



Nareru Group

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Q2 FY2024.10

Financial Results Briefing

June 12, 2024



Nareru Group Inc. | TSE Growth | 9163 |

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Q2 FY2024.10

Financial Results

Earnings Summary for First Half FY2024.10

- Revenue for the first half was +22.9% YoY, and profits at each stage increased significantly by more than 25% YoY.

Revenue

JPY10,202 mm
(YoY + 22.9%)

Operating Profit

JPY1,333 MM
(YoY + 26.9%)

Profit

Attributable to Owners of Parent

JPY923 MM
(YoY + 27.9%)

Earnings and Dividends Forecasts for FY2024.10

- No changes to originally announced earnings forecasts.
- The annual dividend for FY2024.10 is planned to be JPY110 per share (interim dividend JPY50, year-end dividend JPY60)

Revenue

JPY21,830 MM
(YoY + 21.3%)

Operating Profit

JPY2,770 MM
(YoY + 12.2%)

Profit

Attributable to Owners of Parent

JPY1,920 MM
(YoY + 10.3%)

- Revenue for the current Q was +21.5% YoY, and profits at each stage increased significantly.
- Revenue increased by 22.9% YoY in the first half, and profits at each stage also increased significantly.
- Revenue progress rate is 46.7% compared to full-year forecasts, indicating steady progress including profits at each stage.

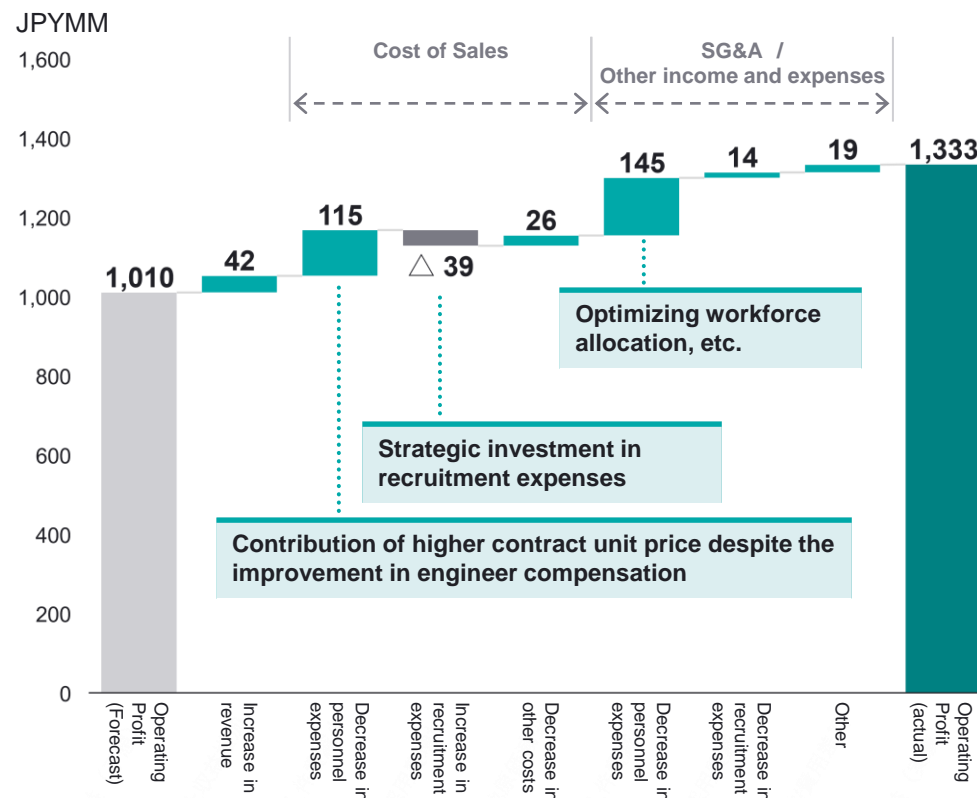
	Q2 (3 months)				H1 (6 months)				Full-year Forecasts	
	FY2023. 10	FY2024.10	YoY		FY2023.10	FY2024.10	YoY		FY2024.10	Progress
Millions of Yen										
Revenue	4,293	5,215	921	21.5%	8,299	10,202	1,902	22.9%	21,830	46.7%
Gross profit	1,138	1,303	164	14.5%	2,274	2,713	438	19.3%	5,920	45.8%
Gross Profit Margin	26.5%	25.0%	(1.5pt)		27.4%	26.6%	(0.8pt)		+27.1%	
Operating Profit	483	588	105	21.9%	1,050	1,333	282	26.9%	2,770	48.1%
Operating Profit Margin	11.3%	11.3%	–		12.7%	13.1%	+0.4pt		+12.7%	
Profit before Tax	470	578	107	22.9%	1,024	1,310	285	27.9%	2,730	48.0%
Profit Attributable to Owners of Parent	334	407	72	21.7%	722	923	201	27.9%	1,920	48.1%

- Revenue increased by ¥ 42 million compared to the first half forecast due to the contribution of higher unit contract price, and was generally in line with the forecast.
- Gross profit increased by 5.6% from the forecast due to the contribution of higher contract unit price despite the improvement in engineer compensation and strategic investment in recruitment expenses.
- Operating profit increased by 32.0% from the forecast due to optimizing workforce allocation, etc.

