

COMPANY RESEARCH AND ANALYSIS REPORT

kubell Co., Ltd.

4448

Tokyo Stock Exchange Growth Market

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Summary

Accelerated growth in net number of paying IDs. EBITDA outpaces results forecast

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 914,000 companies in Japan (as of the end of March 2025), 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 1Q FY12/25 consolidated results, the Company reported revenue of ¥2,234mn (up 15.5% year on year (YoY)), operating profit of ¥76mn (compared to a loss of ¥13mn in the fiscal year), ordinary profit of ¥70mn (compared to a loss of ¥16mn in the fiscal year), and loss attributable to owners of parent of ¥29mn (compared to a loss of ¥43mn in the fiscal year). EBITDA rose sharply to ¥285mn (up 129.2%), significantly outpacing the full-year results forecast as a result of the Company having curbed advertising expenses and outsourcing expenses. Revenue also increased by a solid 15.5% to reach 22.9% of the full-year forecast, apparently in line with expectations. Growth in the number of paying IDs is gaining momentum, having entered a recovery phase following a temporary slowdown. The churn rate of paying IDs continues to decline, likely due to improved service satisfaction given an increase in active users, as well as a situation where effects of earlier price revisions subsided as of July 2024. In the BPaaS business, the Company has been making steady progress with respect to hiring operators in response to sales growth and building an onboarding framework, resulting in greater order-handling capability through expansion of workforce capacity. The Company is also making progress in assessing AI agent deployment, which has become a key component of its business strategy aligned with industry trends. These initiatives are poised to culminate in future direct cost reduction and gross margin improvement. We at FISCO think the Company has been making very steady progress in FY12/25, the second year of the medium-term management plan, given its substantial gains thus far in both EBITDA and operating profit.

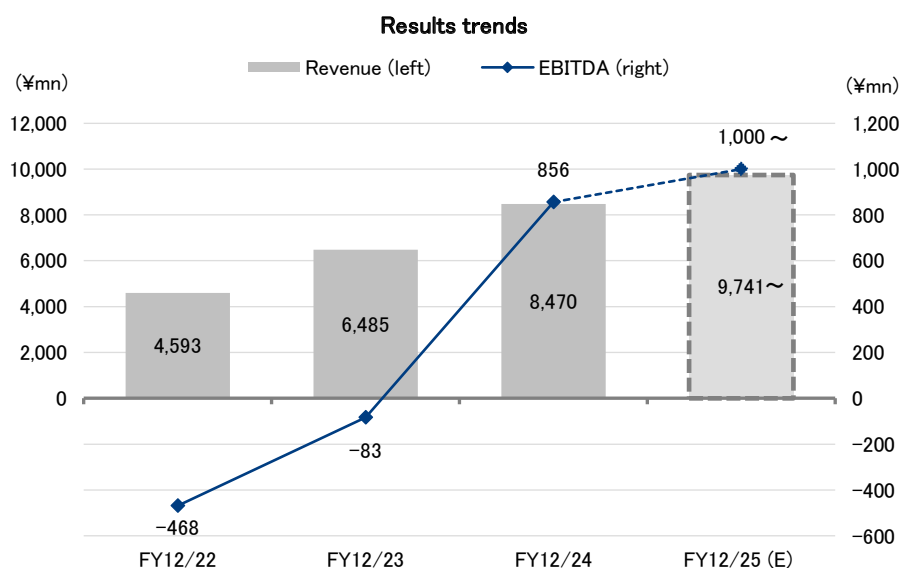
Summary

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. The BPaaS business is in a phase of approaching further growth, and the number of employees is expected to increase. The Company's earnings structure is such that the greater the ratio of BPaaS business revenue to Company-wide revenue, the more the BPaaS business accelerates growth of business overall. This is due to distinctive characteristics of the BPaaS business in terms of facilitating improvements in operational efficiency and profit margins, as well as enabling synergies through integration with other services. 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.

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
- EBITDA increased substantially by 129.2% YoY in 1Q FY12/25. Operating profit returned to positive territory
- 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.

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 1Q FY12/25, the service has been adopted by more than 914,000 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.

Company profile

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. The Company once again changed its name to Chatwork Co., Ltd. in November 2018, and was subsequently listed on the Tokyo Stock Exchange (TSE) Mothers Market (currently the Growth Market) in September 2019.

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 has a single segment, the Platform Business, broadly divided into two domains: the SaaS domain centered on the Chatwork business chat platform and the BPaaS domain in which the Company engages in BPaaS services. 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 914,000 companies adopting the service as of the end of 1Q FY12/25. 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.

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

With the Company's business centered around Chatwork, Japan's largest business chat platform, it has established a proprietary business model focused mainly on SMEs in Japan. The Company's strength lies in providing solutions that precisely address structural issues faced by Japan's domestic labor market, which namely consist of labor shortages caused by the nation's declining birth rate and aging population, as well as low labor productivity among SMEs. In particular, the Company may be seen as fulfilling its social mission by offering tools that are easy to implement and use, even for SMEs with limited IT literacy.

