the Chatwork business, measures will be taken to promote re-growth not only in the sales and marketing department but also in the product department. The BPaaS business is in a phase of approaching further growth, and the number of employees is expected to increase. The greater the ratio of BPaaS business revenue to Company-wide revenue, the more it drives growth. We at FISCO believe that the Company’s growth rate will bottom out in FY12/25 as it is in the investment phase for accelerated growth in the next fiscal year and beyond.

Summary

Key Points

- Supports productivity improvements at SMEs through Chatwork, Japan’s largest business chat service, and BPaaS such as Chatwork Assistant, a business process outsourcing service
- Results for FY12/24 saw a 30.6% YoY increase in revenue. Operating profit far exceeded forecasts and returned to profitability
- Forecasts for FY12/25 project both steady growth and improved profitability by leveraging the broader adoption of the Chatwork business chat tool and aggressive investment in the BPaaS business as growth drivers



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

Company profile

Provides Chatwork, Japan’s largest business chat service

1. Company profile

The Company offers Chatwork, Japan’s largest business chat service, promotes DX of business operations, and provides BPaaS such as Chatwork Assistant, a business process outsourcing service which supports efforts to improve productivity at SMEs. With a mission of “making work more fun and creative,” the Company sees time spent working as more than a means to making a living, and aims to realize a society where people can have more fun exploring their creativity. In pursuit of this mission, the Company is driven by the determination to “be a company that continues to add fuel to the fire (aspiration) residing in the hearts of all people who work.” The Company’s name, “kubell” is derived from the Japanese word “kuberu,” which means to add firewood to a bonfire. As of the end of FY12/24, the Company had its head office in Minato-ku, Tokyo, with ¥6,113mn in total assets, ¥2,922mn in capital, an equity ratio of 26.1%, and 41,762,101 shares outstanding.

Company profile

Chatwork leads the domestic market and has been ranked No. 1 in the number of business chat users in Japan for six consecutive years, according to the Nielsen NetView / Mobile NetView Customized Report. Further, as of the end of December 2024, the service has been adopted by more than 620,000 companies, a broad customer base that underscores the robustness of the Company's platform. Its business model goes beyond simply providing software as a service (SaaS), occupying a unique position by offering BPaaS, which outsources entire business processes through SaaS, supporting its customers' DX initiatives. This enables the Company to provide solutions that facilitate DX, even for SMEs with low IT literacy. As part of its growth strategy going forward, the Company also aims to become the No. 1 BPaaS provider for SMEs by 2026, with a long-term goal of evolving into a platform as a super app for business. To realize this vision, the Company will continue to expand its share of the domestic market, with plans to develop new services that streamline labor productivity.

The Company already has a solid foundation in the domestic SaaS market, with a particularly strong competitive advantage in the SME segment. The development of new services utilizing BPaaS and AI is highly effective as a strategy for sustainably expanding that advantage, and we at FISCO anticipate significant growth going forward.

2. History

The Company was originally known as Chatwork Co., Ltd., and today enjoys the largest share of Japan's market for business chat services, primarily for SMEs. The Company's origins go back to July 2000. At the time, the Yamamoto brothers founded EC studio in Suita, Osaka Prefecture, with the goal of providing website customer acquisition support services for businesses. (The Company's current Representative Director, President and CEO is the younger of the brothers, Masaki Yamamoto.) In November 2004, the firm was incorporated as a limited liability company (Y.K.) before reorganizing as a stock company (K.K.) in December 2005. As its business expanded, in 2006 it established its Tokyo office in Setagaya-ku, Tokyo.

In March 2011, the Company released Chatwork, its business chat service, which subsequently attracted considerable attention both in and outside Japan. In April 2012, the company name was changed to ChatWork Co., Ltd., and that year, the Company also established a subsidiary in the US, in California. Chatwork not only attempted to expand domestically but also ventured overseas, with its experience in Silicon Valley serving as an important turning point. Amid a proliferation of competing global services, the Company temporarily withdrew from competition in the global market. Nevertheless, in the domestic market, its business model aimed particularly at SMEs proved successful, leading to steady growth. In September 2019 it was listed on the Tokyo Stock Exchange Mothers Market (currently the Growth Market), and that year once again changed its name to Chatwork Co., Ltd.

In July 2024, the Company changed its name from Chatwork Co., Ltd. to kubell Co., Ltd., indicating its intention to further diversify its business and strengthen its efforts to support SMEs. Since its founding, the Company has continued to grow and transform, evolving beyond business chat to become a platform that supports the DX of business processes.

■ Business overview

Based on its Chatwork business chat service, the Company provides a platform to transform the way people work using BPaaS

The Company's main businesses are the Chatwork business chat tool and the BPaaS services based on it. Chatwork holds a dominant market share in Japan's SME market, leading the industry in both number of users and number of companies adopting the service. Since users rely on it continuously while working, it provides significantly more customer touchpoints compared to other Software as a Service (SaaS) solutions, making its platform capabilities a key strength of the Company.

The BPaaS offered by the Company is a more advanced form of cloud service than SaaS, characterized by providing not only software, but also delivering entire business processes through the cloud. The BPaaS enables SMEs with low IT literacy to promote DX. In addition, by leveraging the Chatwork platform, it provides new added value by not only offering SaaS but also streamlining operations on behalf of the customer. Further, the Company is also focusing on developing new services utilizing AI technology, and is investing in areas of promising future growth, especially AI-driven conversation features and automated task execution within Chatwork. This use of AI is expected to both further enhance user productivity, and help the Company acquire new customer segments.