Difference from the forecast for the First Half

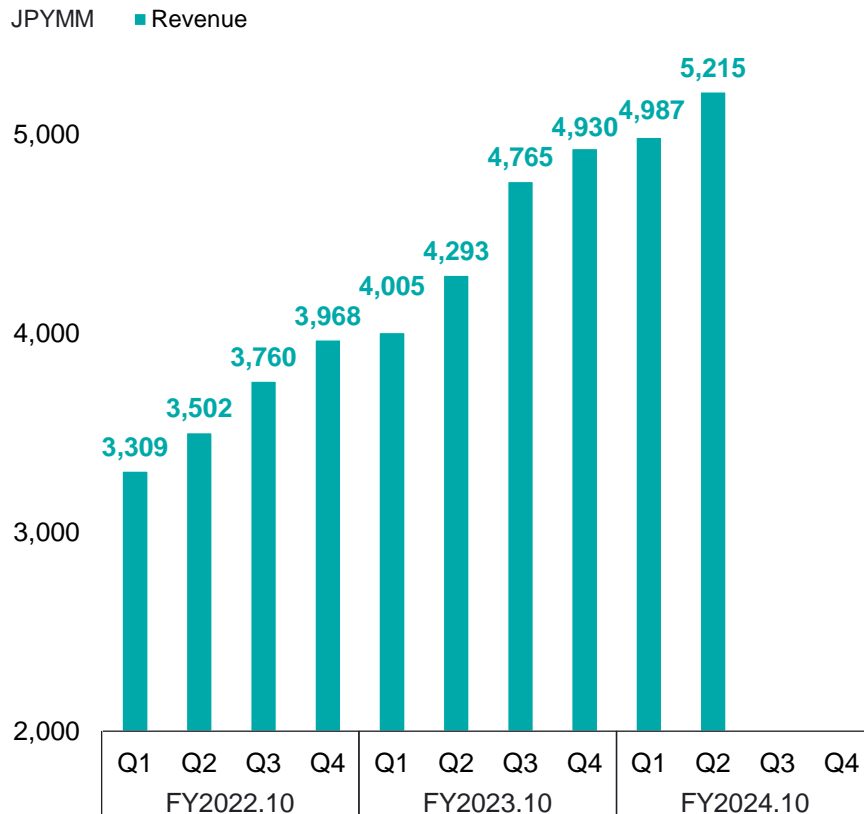
Millions of Yen	H1 (6 months)		
	Forecast	Actual	Difference
Revenue	10,160	10,202	42 +0.4%
Gross Profit	2,570	2,713	143 +5.6%
Operating Profit	1,010	1,333	323 +32.0%
Profit before Tax	980	1,310	330 +33.7%
Profit Attributable to Owners of Parent	690	923	233 +33.8%
Basic Earnings per Share	81.89 yen	108.68 yen	-

Difference in profit for the First Half

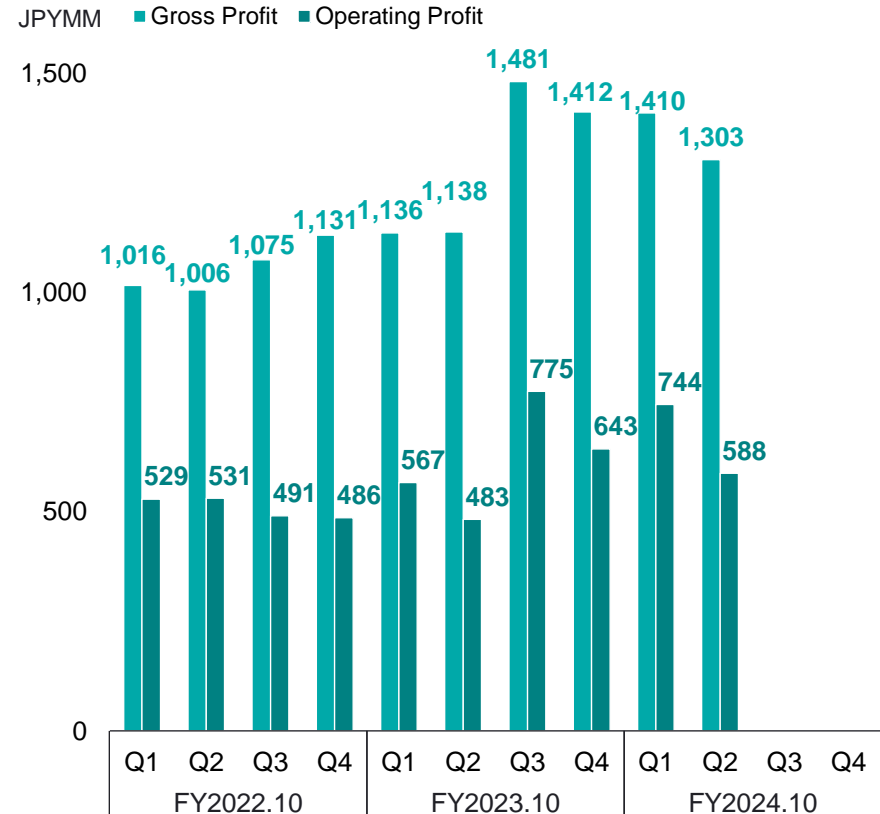


- Quarterly results achieved year-on-year increases in both revenue and profits.
- Revenue remained strong due to an increase in the number of total engineers and an increase in contract unit price. Although gross profit and operating profit decreased from the previous quarter, they were steady against the forecast for the first half due to the increase in contract unit price.

Quarterly revenue



Quarterly GP/OP



- In the construction solutions business, revenue increased steadily by 23.1% YoY and operating profit increased by 15.1% YoY.
- In the IT solutions business, revenue increased steadily by 21.6% YoY, and operating profit also increased by 80.0% YoY.

	H1 (6 months)			
	Millions of Yen	FY2023.10	FY2024.10	YoY
Construction Solution		7,394	9,102	1,707 + 23.1%
IT Solution		904	1,099	195 + 21.6%
Total Revenue * 1		8,299	10,202	1,902 + 22.9%
Construction Solution		951	1,095	951 + 15.1%
Profit Margin		12.9%	12.0%	(0.9pt)
IT Solution		41	75	33 + 80.0%
Profit Margin		4.6%	6.8%	+ 2.2pt
Adjustments		56	162	105 + 185.8%
Total Operating Profit		1,050	1,333	282 + 26.9%

(*1) Internal transactions eliminated

- Despite the dividends of the previous fiscal year in the previous quarter, RE and cash recovered to the level of the previous fiscal year-end. Ratio of Goodwill and net debt decreased.
- For the current fiscal year, dividends will be split twice a year instead of once a year. Therefore, fluctuations in BS due to dividends are expected to be reduced.