Business overview

Chatwork has secured a solid market share, supported by an extensive customer base centered on SMEs in Japan. The platform's "freemium" model lowers barriers to adoption, while its simple UI and ease of connectivity with external users create a structure that fosters organic adoption through referrals from existing users. The platform is well regarded for its network effects and currently ranks as an industry leader with 914,000 corporate users. With this serving as testament to its competitive edge, the Company has achieved particularly noteworthy success in differentiating itself from competitors targeting the enterprise market by focusing on SMEs.

A structural characteristic of Japan's SME market is that the size of individual companies is extremely small, with the majority having between 5 and fewer than 30 employees. In this kind of market, poor cost effectiveness of one-to-one sales leaves most SaaS vendors with little choice but to concentrate on the enterprise segment. This results in a situation where products available are ill-suited to SMEs given their complexity and high prices, which culminates in a shortage of services that truly meet the needs of such users. Additionally, challenges have become apparent due to low IT literacy, which hampers the adoption and utilization of SaaS and AI technologies. Although the SME market accounts for about 70% of Japan's labor force, it is referred to as a "black ocean" market given that it remains largely untapped due to high barriers to entry.

In this challenging market, the Company has established a three-pronged competitive advantage consisting of the network effects of its Chatwork platform, outsourcing of business processes through BPaaS, and a consistent business model specifically tailored to its SME target market. Firstly regarding network effects, the Company has established a framework for expanding the Chatwork customer base through word of mouth, creating a positive feedback loop where companies adopt the platform because many others are already using it. This directly gives rise to structural strengths that enable sustained growth while keeping marketing costs low.

Next in terms of service delivery through BPaaS, the Company goes beyond simply offering chat tools by establishing a framework for outsourcing and streamlining business processes hosted on the cloud. This approach facilitates digital transformation (DX) that encompasses business processes themselves for companies with limited IT capabilities that often struggle even before adopting SaaS. In doing so, the Company delivers a level of value not typically offered by conventional SaaS vendors. Additionally, the Company's ability to organically cross-sell BPaaS to its existing Chatwork user base is a strategic advantage, one that enables the Company to establish a structure for leveraging brand recognition and its track record of credibility to increase lifetime value (LTV).

This business structure developed by the Company enables it to achieve both profitability and growth. The Company's success in establishing a unique position in the "black ocean" market is particularly noteworthy. Furthermore, given that the Company's Chatwork platform is characterized by its ease of integration with external users, it is often used in large enterprises in a complementary manner. One example of this is a situation where Microsoft Teams is used for internal communications and Chatwork is used for external interactions. This example illustrates the product's versatility in addressing needs beyond its SME target market, which suggests potential for further growth.

Moreover, the Company continues to offer increasingly greater value due to advances in AI technology. With the Chatwork platform, the Company is making progress implementing advanced AI features that use large language models (LLMs). It has accordingly been exploring options with respect to new features such as text generation and summarization based on learning from past messages, as well as task automation. User operational efficiency will improve dramatically once these technologies become practical. There will also be greater potential for switching business processes to AI solutions within the Company's BPaaS domain. As SMEs consequently step up their digital transformation (DX) efforts, the Company is likely to further solidify its position as a provider of exceptional value in its target majority market.

Business overview

We at FISCO believe that the Company has extremely high future growth potential given its structural advantages and future prospects as described above. It is highly likely that the Company's approach specifically tailored to SMEs will contribute significantly to future growth of the SaaS market, particularly when considering the estimated ¥42.4tn size of the BPaaS market. Moreover, the Chatwork platform's many customer touchpoints align well with a product-led growth (PLG) model, making it likely that the Company will achieve sustained revenue growth through enhanced marketing and sales efforts driven by user data.

The competitive landscape includes global players such as Microsoft Teams and Slack, but they mainly focus on the enterprise domain with relatively few enlisting a strategy like that of the Company specifically tailored to SMEs. The Company also holds an unparalleled advantage in the BPaaS domain enlisting its SME-focused approach. While BPO services for large enterprises are available in that domain, the Company stands out in providing services that involve taking on business operations of such clients, while selecting and providing appropriate SaaS solutions. We at FISCO believe that the key to the Company achieving further progress lies in it further solidifying its position in Japan's SME market, while maintaining agility in responding to technological advances and accurately identifying growth opportunities.

Results trends

Revenue and profit gains amid accelerated rate of growth in number of paying IDs, with EBITDA results outpacing full-year forecast

1. Overview of 1Q FY12/25 results

In the 1Q FY12/25 consolidated results, the Company reported revenue of ¥2,234mn (up 15.5% YoY), operating profit of ¥76mn (compared to a loss of ¥13mn in the fiscal year), ordinary profit of ¥70mn (compared to a loss of ¥16mn in the fiscal year), and loss attributable to owners of parent of ¥29mn (compared to a loss of ¥43mn in the fiscal year).

EBITDA rose sharply to ¥285mn (up 129.2% YoY), significantly outpacing the full-year results forecast as a result of the Company having curbed advertising expenses and outsourcing expenses. The Company posted a 15.5% increase in revenue, reflecting its solid performance. It has also achieved 22.9% progress toward achieving the ¥9,741mn lower bound of its full-year revenue forecast, which aligns with its projections. Meanwhile, growth in the number of paying IDs is gaining momentum, having entered a recovery phase following a temporary slowdown. This recovery in the number of paying IDs is expected to persist over the next several quarters, and the churn rate of paying IDs continues to decline. We at FISCO believe this is likely attributable to increased service satisfaction underpinned by an increase in active users, as well as a situation where effects of usage fee hikes subsided as of July 2024.