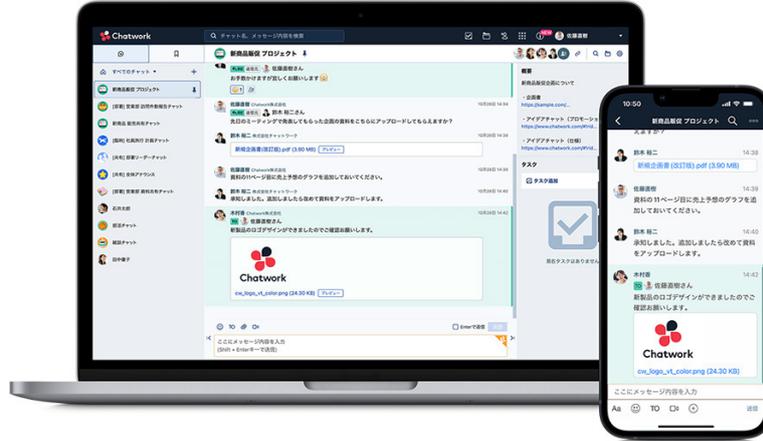
The business chat market still has significant room for growth and current adoption rates are low, so market expansion is anticipated going forward. Meanwhile, profitability in the BPaaS business is expected to improve as high value-added services are provided. The Company is driving its growth strategy on the pillars of these businesses, and in the medium term, stable revenue growth is expected. In addition, through the development of its incubation business, the Company is expected to secure new growth opportunities and further enhance its corporate value. The Company's business model is extremely attractive, with significant room for growth, particularly in the market for DX support for SMEs. We at FISCO expect that the continued expansion of services utilizing BPaaS and AI technology will lead to improved profitability.

1. Business chat business

In the business chat business, the Company offers its flagship product, the business chat tool Chatwork. Targeting primarily SMEs in Japan, it features an easy-to-use UI and seamless connectivity with external applications, contributing to DX at SMEs. Unlike other SaaS products, the user base has expanded rapidly through referrals between users, with 620,000 companies adopting the service as of the end of December 2024. By contributing to the operational efficiency of SMEs, the Company maintains stable revenue driven by increases in the number of companies introducing the tool. The Company plans to continue addressing customer needs by enhancing the functionality of its business chat tool, adding features that streamline work such as task management and scheduling. In addition, based on the business chat service, it anticipates further business growth by realizing seamless collaboration with BPaaS, described later.

Business overview

Chatwork business chat tool



Source: The Company's website

2. BPaaS business

In the BPaaS business, the Company offers services that provide entire business processes on the cloud, specifically tailored for SMEs. More than simply providing software, BPaaS is positioned as a next-generation cloud service that promotes business operation streamlining and DX. BPaaS aims to optimize entire business processes, which are particularly difficult to address with SaaS, by having in place an environment in which companies can outsource their operations. In its BPaaS business, the Company offers services such as business process outsourcing and workforce management through deep integration with Chatwork. These services provide significant value, especially for SMEs with limited IT literacy, and contribute to improving operational efficiency. Regarding outsourcing of internal operations, some may view it as a risk since it may prevent the accumulation of business expertise within the company. However, in SMEs, it is not uncommon for tasks to become dependent on the knowledge of a single veteran employee. In such cases, the impact of a veteran employee's resignation can pose an even greater risk to the company. We at FISCO believe that the benefits of properly outsourcing tasks through the Company's services and achieving efficiency through DX outweigh those risks. In addition, in April 2024 the Company launched kubell partner, Co., Ltd., a wholly owned subsidiary, to accelerate the development and operation of its services. The BPaaS business is expected to expand further as a Group effort aimed at achieving the Company's goal of becoming the leading BPaaS company for SMEs.

3. Incubation business

In the Incubation business, the Company's goal is to leverage the knowledge and data accumulated through its existing business operations to create new businesses that go beyond its traditional areas of focus. At the center of this business is a large-scale operating engine that integrates technology and people, cultivated through its business chat and BPaaS businesses. The Company plans to leverage this platform to develop new businesses utilizing AI and other advanced technologies. Examples include automating tasks with AI and offering new services utilizing data. The Company also aims to strengthen alliances with other companies and secure new revenue sources through its incubation business. These initiatives have the potential to become a new pillar of growth following business chat and BPaaS, enabling discontinuous business growth.

4. Company strengths

The Company's business is centered around Chatwork, Japan's largest business chat platform, and its strength lies in providing solutions that effectively address structural issues in Japan's labor market. In a country facing labor shortages due to a declining birthrate and aging population, as well as the need to improve labor productivity in SMEs, offering tools that are easy to implement and use even for businesses with low IT literacy fulfills a significant social mission.

Chatwork has secured a solid market share, supported by a customer base centered on SMEs in Japan. Its adoption of a "freemium" model lowers the barrier to entry for customers, and its simple UI and ease of external connectivity facilitate adoption through referrals from existing users. These features generate significant network effects, with the platform currently in use at 620,000 companies, a top-tier figure in the industry. This broad user base is itself a source of the Company's competitive strength, but its focus on SMEs has been particularly successful in differentiating it from competitors, and is also a major strength.

When using chat tools for external communication, there are times when multiple tools may be needed to accommodate external parties that use different tools. Chatwork is unique in that it can be easily integrated with external parties. At large companies, it is not uncommon to use multiple tools to take advantage of each feature, such as using Microsoft Teams for internal communication and Chatwork for external communication. We at FISCO believe that the Company's strength lies in its ability to leverage the features of its products to meet the needs of not only its target SMEs, but also of large companies.

In addition, the Company is not limited to providing a simple chat tool but is also advancing a new cloud service model called BPaaS. Positioned further upstream from SaaS, BPaaS involves outsourcing entire business processes themselves via the cloud. This not only supports users with low IT literacy, who may find it difficult to handle complex tools, but also supports them in the appropriate use of SaaS, and by managing processes on behalf of the user, strongly drives DX for SMEs. This strategy can be evaluated as an essential solution for enhancing competitiveness by aiding the majority market—consisting of the IT-immature majority of the population—in advancing their DX initiatives.

Further, advances in AI technology are expected to drive the evolution of the Company's services. For Chatwork, implementation of advanced AI features utilizing large language models (LLMs) is being considered, enabling functions such as generating or summarizing text based on past messages and automating task execution. These developments are anticipated to significantly enhance user productivity. In particular, the integration of AI-driven automation in the BPaaS domain is expected to streamline even more business processes and improve overall productivity.