Millions of Yen	As of Oct. 2023	As of Apr. 2024
Cash and Cash Equivalents	4,083	3,889
Trade Receivables	2,766	2,644
Other Current Assets	210	230
Total Current Assets	7,060	6,764
Property, Plant and Equipment	170	163
Right-of-use Assets	357	301
Goodwill	14,074	14,074
Deferred Tax Assets	492	455
Other Non-current Assets	348	323
Total Non-current Assets	15,444	15,318
Total Assets	22,505	22,083

Ratio of Total Equity Attributable to Owners of Parent to Total Assets	54.1%	56.5%
Net Debt ^{*1}	2,529	2,313
Ratio of Goodwill ^{*2}	1.16times	1.13times

Millions of yen	As of Oct. 2023	As of Apr. 2024
Borrowings	2,714	2,714
Lease Liabilities	201	209
Other Current Liabilities	3,371	3,015
Total Current Liabilities	6,287	5,938
Borrowings	3,571	3,214
Lease Liabilities	125	65
Other Non-current Liabilities	343	379
Total Non-current Liabilities	4,040	3,659
Share Capital, Capital Surplus, etc.	8,857	8,938
Retained Earnings	3,319	3,546
Total Equity	12,177	12,484
Total Liabilities and Equity	22,505	22,083

(*1) Borrowings (current) + Lease liabilities (current) + Borrowings (noncurrent) + Lease liabilities (non-current) – Cash and cash equivalents

(*2) Goodwill / Total equity

- Operating CF and free CF for the first half were positive despite the payment of winter bonus in 1Q.
- Due to the payment of dividends in 1Q, the increase/decrease in cash and cash equivalents was JPY-193MM.

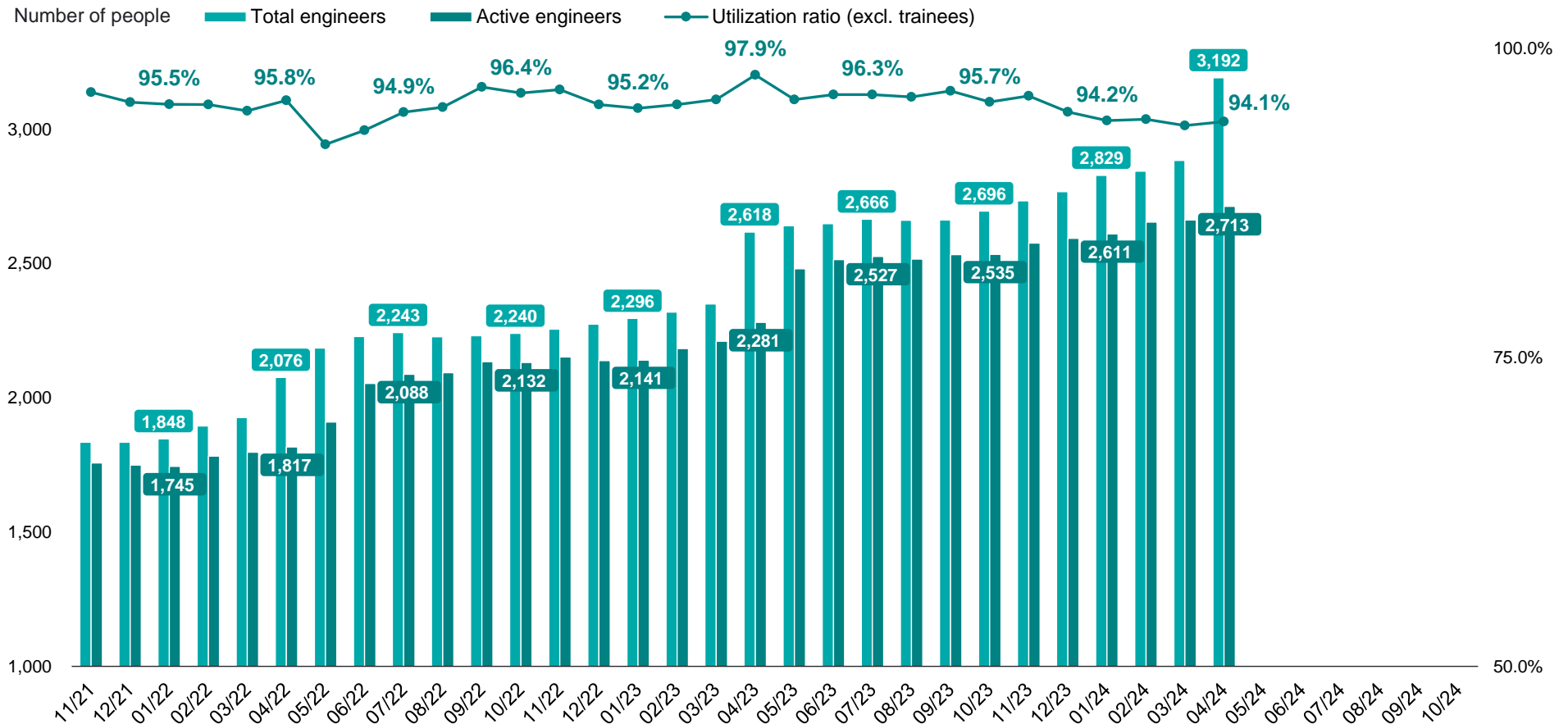
Millions of Yen	H1 FY2023.10	H1 FY2024.10	
Profit before Tax	1,024	1,310	
Depreciation	127	130	Incl. depreciation of right-of-use assets (IFRS)
Decrease (Increase) in Trade Receivables	29	122	
Increase (Decrease) in Accrued Expenses	284	87	
Interest Paid	(24)	(22)	Winter bonus payment
Income Taxes Paid	(417)	(492)	
Other	115	(246)	
Cash Flows from Operating Activities	1,139	889	
Purchase of Property, Plant and Equipment	(32)	(4)	Cancellation refund of officer life insurance for FY2023.10
(Purchase) Collection of Other Financial Assets	125	21	
Other	(3)	1	
Cash Flows from Investing Activities	90	18	
Free Cash Flow	1,229	908	
Repayments of Long-term Borrowings	(357)	(357)	Incl. office rent (IFRS)
Repayments of Lease Liabilities	(97)	(109)	
Proceeds from Issuance of Shares	—	164	Stock option exercise payment
Dividends Paid	—	(799)	
Other	(2)	—	
Cash Flows from Financing Activities	(457)	(1,101)	
Net Increase (Decrease) in Cash and Cash Equivalents	771	(193)	