Results trends

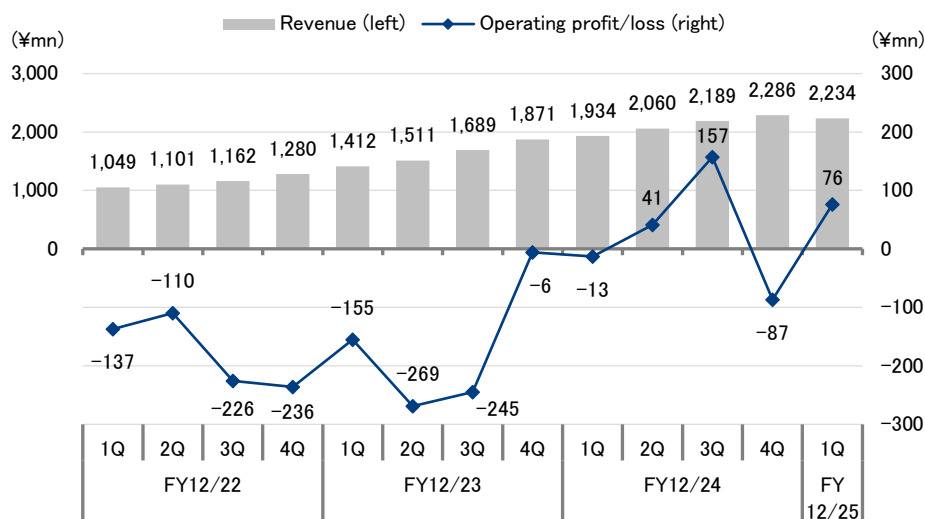
In the BPaaS business, the Company is making steady progress in hiring operators in tandem with revenue growth. Its efforts to build a framework for onboarding and other operations are also advancing smoothly in line with its current pace of recruitment. We at FISCO believe that the Company is more likely to achieve revenue growth now that it has a clearer picture of its order-handling capability as a result of it having expanded its workforce capacity. Furthermore, efforts are underway to assess AI agent deployment in the BPaaS business. The Company is moving in the direction of actively utilizing AI agents, which are a relatively new concept but are garnering industry-wide attention. The Company has positioned AI utilization in its BPaaS domain as a key KPI with respect to its growth strategy going forward, suggesting that this is likely to serve as a core component of its business strategy. Since personnel costs in the BPaaS business are integrally linked to direct costs, implementation of AI agents is expected to result in future direct cost reduction and gross margin improvement. We at FISCO think the Company has been making very steady progress in FY12/25, the second year of the medium-term management plan, given its substantial gains thus far in both EBITDA and operating profit.

1Q FY12/25 consolidated results

	1Q FY12/24		1Q FY12/25		(¥mn)	
	Results	% of revenue	Results	% of revenue	Change	YoY
Revenue	1,934	-	2,234	-	299	15.5%
Operating profit	-13	-	76	3.4%	89	-
Ordinary profit	-16	-	70	3.2%	87	-
Profit attributable to owners of parent	-43	-	-29	-	14	-
Earnings per share	-1.07	-	-0.70	-	0.37	-