Based on these factors, we at FISCO believe the Company has significant growth potential. In particular, the expansion of BPaaS in Japan's SME market, with its ease of implementation even for companies with low IT literacy, has the potential to contribute significantly to the growth of the SaaS market going forward. Further, the estimated market size of BPaaS, at ¥42.4tn, also underscores the substantial opportunities available in this market. Further, Chatwork's high customer engagement aligns well with a growth strategy based on the product-led growth (PLG) model. By leveraging customer usage data to enhance and streamline advanced marketing and sales processes, further revenue growth can be expected.

Business overview

In terms of competitors in the business chat business, services such as Microsoft Teams and Slack, offered by global companies, provide similar solutions. While these services primarily target the enterprise domain, the main target for the Company's Chatwork tool is SMEs, indicating that it has already achieved a certain level of differentiation. Going forward, the key will be how well the Company adapts to technological competition and changes in the market to maintain and expand its market share. In addition, as competition intensifies with advancements in AI technology, maintaining the Company's unique added value will also be an important point of focus. In the BPaaS business, while there are many BPO (Business Process Outsourcing) services for large enterprises, there are very few companies offering similar services specifically tailored to SMEs. Additionally, BPaaS is broadly defined, and examples can be found where companies refer to their own SaaS-based customer success services as BPaaS. The services provided by the Company involve taking on operations from the client and offering a process to select the appropriate SaaS and drive DX. This offers a unique advantage unmatched by others. The Company is expected to continue strengthening its position in Japan's SME market. That said, we at FISCO believe the key to success lies in maintaining a flexible management approach and driving technological innovation, while accurately capturing growth opportunities.

Results trends

Revenue growth of 30.6% YoY driven by a rise in ARPU

1. Overview of FY12/24 results

In the FY12/24 consolidated results, the Company reported revenue of ¥8,470mn (up 30.6% YoY), operating profit of ¥96mn (loss of ¥677mn in the previous fiscal year), ordinary profit of ¥75mn (loss of ¥686mn), and loss attributable to owners of parent of ¥1,172mn (loss of ¥620mn). As a result of sales growth and stringent cost controls, EBITDA, operating profit, and ordinary profit all returned to profitability at levels significantly exceeding the forecasts. However, loss attributable to owners of parent was posted due to recording of ¥1,249mn in impairment losses for goodwill and other non-current assets of kubell storage Co., Ltd. and MINAGINE Co., Ltd. and ¥44mn in loss on valuation of investment securities under extraordinary loss.

Revenue in the Chatwork segment saw sharp growth, increasing 32.2% YoY to ¥8,323mn, confirming that the segment continues to deliver strong performance in the market. The Company also recorded notable growth in gross profit, which increased substantially by 40.8%. The gross margin rose by 5.0 percentage points (pp) to 69.0%. This gain is attributable to revenue growth and an increase in system costs recorded as assets, particularly development personnel costs. Further, EBITDA has remained in positive territory for five consecutive quarters and the Company shifted to positive results with respect to operating profit. The Company has accelerated investment aimed at achieving medium- to long-term growth, particularly focusing on raising recognition rates and building its operating framework to address the substantial increase in demand attributable to the COVID-19 pandemic. The return to profitability in operating profit is a result of these investments.

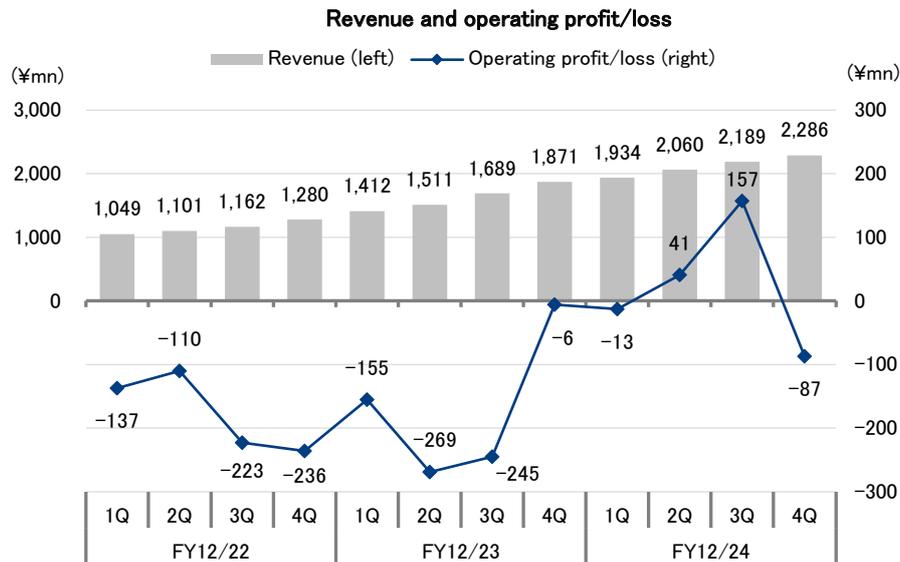
Results trends

The Company has been appropriately advancing growth investments and securing the employees necessary to strengthen its operating framework, while maintaining cost controls as it aims for long-term growth. In 4Q FY12/24, the Company reported a net increase of 32 employees throughout the Group, all of whom are contract employees involved in the BPaaS business. The Company actively recruits employees to contend with robust customer demand in the BPaaS sector, which serves as a pillar of its growth. Meanwhile, the Company deserves high marks for having generated profits through appropriate cost controls, despite encountering cost increases due to yen depreciation and rising server and information system expenses. In FY12/24, the initial year of the medium-term management plan discussed later in this report, the Company returned to positive earnings for the first time since FY12/20. Accordingly, we at FISCO believe the Company is off to a promising start toward achieving rapid growth.