Q2 FY2024.10

Business Overview

- The number of engineers has increased by 363 from January 2012 to 3192, backed by steady recruitment activities.
- Utilization ratio remained flat as a result of focusing on improving contract unit prices, while the number of active engineers also increased.

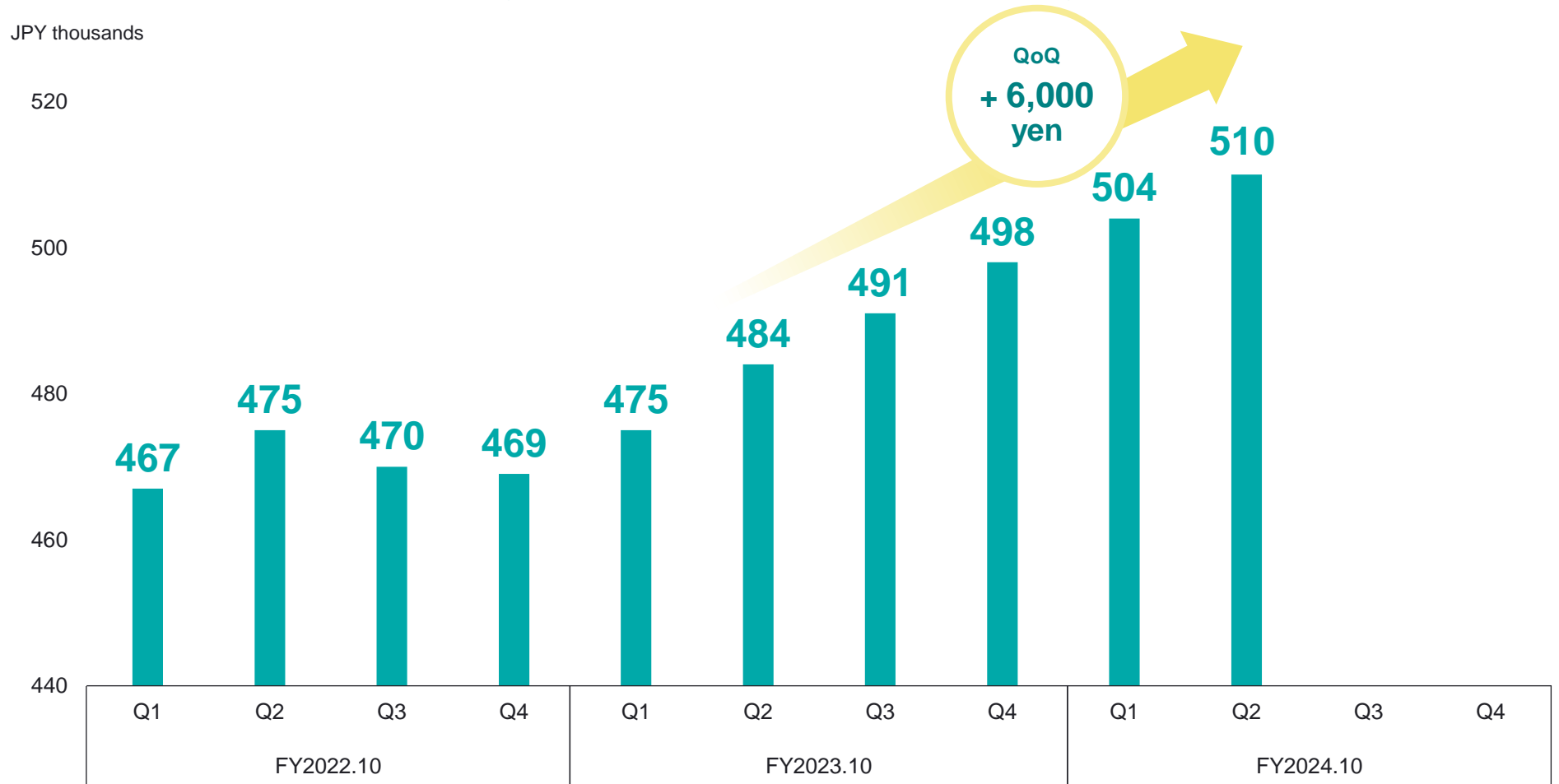
Trends in total engineers, active engineers and utilization ratio



- The contract unit price increased by JPY6,000 QoQ to JPY510,000 due to the shortage of human resources in the construction industry and our sales efforts including price increase negotiations.