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

Revenue and operating profit/loss

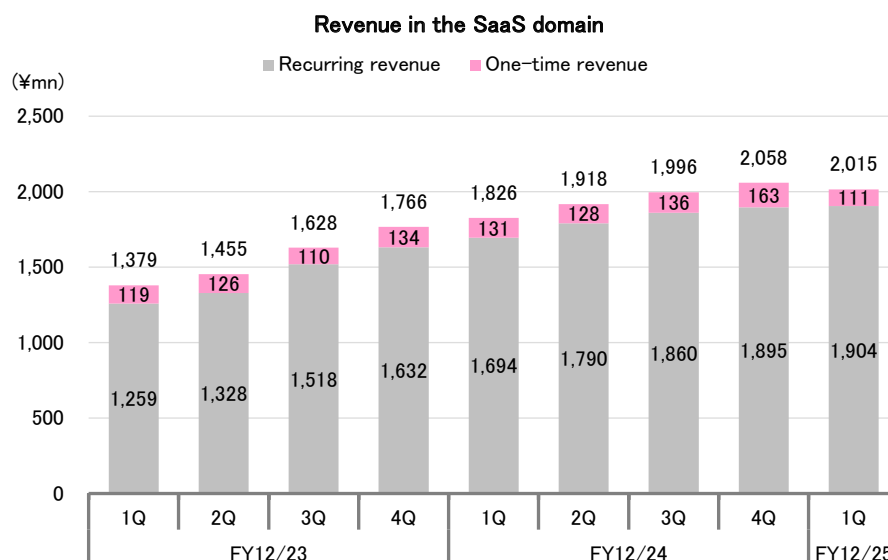


Source: Prepared by FISCO from the Company's financial results

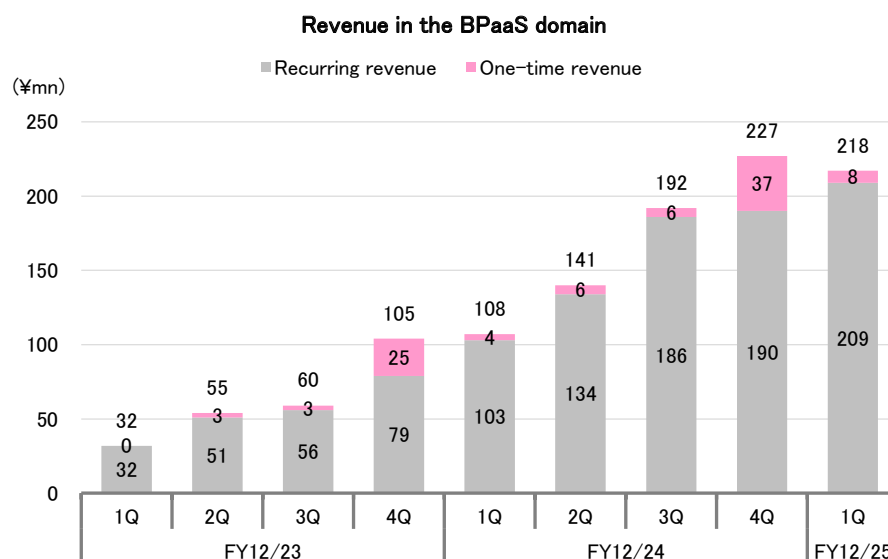
Results trends

2. Changing segment information

Following discontinuation of its security segment in FY12/24, the Company reorganized its business segments into a single segment, the Platform Business. This segment now comprises two domains: the SaaS domain and the rapidly growing BPaaS domain. The Company regards operating under a single segment as a rational approach because all of its services target the same user base and its business model entails customer development through cross-selling. Furthermore, the Company has gained a clearer picture of its earnings structure by classifying revenue within each domain as either recurring or one-time revenue.



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



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

Results trends

Recurring revenue has been growing consistently in both the SaaS and BPaaS domains, indicating that it serves as a key component of the Company's earnings base. The BPaaS domain in particular achieved growth of 101.4% YoY. We at FISCO believe this clearly suggests potential of the BPaaS domain as a high-growth sector.

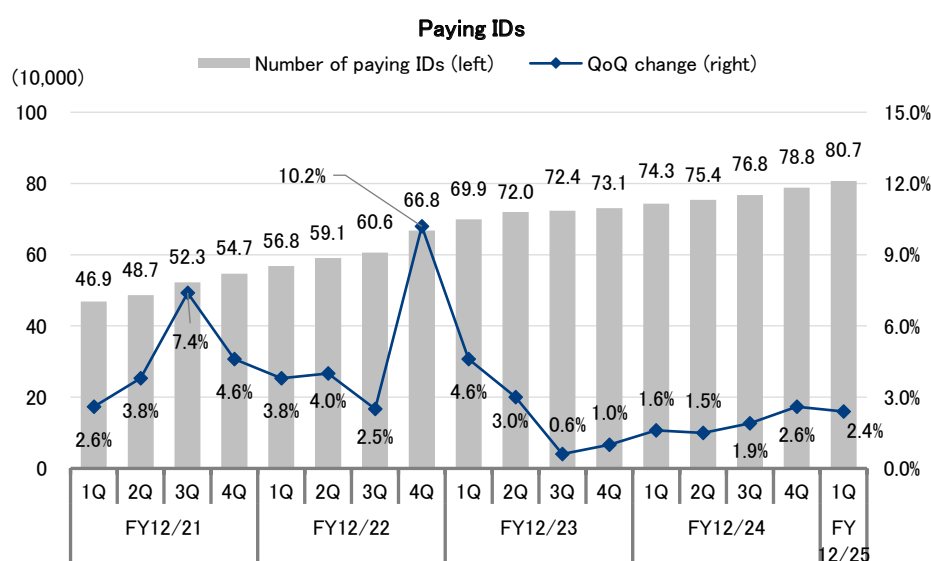
3. Core KPI highlights

Annual recurring revenue (ARR) on a Company-wide basis increased 17.6% YoY to ¥8.45bn, indicating that business of the Company overall is on a stable growth trajectory. Meanwhile, the number of client companies rose 13.7% to 915,000 companies. The Company has updated the definition of client company that it uses for determining the number of client companies. The number of client companies previously included only companies subscribed to the Chatwork business chat service, and did not include companies that use BPaaS or other services. As such, figures presented for the number of client companies did not accurately represent the Company's entire customer base. With the new definition, the number of client companies also includes companies that use other services. Moreover, the Company had previously counted only entities whose corporate status could be verified through cross-referencing with external databases. Under the revised policy, however, entities are also included if the portion of their email address following the "@" symbol is a corporate domain, or if their corporate status can be confirmed by a sales or customer service department.

In the SaaS domain, ARR increased 12.4% YoY to ¥7.61bn, and the number of registered IDs increased 10.1% to 7,544,000 IDs. The number of daily active users (DAUs) increased 6.5% to 1,197,000 DAUs, indicating that initiatives taken to increase the percentage of active users by improving functionality and enhancing communication have been effective. Meanwhile, the number of paying IDs rose 8.6% to 807,000 IDs.