FY12/24 consolidated results

	FY12/23		FY12/24		Change	YoY
	Results	% of revenue	Results	% of revenue		
Revenue	6,485	-	8,470	-	1,985	30.6%
Operating profit	-677	-10.4%	96	1.1%	774	-
Ordinary profit	-686	-10.6%	75	0.9%	761	-
Profit attributable to owners of parent	-620	-9.6%	-1,172	-13.8%	-552	-
Earnings per share	-15.45	-	-28.59	-	-13.14	-

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

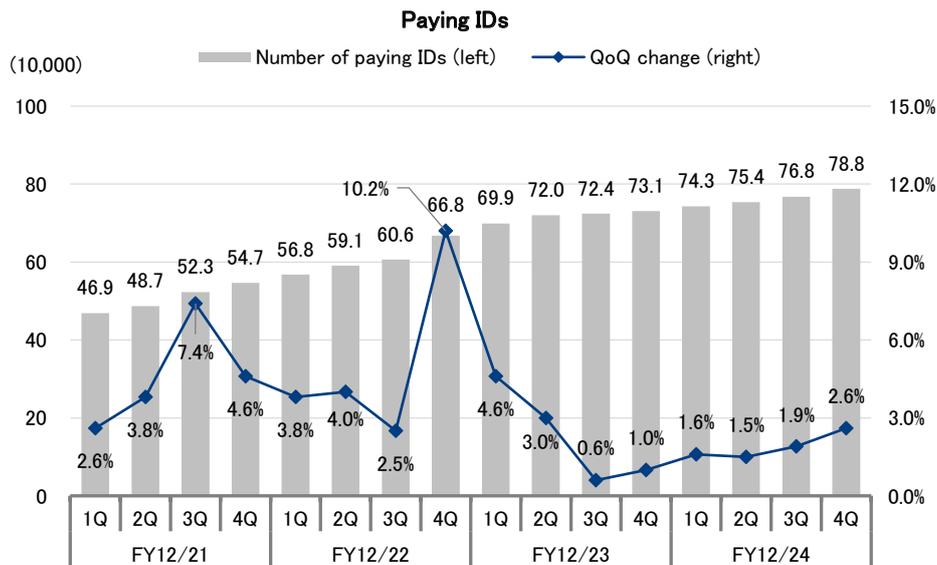


Source: Prepared by FISCO from the Company's financial results

Results trends

2. Core KPI highlights

The Company’s core KPIs continue to show favorable progress. First, the number of registered IDs for Chatwork continues to grow, up 11.2% from the end of the previous fiscal year to 7.383 million IDs. This reflects the Company’s services being persistently well-received by the market and the steady expansion of the platform’s user base. Meanwhile, daily active users (DAU) increased by 6.9% from the end of the previous fiscal year to 1.185 million. While DAU growth has slowed somewhat, we at FISCO view this as within expectations, as the user base has been transitioning from early adopters to the majority demographic with the broader adoption of the service. The Company plans to keep focusing on increasing the percentage of active users by improving functionality and enhancing communication with users. The number of paying IDs increased 7.8% from the end of the previous fiscal year to 0.788 million IDs, suggesting that the effects of price revision have run their course. The quarter on quarter (QoQ) changes also show a steady recovery, and we at FISCO believe this trend will continue in the future. Furthermore, average revenue per user (ARPU), calculated as a daily average, increased 8.8% from the end of the previous fiscal year to ¥731.7. In 4Q, ARPU declined slightly QoQ due to an increase in the number of contracts for the relatively low-priced Business Plan. However, ARPU is expected to increase further with the addition of features to paid plans. The Company’s growth strategy warrants further attention from FY12/25 onward given persistently robust growth in these KPIs and the likelihood of more users shifting to paid subscriptions.

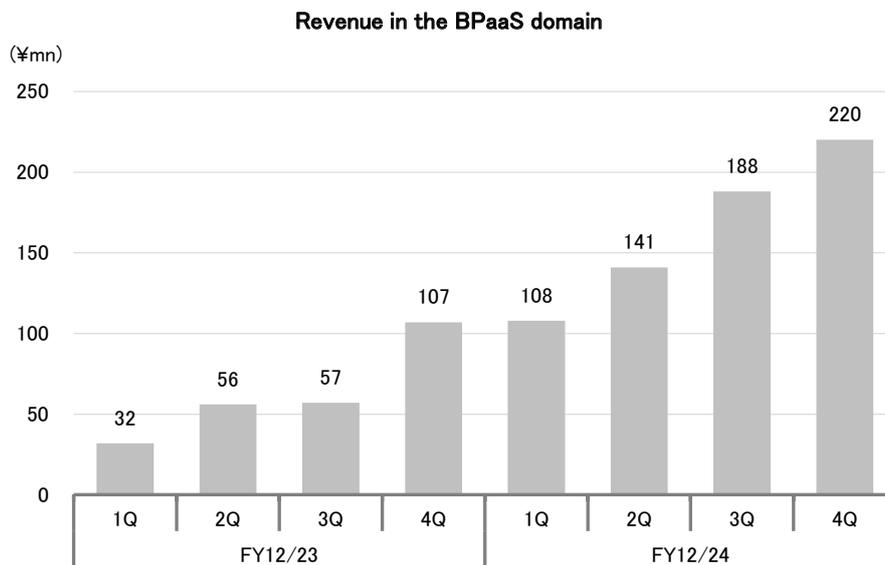


Source: Prepared by FISCO from the Company’s results briefing materials

Results trends

3. BPaaS domain

The BPaaS domain achieved rapid growth, with 4Q non-consolidated revenue increasing 105.5% YoY to ¥220mn, and full-year revenue increasing 160.7% to ¥657mn. Regarding the outlook for future revenue growth, the Company has indicated that it hopes to maintain a similar level, so high growth is expected to continue. In addition, we at FISCO believe that changing the name of the Chatwork segment to the Platform business from FY12/25 and dividing it into two segments, the SaaS domain and the BPaaS domain, will lead to enhanced disclosure of core KPIs. The BPaaS domain's personnel structure will undergo alternating periods of significant capacity expansion and periods of maximizing sales efforts within the limits of the existing capacity. The Company will continue to strengthen its hiring policy for FY12/25 as part of the investment phase. Personnel costs in this business are closely tied to cost of sales, with revenue expanding as more personnel are assigned to handle outsourced work from clients. The Company is steadily improving its hiring system and is offering work opportunities to contract employees who are unable to work full-time in permanent positions, such as housewives and those who wish to work remotely from home. In addition, employee skill-building and education programs are in place for managers and new hires.