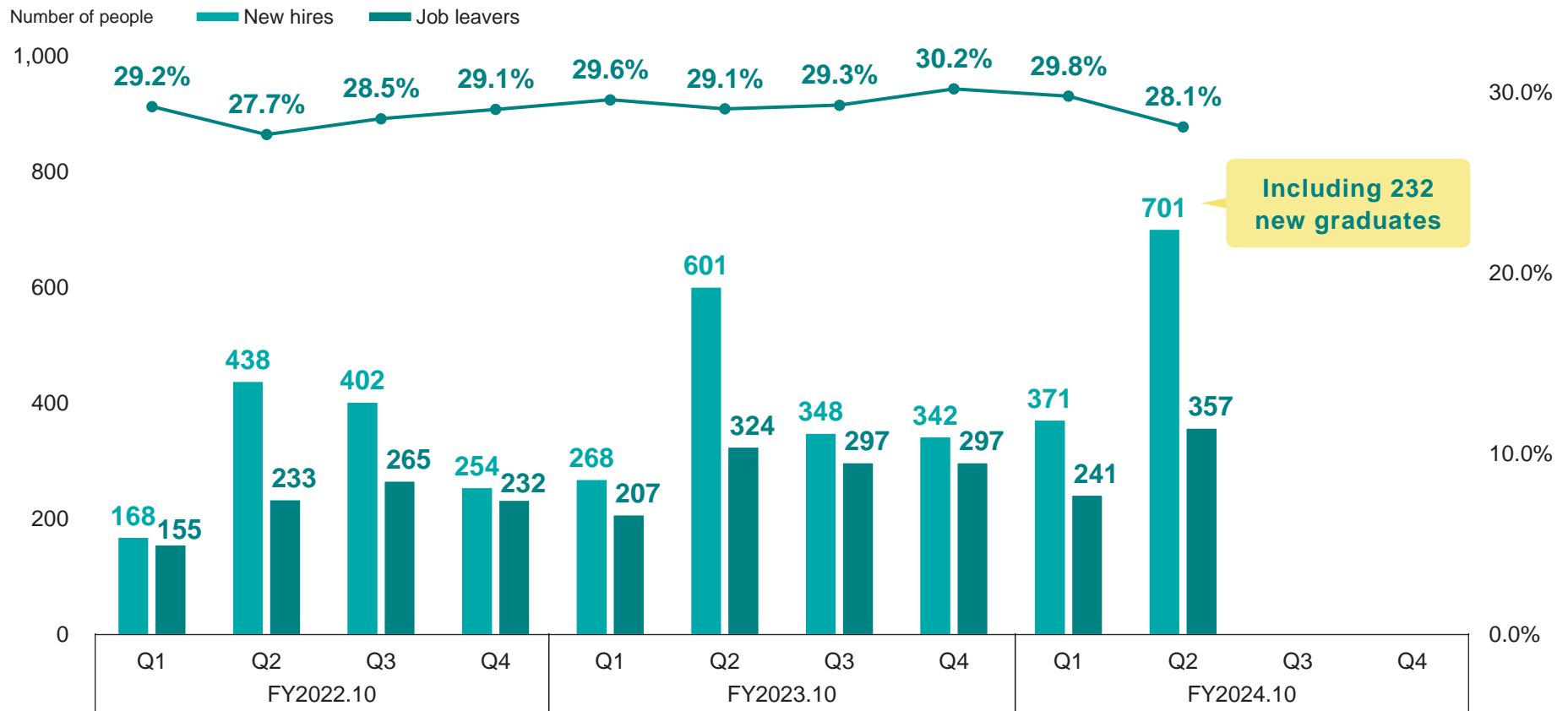
Trends in contract unit price

JPY thousands



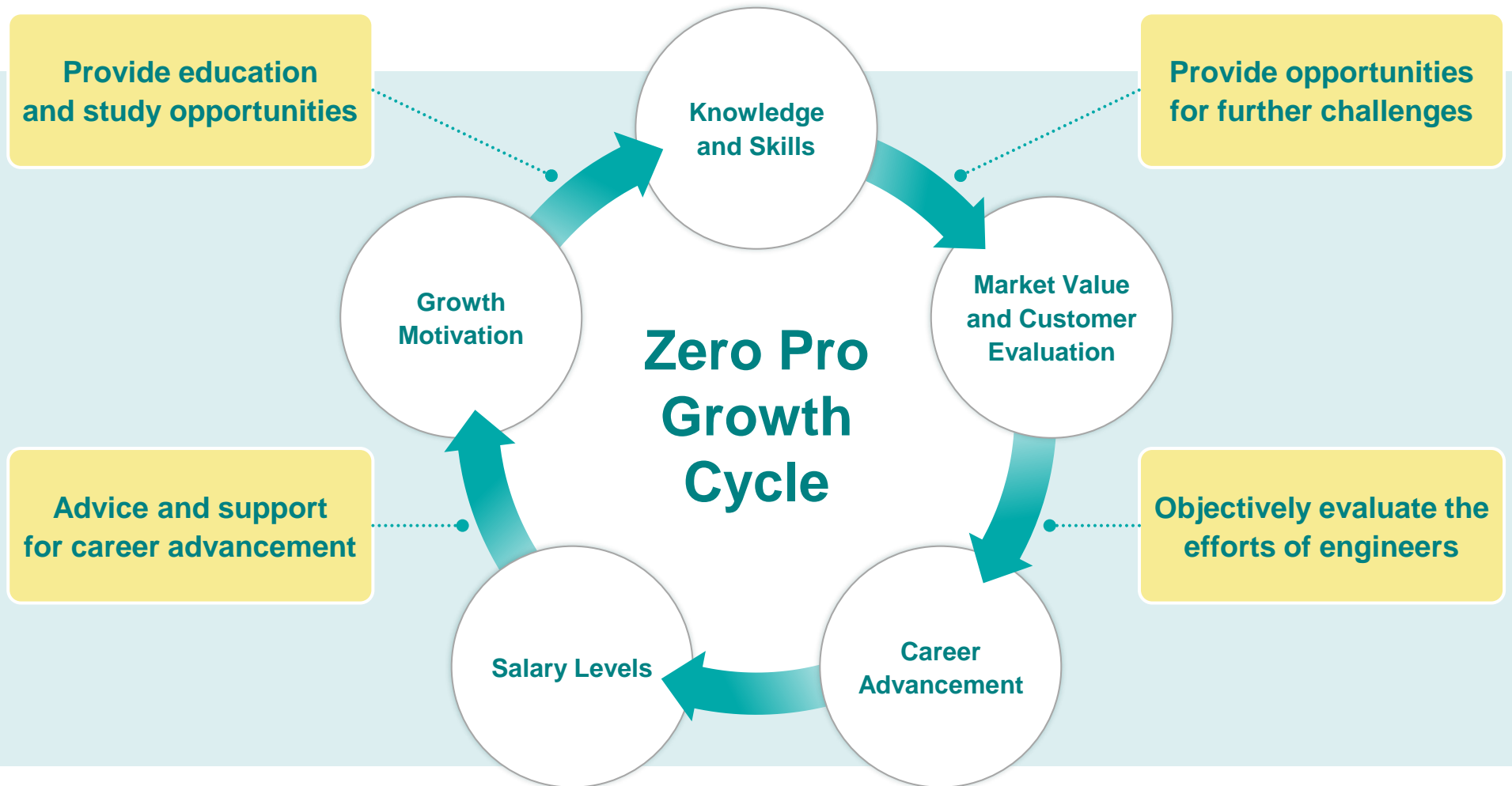
- The number of new hires in the second quarter was 701 (including 232 new graduates), steadily increasing both YoY and QoQ.
- The turnover rate ^{*1} improved to 28.1% as in the previous quarter. According to the number of total engineers, the number of job leavers increased by 116 compared to the previous Q, but the turnover rate remains within the expected range.