ARPU representing the average revenue per paying ID increased 4.7% to ¥719.5, reflecting effects of price revisions. These figures indicate that the SaaS domain remains a solid foundation as a source of the Company's revenue.

Meanwhile, results in the BPaaS domain were disclosed for the first time. Its ARR increased 102.5% to ¥830mn, marking rapid growth and strongly suggesting its potential as a new business area. Revenue of the BPaaS domain increased 101.4% to ¥218mn, indicating that the Company is steadily laying the groundwork for future growth.



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

4. Impacts on SaaS in the age of AI agents

Amid rapid evolution of AI technology, attention is now turning to the advent of the age of AI agents. This refers to a new framework in which multiple large language models (LLMs) work together collaboratively to generate sophisticated output. Whereas conventional generative AI simply returned a single response to a single input, AI agents differ substantially in that they automatically construct workflows upon receiving a prompt and enlist multiple AIs working together to complete tasks. Notable examples of this include deep research as well as sales support and development agents.

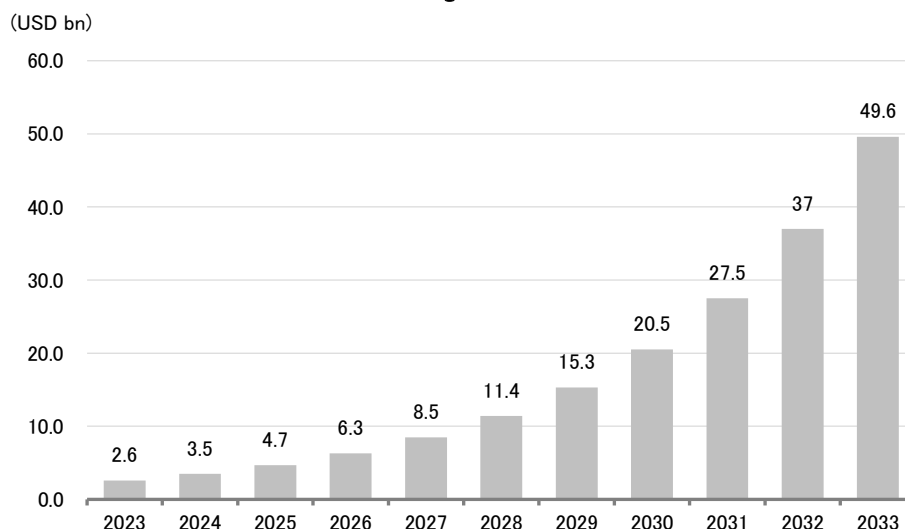
Such technological advancements are expected to bring about a shift from a structure in which users directly interact with SaaS interfaces to one where AI agents operate SaaS platforms via APIs. With SaaS vendors consequently losing direct touchpoints with users, the notion that ‘SaaS is dead’ has been gradually gaining traction. In contrast, the Company’s Chatwork tool is a communication-focused SaaS platform that derives its value from direct dialogue between users, which means that it occupies a unique position in that replacing it with AI agents would be inefficient. Also because Chatwork is highly compatible with prompt input given that it is structured as a chat interface, the Company envisions the future possibility of building a world where AI agents operate through prompts on Chatwork. This suggests that Chatwork has the potential to continue evolving while retaining its substantial practical value, even in the age of AI agents.

The advent of AI agents is bound to significantly accelerate evolution of the BPaaS domain. Meanwhile, whereas Japan’s domestic BPO market targeting SMEs is a massive market valued at approximately ¥42tn, it has posed challenges thus far in terms of low profit margins due to its labor-intensive nature. Going forward, advances in AI are expected to result in the emergence of AI workers while also driving major structural transformation.

The McKinsey & Company, Inc. report, “Beyond the hype: Capturing the potential of AI and gen AI in tech, media, and telecom,” identifies BPO as a sector undergoing redefinition through AI. According to “AI in BPO Market” released by Market.U.S., AI-enabled BPO is expected to attain substantial growth at a CAGR of 34.3% from 2024 through 2033. Although the Company’s BPaaS services have involved human operators managing SaaS tools on behalf of clients through chat thus far, AI agents will play a central role in this regard going forward. This will involve having human operators shift to using and operating AI agents, which suggests the possibility of substantially lower training costs. It is hoped that this structural transformation will lower costs of providing BPaaS services while dramatically improving their scalability.

Results trends

Growth rate of the global AI-based BPO market



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

5. Financial position

Total assets at the end of 1Q FY12/25 amounted to ¥5,565mn, a decrease of ¥548mn from the end of FY12/24. Current assets amounted to ¥3,554mn, a decrease of ¥471mn. This is primarily attributable to a decrease of ¥424mn in cash and deposits, against an increase of ¥72mn in accounts receivable - trade. Non-current assets amounted to ¥2,011mn, a decrease of ¥76mn. This is primarily attributable to a decrease of ¥81mn in software. Total liabilities amounted to ¥3,986mn, decrease of ¥529mn. Current liabilities amounted to ¥3,499mn, a decrease of ¥326mn. This is primarily attributable to decreases of ¥156mn in income taxes payable and ¥111mn in contract liabilities, against an increase of ¥120mn in the current portion of long-term borrowings. Non-current liabilities amounted to ¥486mn, a decrease of ¥202mn. This is primarily attributable to a decrease of ¥188mn in long-term borrowings. Total net assets amounted to ¥1,579mn, a decrease of ¥19mn. This is primarily attributable to a decrease of ¥29mn in retained earnings, against increases of ¥13mn in share capital and ¥13mn in capital surplus. The equity ratio rose 2.3 percentage points to 28.4%. Accordingly, we at FISCO believe that the Company's financial base is improving given the shift to positive EBITDA and operating profit.