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

4. Financial position

Total assets at the end of FY12/24 amounted to ¥6,113mn, a decrease of ¥159mn from the end of FY12/23. Current assets amounted to ¥4,025mn, an increase of ¥808mn. This is primarily attributable to an increase of ¥810mn in cash and deposits, against a decrease of ¥77mn in accounts receivable - trade. Non-current assets amounted to ¥2,088mn, a decrease of ¥968mn. This is primarily attributable to increases of ¥144mn in investments and other assets and ¥573 in software, against a decrease of ¥1,029mn in goodwill. Total liabilities amounted to ¥4,515mn, an increase of ¥663mn. Current liabilities amounted to ¥3,825mn, an increase of ¥1,279mn. This is primarily attributable to increases of ¥416mn in contract liabilities and ¥443mn in the current portion of long-term borrowings. Non-current liabilities amounted to ¥689mn, a decrease of ¥615mn. This is primarily attributable to a decrease of ¥657mn in long-term borrowings. Total net assets amounted to ¥1,598mn, a decrease of ¥823mn. This is primarily attributable to increases of ¥174mn in share capital, ¥174mn in capital surplus, and ¥1,172mn in retained earnings. The equity ratio declined by 12.5pp to 26.1%. However, we at FISCO believe that the Company's financial base is improving, as cash and deposits have been increasing due to the shift to positive EBITDA and operating profit.

Results trends

FY12/24 balance sheet

	(¥mn)		
	End of FY12/23	End of FY12/24	Change
Current assets	3,216	4,025	808
Cash and deposits	2,102	2,912	810
Accounts receivable - trade	432	354	-77
Non-current assets	3,056	2,088	-968
Goodwill	1,029	-	-1,029
Total assets	6,273	6,113	-159
Current liabilities	2,546	3,825	1,279
Contract liabilities	1,565	1,982	416
Non-current liabilities	1,304	689	-615
Long-term borrowings	1,114	456	-657
Total liabilities	3,851	4,515	663
Total net assets	2,422	1,598	-823
Total liabilities and net assets	6,273	6,113	-159

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

■ Outlook

Achieve both dramatically high growth and profit generation by leveraging the broader adoption of its business chat tool and investment in the BPaaS business

1. FY12/25 forecasts

For its FY12/25 results, the Company is forecasting revenue of ¥9,741mn or more (up 15.0% YoY) and EBITDA of ¥1,000mn or more (up 16.7%). The Company aims to achieve both high growth and profit generation by leveraging the broader adoption of its Chatwork business chat tool and aggressive investment in the BPaaS business as growth drivers. The adoption of revenue and EBITDA as disclosure metrics can be attributed to the difficulty in presenting highly probably figures, given the rapidly growing BPaaS business. As the same format was adopted for FY12/24 and additional forecasts for each stage of profit were disclosed at the end of 2H, we at FISCO believe that additional disclosure may be possible once a forecast with a high degree of certainty can be calculated.

Given the medium-term management plan's target to achieve no less than a 30% compound annual growth rate (CAGR) in revenue, it appears that FY12/25 is a period of preparation for future growth. In terms of priority measures in each business, the Chatwork business is steadily increasing the number of paying IDs and ARPU, as can be seen from the detailed disclosure of each KPI. The sales and marketing department has also become a strong organization, and further acceleration of its growth is expected. The BPaaS business is in a phase of approaching further growth, and the number of employees is expected to increase. The greater the ratio of BPaaS business revenue to overall revenue, the more it drives growth. We at FISCO believe that the Company's growth rate will bottom out in FY12/25 as it is in the investment phase for accelerated growth in the next fiscal year and beyond.

Outlook

FY12/25 results forecast

	FY12/24		FY12/25		
	Results	% of revenue	Forecast	% of revenue	Change %
Revenue	8,470	-	9,741 or more	-	15.0% or more
EBITDA	856	10.1%	1,000 or more	10.3% or more	16.7% or more

(¥mn)

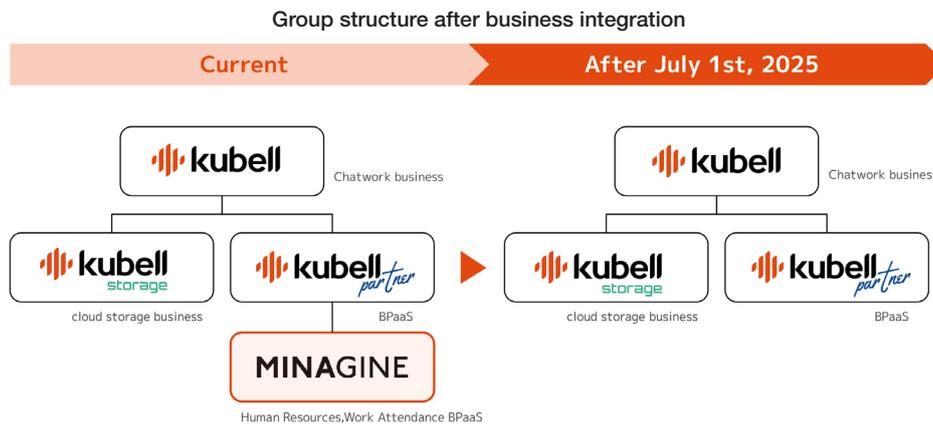
Source: Prepared by FISCO from the Company's financial results

2. Topics

Topics of discussion for FY12/25 are as follows.