Trends by Quarter



(*1) Turnover rate = Job leavers during past 12 months / (Total engineers at the end of the month 12 months prior + New hires during past 12 months)

- Aiming to create an environment in which engineers can continue to grow, we have established "Zero Pro Growth Cycle" as a process for steadily growing into a professional, even if they have no experience.



- Revised qualification allowance and started new exam preparation courses as part of "Zero Pro Growth Cycle".
- The qualification allowance will be revised in November 2024, and the exam preparation course will be held from July 2024.

Revise qualification allowance to the highest level *1 in the industry (Implemented in November 2024)

We have been giving back to our engineers with the hope that they will take on the challenge of acquiring qualifications, which are one of the signs of growth for each of them, and make it a step toward growth.

● Construction Management Engineer

	Before revision * Monthly amount	After revision * Monthly amount
Class 1 Construction Management Engineer	10,000 yen	50,000 yen (+ ¥ 40,000)
Class 2 Construction Management Engineer	4,000 yen	35,000 yen (+ ¥ 31,000)
Class 1 Assistant Construction Management Engineer	Not subject to payment	20,000 yen (+ ¥ 20,000)
Class 2 Assistant Construction Management Expert	Not subject to payment	15,000 yen (+ ¥ 15,000)

● Architect

	Before revision * Monthly amount	After revision * Monthly amount
Class 1 Registered Architect	10,000 yen	50,000 yen (+ ¥ 40,000)
Class 2 Registered Architect	4,000 yen	30,000 yen (+ ¥ 26,000)

* If engineers have an architect and a construction management engineer, a maximum of 100,000 yen per month will be paid.

(* 1) According to World Corporation

Establishment of Exam Preparation Courses

Provide study opportunities for engineers who are aiming to acquire qualifications

- Newly established face-to-face exam preparation courses and e-learning format qualification exam preparation
- The instructors have at least 30 years of experience as a certified construction management engineer at schools for qualifying examinations.



It is possible to prepare for the examination according to the lifestyle of each engineer and the situation of the place of assignment.

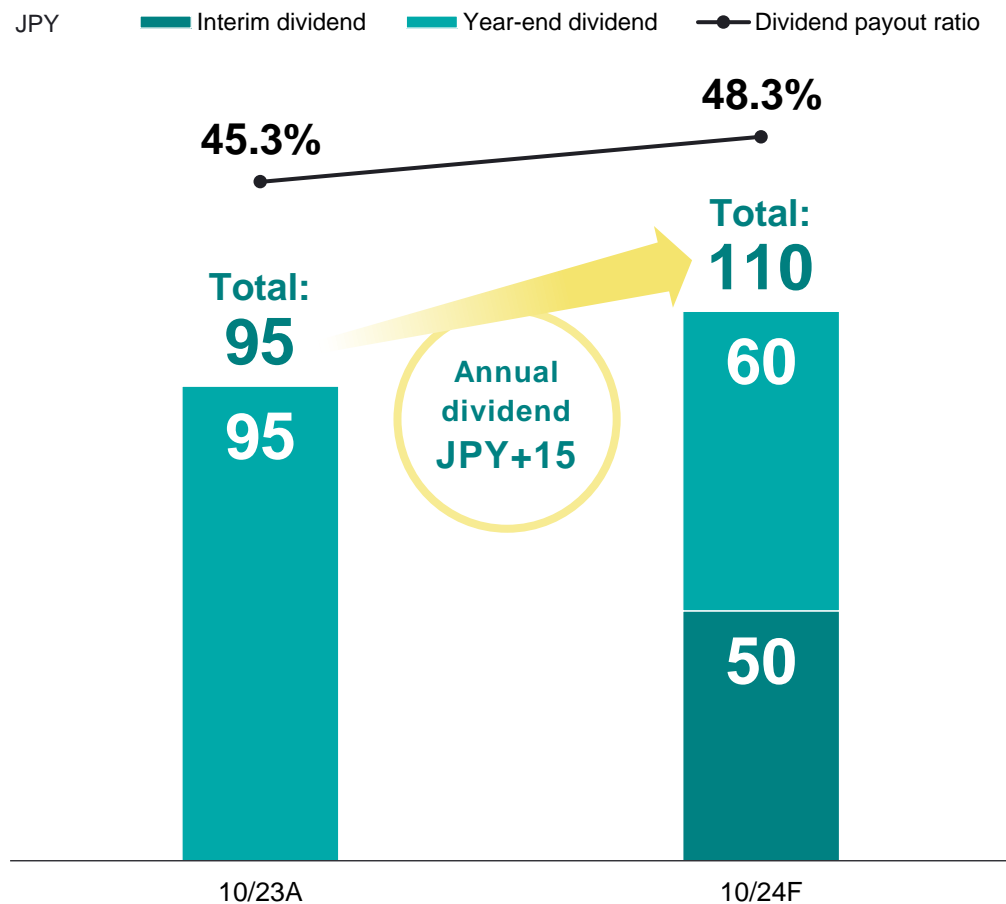
FY2024.10

Earnings Forecasts

- Despite steady progress in the first half, the full-year forecasts will remain unchanged considering the difficult environment for recruitment.