■ 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 probable 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 Company's earnings structure is such that the greater the ratio of BPaaS business revenue to Company-wide revenue, the more the BPaaS business accelerates growth of business overall. This is due to distinctive characteristics of the BPaaS business in terms of facilitating improvements in operational efficiency and profit margins, as well as enabling synergies through integration with other services. 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.

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

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

Outlook

2. Topics

Current topics of discussion are as follows.

(1) Disclosure based on four-quadrant classification

The Company now operates its business under a single segment, the Platform Business, with activities centered around two domains: the SaaS domain and the BPaaS domain. Meanwhile, it has adopted a four-quadrant disclosure framework effective from 1Q FY12/25, whereby it classifies revenue in each domain into two categories: recurring revenue and one-time revenue. Under this framework, the Company clearly distinguishes between ongoing revenue streams (recurring revenue) and one-off or ad hoc revenue streams (one-time revenue) within its SaaS domain, and similarly applies these disclosure categories within its BPaaS domain. Going forward, the Company's use of these new disclosure categories is expected to further enhance clarity of its financial results analysis by illustrating differences between earnings structures, growth potential, and earnings stability across each of its businesses.

Disclosure based on four-quadrant classification

			Stock-based	Flow-based
Platform Business	SaaS Domain	Businesses and services related to monthly billing models through software	<ul style="list-style-type: none"> Chatwork Chatwork Storage Chatwork Attendance Management System Chatwork Personnel Evaluation System 	<ul style="list-style-type: none"> Chatwork advertisements and sending customers Chatwork others SaaS others (Initial cost, issuance fee, Equipment sales) Constructing and Operating of Chatwork Personnel Evaluation System (Initial cost, consulting)
	BPaaS Domain	Businesses and services related to a business model for realizing BPO online	<ul style="list-style-type: none"> Chatwork Assistant Chatwork Labor Management 	<ul style="list-style-type: none"> Chatwork Labor Management (Initial cost, Year-end adjustment)

Source: The Company's results briefing materials

(2) Assessing AI agent use in BPaaS

In the BPaaS domain, moves to deploy and use AI agents are rapidly gaining momentum. Amid a distinctive trend of companies shifting to AI for expense reimbursement, invoice processing, and other such tasks traditionally performed by human resources, AI agents have already reached the point where they are capable of handling 50% to 65% of anticipated workloads. This shift has a significant impact in terms of improving operational efficiency and reducing costs, and its scope of application is expected to expand further in the future. As such, the scope of AI agent use is expected to continue expanding. As this trend of AI adoption progresses, the earnings structure and business processes of the Company's BPaaS business may undergo fundamental transformation. Accordingly, the Company plans to continue disclosing progress updates going forward.






(3) Report on corporate venture capital (CVC) activities

The Company engages in strategic investment activities through its corporate venture capital (CVC) initiative, with investment in four companies thus far. These investee companies have been making steady progress in business development and alliances, while also consistently delivering on the CVC objectives of generating synergies through collaboration and supporting future growth. One exit event has involved the listing of investee GVA TECH, Inc., on the TSE Growth Market. This marked the Company's first instance of an investment actually yielding capital returns, representing a key milestone for the Company's future CVC management. The outcomes of these CVC activities are likely to play a certain role in shaping the Company's future financial and growth strategies.

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Outlook

Corporate venture capital (CVC) investees

	 Digital Hack	 ブレイブ 少額短期保険株式会社	 YZ	 miive	 GVA TECH
	Digital Hack, Inc.	Brave Short-Term Insurance Co., Ltd.	YZ.com, Inc.	miive, Inc.	GVA TECH, Inc.
Investment timing	June 2023	March 2024	July 2024	October 2024	
Investment structure	Minority investment	Minority investment	Minority investment	Minority investment	
Business overview	Digitalization and DX support services for corporations	Post-incident legal expense insurance business	Development and operation of a business matching platform for microbusinesses, and sales outsourcing services	Branded prepaid card business and employee benefits services	
Return-based revenue	Currently tuning the service for Chatwork users; full-scale launch will begin once adjustments are complete.	Participated in the service launch event as a strategic partner; full-scale rollout is imminent.	Customer referrals are performing well, in line with expectations.	Launched the collaborative service "Chatwork Employee Benefits," which is off to a strong start.	<div> <p>Listed on the TSE Growth Market in December 2024</p> <ul style="list-style-type: none"> • We invested in September 2022 • Develops and operates AI-powered legaltech services </div>