(1) Business integration of kubell partner and MINAGINE

The Company plans to integrate the business of Group companies, kubell partners and MINAGINE, scheduled for July 1, 2025. The purpose of this integration is to further accelerate the growth of the BPaaS business operated by the two companies and to improve the efficiency of the Group-wide management structure.



Source: The Company's results briefing materials

(2) Strengthening the organization to accelerate growth

In January 2025, Kentaro Iwamoto was appointed as division head and Nozomi Tokuhara as deputy head of the division responsible for the account business of the mainstay Chatwork segment. With the appointment of these two new leaders, the Company now has strong personnel who will promote the re-growth of the account business from both business and product perspectives. At the same time, the personnel system was also significantly revamped. In order to reinforce the organization and recruitment capability, Shinya Saito, an executive officer who was in charge of the account business until last year, was transferred to human resources and recruiting.

Outlook

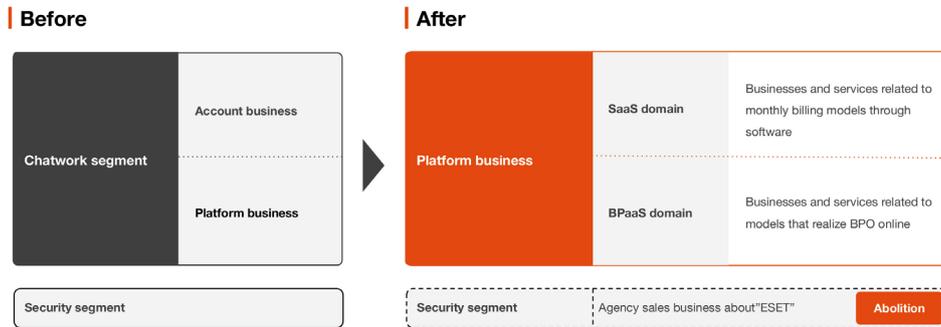
(3) Revision of personnel system

From March 2025, a new personnel system has been adopted based on the concept of a system that “fairly rewards results.” The system was developed in response to the rapid expansion of the organization during COVID-19 which resulted in the organization becoming fragmented and the level of enthusiasm declining. The Company aims to significantly improve productivity by revamping the system with a sense of balance. The key points of the new system are: 1) Expand and relocate offices to promote cross-departmental communication and increase the frequency of in-office workdays; 2) Introduce a mission grade system in which grades are determined by “the role to be played” by each employee and not by their ability, as in the conventional evaluation system; 3) Introduce a Company-wide bonus system to reward non-sales personnel in accordance with performance targets in a balanced way; 4) Set new values and establish a structure in which the practice of such values is directly reflected in salaries; 5) To curb unnecessary overtime work, adjust overtime pay to reflect actual conditions and reduce overtime hours that are built into employee salaries; 6) Increase incentive for employee stock ownership from the previous rate of 10% to 20% and introduce performance share unit (PSU), an incentive compensation for executives that is linked to business performance and stock price. With these measures in place, a radical renewal of the personnel system and improved performance throughout the organization can be expected.

(4) Changing segment information

The name of the Chatwork segment has been reviewed and will be changed to the Platform business in FY12/25. With this change, the business will be divided into the “SaaS domain” and the “BPaaS domain.” Meanwhile, the security segment will be discontinued due to the termination of the ESET distributor sales business service.

Segment after the change



Source: The Company's results briefing materials

Growth strategy

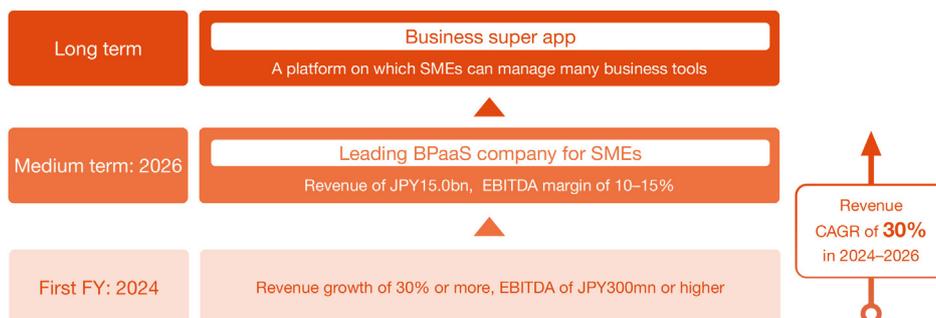
Seeking to achieve revenue of ¥15,000mn in FY12/26 while establishing the Company's position as the leading BPaaS company for SMEs

The Company has drawn up a medium-term management plan embracing the objective of establishing the Company's position as the leading BPaaS company for SMEs. With respect to financial targets cited under the plan, the Company aims to achieve no less than a 30% compound annual growth rate (CAGR) in consolidated revenue from FY12/24 through FY12/26, while also seeking to achieve consolidated revenue of ¥15,000mn, EBITDA between ¥1,500mn and ¥2,250mn, and an EBITDA margin between 10.0% and 15.0% in FY12/26. In the long term, the Company aims to promote development of business super app platforms that serve as a starting point for all business activities underpinned by the Company's overwhelming market share in the SME market. The medium-term management plan furthermore presents a policy of ramping up growth throughout the Group and building an operating framework for generating profits.

The central pillar of the medium-term management plan lies in expanding the BPaaS business in serving as an engine of further growth, while maintaining business chat sales growth. The Company also plans to work toward ensuring that its new businesses contribute to earnings. The current plan is based on organic growth, and the Company will revise the plan if growth opportunities arise through future M&A opportunities. Given the likelihood of the Company adopting an approach whereby M&A serves as its key strategy toward achieving expansion of the BPaaS business going forward, we at FISCO think it likely that the Company will accordingly turn to a roll-up strategy marked by the persistent acquisition of relatively small companies that provide BPO services to SMEs such as MINAGINE. Strategically, the Company is promoting its BPaaS strategy for facilitating the development of various businesses, based on further enhancement of the value of its communication platforms centered on business chat. Additionally, the Company plans to explore creating new core businesses and achieving discontinuous growth by leveraging Group assets, conducting AI-driven research and development, and implementing its Incubation strategy for new businesses.