	Full Year					
	Millions of Yen	FY2023.10 Actual	FY2024.10 Forecast	YoY	Progress in the first half	
Revenue		17,994	21,830	3,835	+21.3%	46.7%
Gross profit		5,169	5,920	750	+14.5%	45.8%
Gross Profit Margin		28.7%	27.1%	-1.6pt		
Operating Profit		2,469	2,770	300	+12.2%	48.1%
Operating Profit Margin		13.7%	12.7%	-1.0pt		
Profit before Tax		2,475	2,730	254	+10.3%	48.0%
Profit Attributable to Owners of Parent		1,741	1,920	178	+10.3%	48.1%
Basic Earnings per Share		209.88 yen	227.86 yen	17.98 yen	+8.6%	

- Annual dividend for FY2024.10 is planned to be JPY**110** per share, including an interim dividend of JPY**50** and a year-end dividend of JPY**60**. (JPY**+15** YoY)
- Dividend payout ratio based on basic earnings per share (on earnings forecasts basis) is 48.3%.



Appendix 1

Company Overview

Company Name Nareru Group Inc.

Head Office Address 3rd Floor, Kojimachi Mitsuba Building, 3-5 Nibancho, Chiyoda, Tokyo

Representative Ryo Kobayashi

Number of employees
As of the end of October, 2023
3,219 (Consolidated)

History

- November 2008** : Established World Corporation (For engineer dispatch business of construction industry)
- May 2019** : Established AP64 (now Nareru Group) (For pure investment purpose)
- November 2019** : Made World Corporation a subsidiary
- December 2020** : Made ATJC a subsidiary (For entering dispatch business of the IT industry)
- April 2021** : Acquired craftworker recruitment business
- April 2021** : Made the Japan Construction Contractors Association a subsidiary
- May 2021** : AP64 changes name to Nareru Group
- October 2021** : Established CONTRAFT (To provide information to Zenken as an individual brand)
- July 2023** : Listed on the Tokyo Stock Exchange Growth Market

(*1) Perform process control, safety control, quality control, and cost control at construction sites.
 (*2) Create, modify, and adjust drawings using CAD (Computer Aided Design) according to instructions from designers and drafters.
 (*3) Abbreviation for system engineering service. A form of consignment contract regarding the development, maintenance, and operation of software systems
 (*4) Calculated based on J-GAAP for the fiscal year ended October 2020 (LTM), and based on financial figures prepared based on IFRS for the fiscal years ended October 2021 and October 2022.



Established in May, 2019 • Holding company



Established in Nov. 2008
 Number of engineers: 2,601
 (as of the end of May, 2023)

- Dispatch of construction engineers^{*1}
- Dispatch of CAD operators^{*2}
- Preparation of construction drawings

Group overview



Established in Dec. 2007
 Number of engineers: 356
 (as of the end of May, 2023)

- Dispatch of IT engineers/SES^{*3}



Established in Oct. 2021

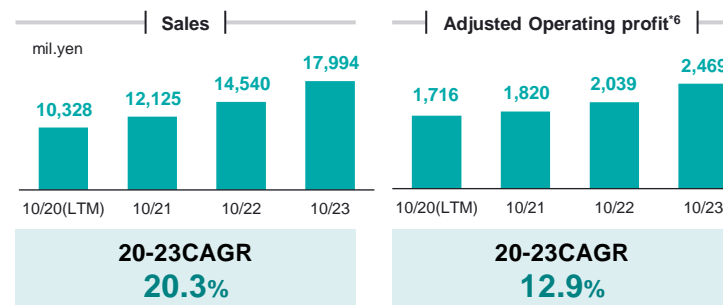
- Operation of a human resources platform for employment placement of craftsman



Established in Jul. 2013

- Employment placement services for craftsman

Performance^{*4,5}



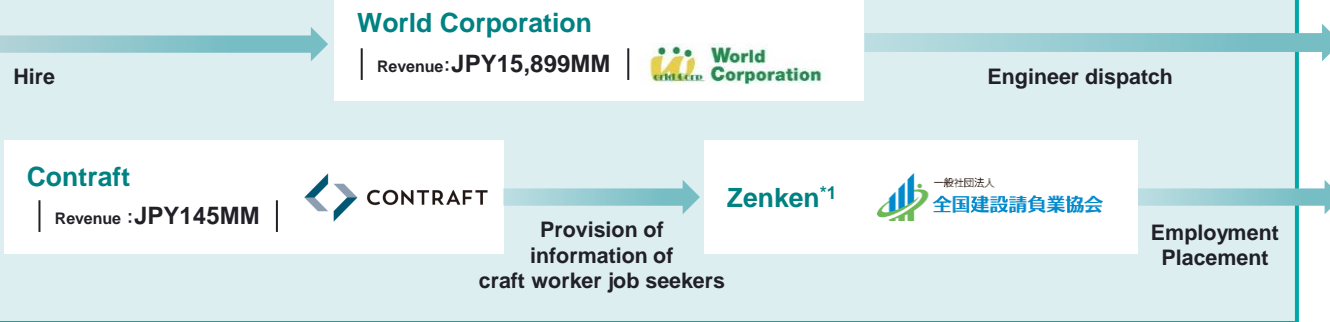
(*5) After our company was established on May 27, 2019, we changed the fiscal year-end from the end of April to the end of October. As a result, the fiscal year ended October 2020 of our company is the six-month period from May 1, 2020 to October 31, 2020. "Fiscal Year Ended October 2020 (LTM)" is an unaudited figure calculated assuming the 12-month period from November 1, 2019 to October 31, 2020 as one consolidated fiscal year. Results differ from those for the six-month period ended October 2020.
 (*6) For the fiscal year ended October 31, 2020 (LTM), adjusted operating income is calculated by adding back goodwill amortization and temporary expenses to operating income for the same period. For the fiscal year ended October 2021, adjusted operating income is calculated by adding back temporary expenses to operating income for the same period. For the fiscal year ended October 2022, operating income for the same period (without adjustment for temporary expenses, etc.). Refer to page 36 of the "Business Plan and Growth Potential" announced on December 13, 2023.