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

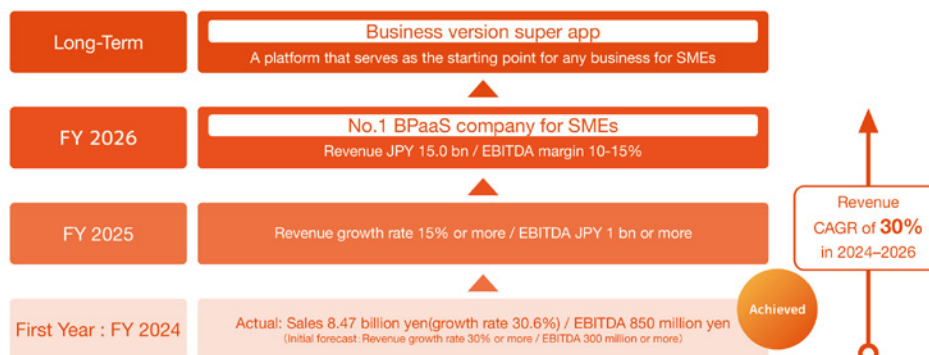
The Company has drawn up a medium-term management plan embracing the objective of establishing the Company's position as the leading BPaaS company for SMEs. Under the plan, the Company aims to achieve no less than a 30% compound annual growth rate (CAGR) in consolidated revenue from FY12/24 through FY12/26, with financial targets for the plan's final year consisting of consolidated revenue of ¥15.0bn, EBITDA of between ¥1.5bn and ¥2.25bn, and an EBITDA margin of between 10.0% and 15.0%. These targets have remained unchanged since release of the plan. The ¥15.0bn revenue target comprises between ¥10.0bn and ¥11.0bn in the SaaS domain centered on Chatwork, between ¥2.0bn and ¥2.5bn in the BPaaS domain, and between ¥1.5bn and ¥3.0bn attributable to new business and M&A. While the plan was initially predicated on organic growth, the Company has since shifted to a policy directed toward strategically incorporating M&A as a means of achieving growth. The policy change reflects heightening feasibility of executing a roll-up strategy particularly in its BPaaS domain, through successive acquisitions of relatively small companies that provide BPO services to SMEs, such as MINAGINE.

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. 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 aims to create future core businesses and achieve discontinuous growth through AI-driven research and development that leverages Group assets, combined with its incubation strategy for new businesses.

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Growth strategy

Overview of the medium-term management plan



Source: The Company's results briefing materials

Numerical management targets

	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

The Company released its new medium- to long-term financial targets in 1Q FY12/25, in which it specifies key metrics comprising direct cost ratio, marginal profit ratio, sales and marketing ratio (S&M), research and development ratio (R&D), general and administrative ratio (G&A), and EBITDA margin. The Company has opted to disclose these key metrics because the very labor-intensive nature of the Company's BPaaS business draws attention to effects of such labor-related costs on the Company's profit margins. The Company's goal is to reduce S&M from the current 32% to somewhere in the range of 15-20%, in seeking to narrow the gap between its FY12/24 actual results and its medium- to long-term targets. It aims to achieve this by standardizing marketing and sales functions, promoting product-led growth, and using cross-selling to guide customers toward its BPaaS offerings. In R&D, the Company has outlined its policy of continued investment in products and AI. Given its currently high ratio of G&A expenses, the Company will implement stringent cost controls going forward. 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 Company has furthermore set a medium- to long-term target of achieving a final EBITDA margin in the 25-40% range. The potential size of the BPaaS market for non-core SME business operations is ¥42.4tn (potential market), with the core target segment alone valued at ¥298.3bn (actual market). Accordingly, we at FISCO expect the Company to achieve both medium- to long-term growth and stable profitability.

Growth strategy

Medium- to long-term financial targets

	FY12/24	FY12/25 (plan)	FY12/26 (plan)	Medium- to long-term targets
Direct cost ^{*1}	18%	20%	20%	20–25%
Marginal profit ratio	82%	80%	80%	75–80%
S&M ^{*2}	32%	26–28%	24–28%	15–20%
R&D ^{*3}	17%	16–18%	16–18%	15–20%
G&A ^{*4}	23%	22–24%	20–24%	10–15%
EBITDA margin	10%	10–12%	10–15%	25–40%
Depreciation and amortization	9%	9–10%	9–10%	Around 10%
Operating profit margin	1%	1–3%	1–5%	15–30%

^{*1} Direct cost refers to the total cost of sales in managerial accounting, excluding depreciation and amortization. It includes server costs, payment fees, and personnel costs related to BPaaS operators and customer support.

^{*2} S&M refers to the sales and marketing ratio. It represents the total sales and marketing costs in managerial accounting, excluding depreciation and amortization. These include advertising expenses related to sales promotion, personnel costs for the sales staff, and other related expenses.

^{*3} R&D refers to the research and development ratio. It represents the total research and development costs in managerial accounting, excluding depreciation and amortization. These include personnel costs for engineers involved in service development, and other related expenses.

^{*4} G&A refers to the general and administrative ratio. It represents the total general and administrative costs in managerial accounting, excluding depreciation and amortization. These include personnel expenses for the corporate division, and other related expenses.