Whereas the potential size of the overall BPaaS market is a massive ¥42.4tn with respect to non-core business operations for SMEs, the core target segment already having been reached amounts to ¥298.3bn. It can be concluded that the BPaaS market offers significant growth potential. The Company's medium-term management plan clearly defines a path achieving medium- to long-term growth upholding three key strategies. We at FISCO believe that the plan positions the Company to secure stable earnings while tapping into future growth prospects.

Overview of the medium-term management plan



Source: The Company's results briefing materials

Growth strategy

Numerical management targets

	(¥mn)			
	FY12/23	FY12/24	FY12/25 (forecast)	FY12/26 (target)
Revenue	6,485	8,470	9,741 or more	15,000
EBITDA	-83	856	1,000 or more	1,500-2,250
EBITDA margin	-	10.1%	10.3% or more	10.0-15.0%

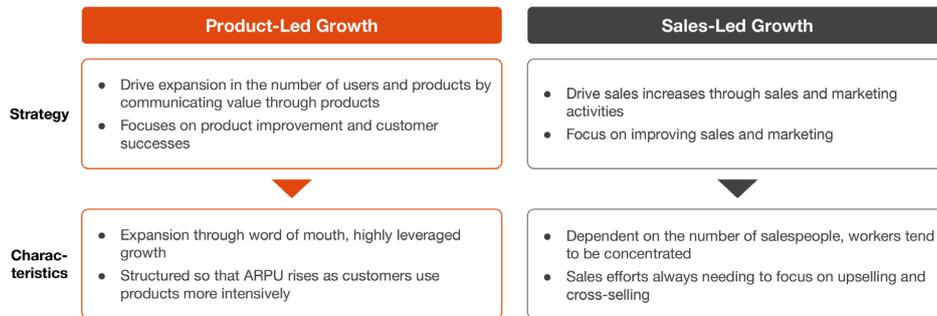
Source: Prepared by FISCO from the Company's financial results and results briefing materials

1. Key strategies

(1) Communication platform strategy

The communication platform strategy centers on the Product-Led Growth (PLG) approach. Under this strategy, the Company focuses on gaining customers and driving growth specifically through products, which differs from the conventional Sales-Led Growth (SLG) model. Specifically, in the PLG model, the Company offers easy-to-use services free of charge then draws on data derived from use of such services to identify potential paying customers. With an emphasis on efficient customer support using chat, the Company is taking steps to standardize business chat to address the needs of various industries. The intended effect of this approach is to leverage the Company's competitive advantages in the Japanese market and to improve the quality of its marketing and sales processes. Additionally, the Company seeks to capture an overwhelming share of the Japanese market by leveraging its extensive knowledge of business processes across various industries. The Company harnesses the PLG model in AI-driven data analysis, enabling it to significantly expand its user base while curbing advertising expenses. This strategy is driving the evolution of Chatwork into the most suitable product for next-generation BPaaS in the business chat market.

Differences between the PLG model and the SLG model

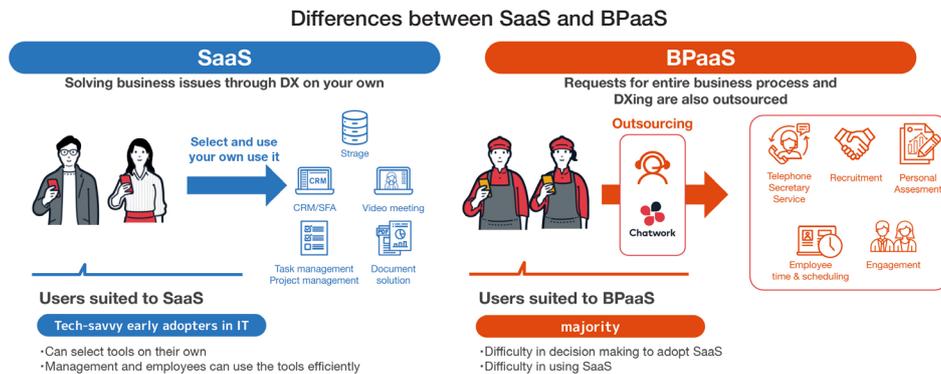


Source: The Company's results briefing materials

Growth strategy

(2) BPaaS strategy

The goal of the BPaaS strategy is to dramatically improve the operational efficiency of client companies by delivering business processes as cloud services. BPaaS differs from conventional BPO by offering advanced workflow automation through the use of SaaS. Whereas SaaS is mainly targeted to advanced IT users, BPaaS offers highly convenient solutions for many SMEs, enabling them to significantly reduce management costs by advancing DX in their business processes. The Company has developed an API-integrated workflow automation engine for its business chat-centered platform, enabling it to provide customers with more efficient services while minimizing operational man-hours. Moreover, the Company has been expanding its BPaaS offerings by leveraging its extremely large customer base of over 600,000 businesses of Chatwork. The Company's BPaaS offerings provide effective solutions to companies lacking sufficient in-house DX professionals and support businesses struggling to advance DX by offering cloud-based business process services. Furthermore, the Company aims to offer a wide range of one-stop solutions, from general business operations to advanced specialized tasks. By doing so, the Company seeks to achieve higher earnings while securing competitive advantages in the BPaaS market.