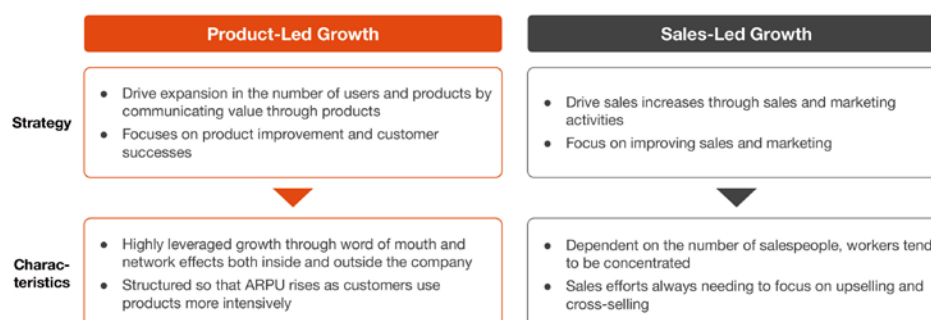
Source: Prepared by FISCO from the Company's results briefing materials

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

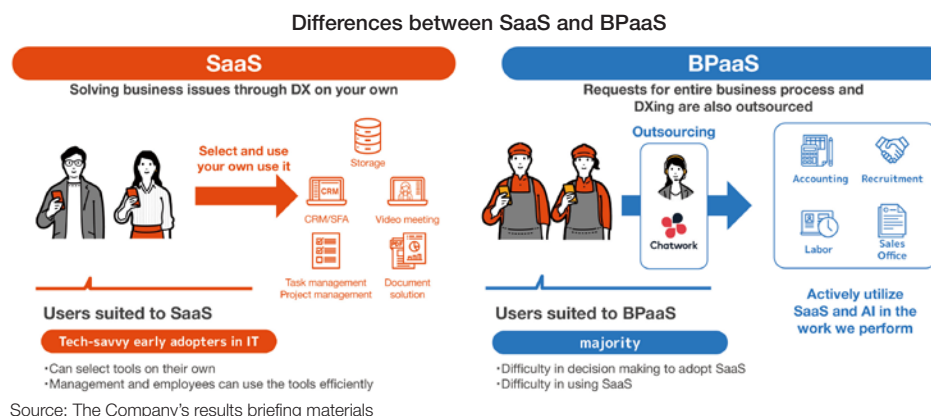


Source: The Company's results briefing materials

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 900,000 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.



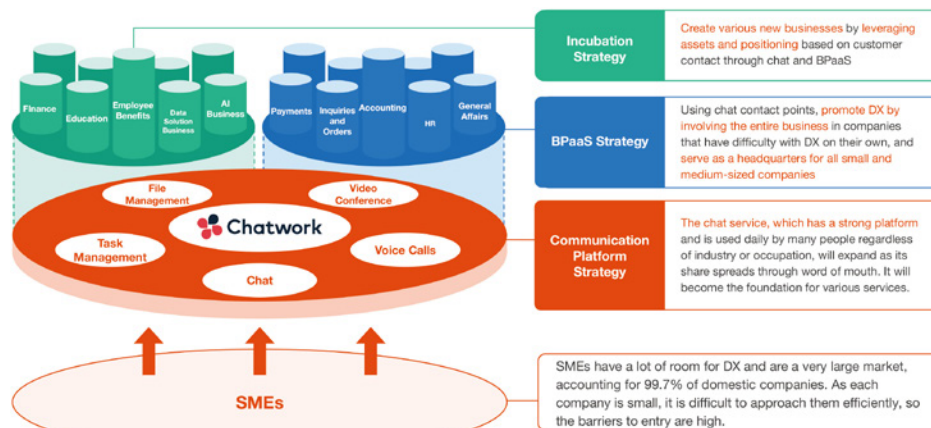
(3) Incubation strategy

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.

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Growth strategy

Three interrelated strategies

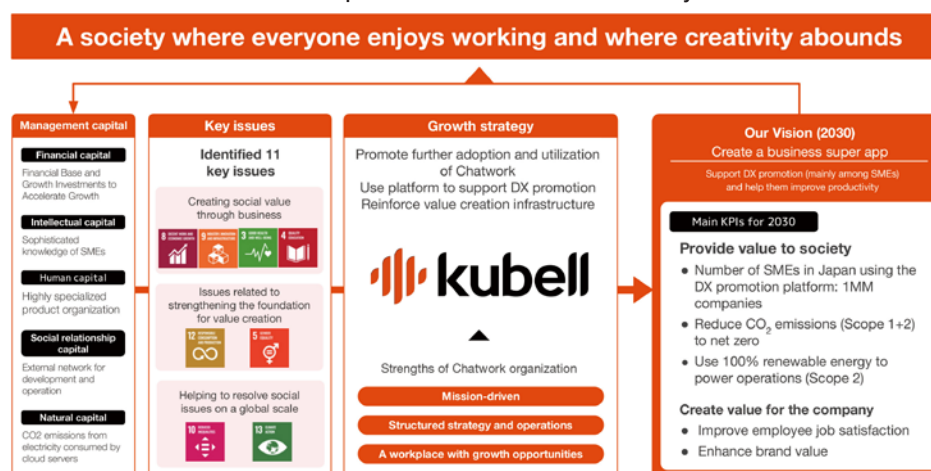


Source: The Company's results briefing materials

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 30 and December 31 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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