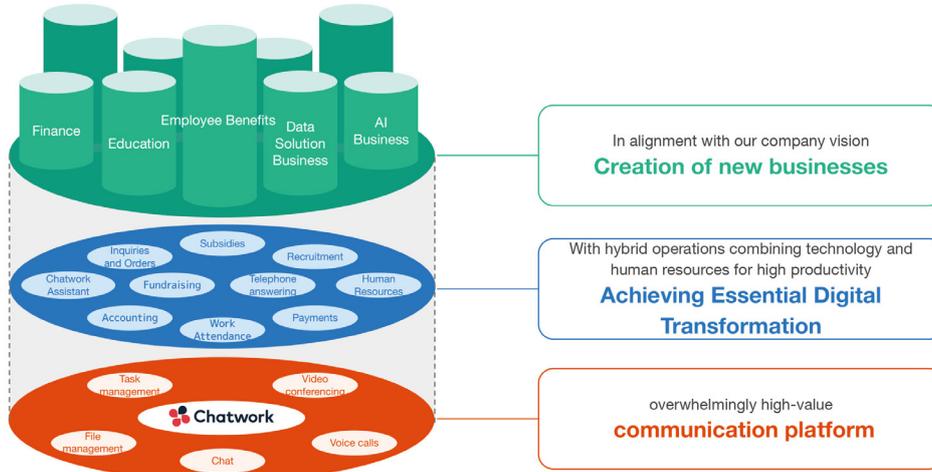
Source: The Company's results briefing materials

(3) Incubation strategy

Under its Incubation strategy, the Company aims to establish a third pillar of growth following its business chat services and BPaaS offerings. This strategy involves integrating AI technology in making the most of the Company's extensive customer assets and platform capabilities with the aim of creating additional value. The Company seeks to qualitatively and quantitatively expand its scope of customer data, based on which it aims to enhance marketing efficiency while creating new AI-powered businesses. For instance, the Company provides new services tailored to customer needs by analyzing textual data amassed through business chat and developing AI-powered personalized services. Also, the Company launched the kubell BPaaS Fund in FY2021, which serves as its corporate venture capital (CVC). Through the fund, the Company facilitates growth of its investee companies and strengthens partnerships undertaken to generate synergies. Notably, the Company made MINAGINE a wholly owned subsidiary in January 2023, enabling it to provide BPaaS solutions in the human resources and labor management field and paving the way for more expanded investment opportunities. As such, the Incubation strategy constitutes key initiatives aimed at strengthening the Company's existing businesses, creating new pillars of discontinuous growth, and solidifying its long-term earnings base. Recently, the Company announced that it had entered into a capital and business alliance with employee benefits platform provider miive, Inc. in November 2024, raising expectations that the Company will step up its efforts in the employee benefits field, a key pillar of its Incubation strategy.

Growth strategy

Creation of third core business pillar

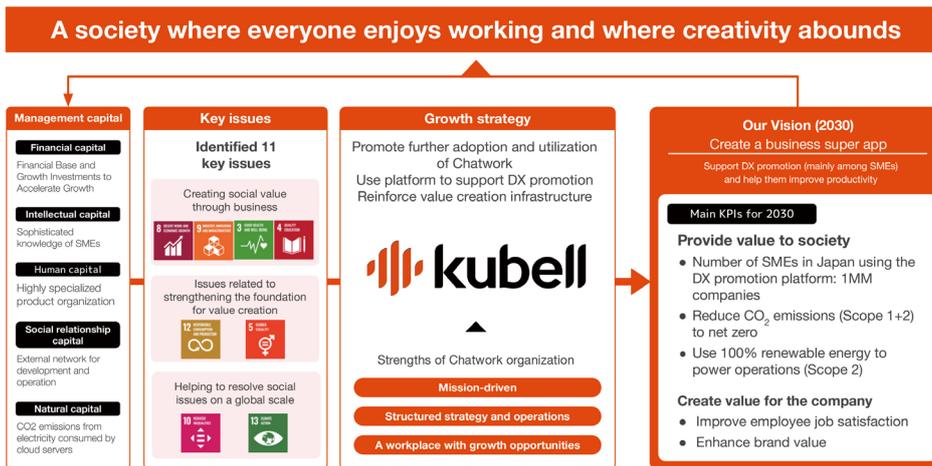


Source: The Company's results briefing materials

2. Sustainability vision

The Company has established its sustainability vision, underpinned by its mission of “making work more fun and creative.” The Company accordingly aims to create a society that enables people to enjoy their work and express their creativity toward achieving their dreams and aspirations, thereby ensuring that the time people spend working is not merely a means of earning a living. The Company believes that this will enrich the lives of working people, thereby giving rise to value creation that will transform society into one that is more prosperous and sustainable. To achieve this vision, the Company embraces cooperation with its stakeholders, aiming to help achieve a sustainable society through co-creation.

Value creation process based on the sustainability vision



Source: The Company's results briefing materials

■ Shareholder return policy

Ongoing business expansion to involve allocating profits to essential investment for the time being

The Company positions returning profits to its shareholders as a key management priority and adopts a basic policy of providing appropriate dividends while maintaining a balance between shareholder returns and internal reserves. However, the Company recognizes that it is currently in a growth phase and has accordingly prioritized fortifying its internal reserves and focusing on investments aimed at enhancing profitability and developing its business foundations. The Company believes that such investment will enable stable and sustained shareholder returns in the future, and the decision on payment of dividends remains pending.

Meanwhile, the Company's shareholder benefits plan provides for one ID free of charge under the Personal Plan, which is one of the Company's paid services, thereby waiving the monthly fee for the ID over the duration of stock ownership. The Company offers this benefit in seeking to encourage a greater number of shareholders to use its services so that they gain a more extensive understanding of the Company. The benefit applies to shareholders listed as holding at least one share unit (100 shares) in the shareholder register for six or more consecutive months as of June 30th and December 31st of each year. The Company continues to offer the Personal Plan as a shareholder benefit, although it was previously integrated into the Business Plan.

Under its shareholder return policy, the Company has opted to assign priority to investment in growth rather than paying direct dividends at this stage, but it will also encourage long-term support of its shareholders through shareholder benefits and implementing measures to enhance their understanding and support of the Company. This strategy is based on the belief that it will lead to consistent shareholder returns in the future. We at FISCO believe that focus should be placed on the future returns from the Company's invested capital for the time being, given the prevailing need to allocate capital to upfront investments.



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