Holding Company

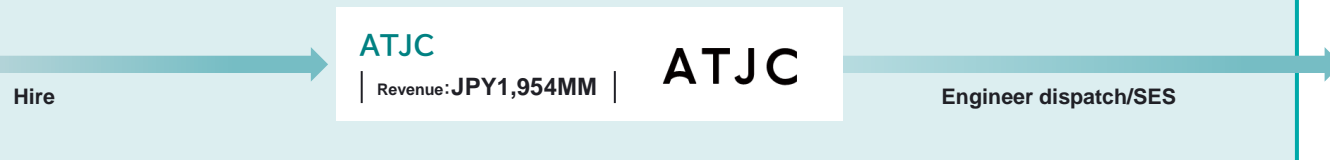
Nareru Group Inc.



Construction Solution Business | Revenue: JPY16,044MM



IT Soluton Business | Revenue: JPY1,949MM*3



(*1) Although World Corporation is the only member of Zenken and it owns 100% of the voting rights of the corporation, it is considered an unconsolidated subsidiary because it is financially immaterial.

(*2) Revenue figures are for FY2023.10.

(*3) The revenue of the IT solutions business is external sales after eliminating internal transactions, so it does not match the amount of revenue of ATJC.

Mission

To solve the increasingly severe shortage of skilled professionals*1 and make Japan an **“advanced problem-solving nation”**

Vision

By combining the two technologies of IT and human resource development, we will provide and realize **“business transformation to increase productivity”** and **“development and stable supply of professional human resources”** to compensate for the decline in professional human resources.

Challenges facing the construction industry

Chronic shortage of engineers



- Market is growing
- Number of workers is decreasing

Aging of engineers



- Number of young job seekers is decreasing
- Slow in implementing new technologies

Delay in IT and DX adoption



- Hand written, manual input
- Lack of knowledge on how to use ICT tools

Supply human resources

Business efficiency support

Nareru’s raison d’etre

Provide engineering personnel



Train young engineers



Help increase business efficiency using construction ICT



(*1) We define skilled professionals as "human resources who have skills in a specific industrial field and are engaged in specialized work."

- We mainly dispatch construction managers called site supervisors. They play an important role in connecting the client, the construction company, and the on-site workers, the craftsmen.

Business model

Orderer
(National, local government, developer, etc.)

order

Construction company
(General contractors, engineering firms, etc.)

- Drawing order
- Dispatch request

- Drawing delivery
- Dispatching engineers

Site manager

- Chief of construction site
- In general, a full-time employee in a major general contractor in charge of this position

Construction manager

- Construction site process management and safety management
- In general, a dispatched construction engineer in charge of this position

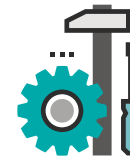


Craftworker
(scaffold worker, plasterer, etc.)

- Field work
- In general, a subcontractor workers in charge of this position

Job Description of Construction Manager

Quality Check



Major Management

Process Control



Safety Management



- Dispatching engineers to various areas of the construction industry
- Supplying human resources for the increasing number of civil engineering and construction investments in Japan

Main target



Architecture

Projects such as office buildings, high-rise condominiums, commercial facilities, SCs, factories, medical and welfare facilities, earthquake-resistant construction, etc.



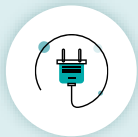
Civil engineering

Urban development such as road construction, river construction, sewerage construction, bridges, dams, tunnels, railway construction, etc.



Air conditioning hygiene

Air conditioning and hygiene in high-rise buildings, condominiums, factories, etc. to provide the function as a circulatory system for buildings



Electrical equipment

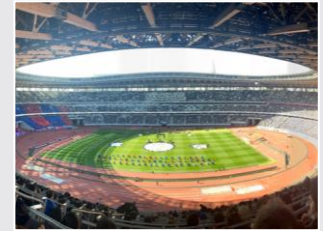
Electrical installation work for high-rise condominiums, commercial facilities, shopping centers, factories, medical and welfare facilities, etc.

Examples of Dispatching Sites



*1

TSMC's Kumamoto Plant



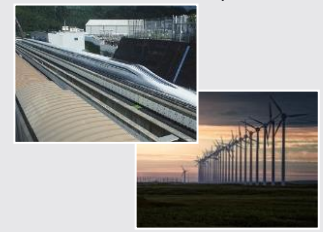
*2

Tokyo Olympics



*3

Urban Development



*4

Maglev and Wind-power generation

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1

High growth potential of the market for dispatching construction engineers due to labor shortage

Ratio of job openings to job seekers in the construction industry*¹

*Architectural, civil, and surveying engineers (part-time and regular positions) in 2022

5.51x

Demand for dispatching construction engineers*²

* in 2022

c. 63,000 people shortage

2

Industry's top class*³ growth rates and profitability backed by our inexperienced worker recruitment strategy

Sales growth rate

*CAGR for years ended Oct. 2021-Oct. 2023

21.8%

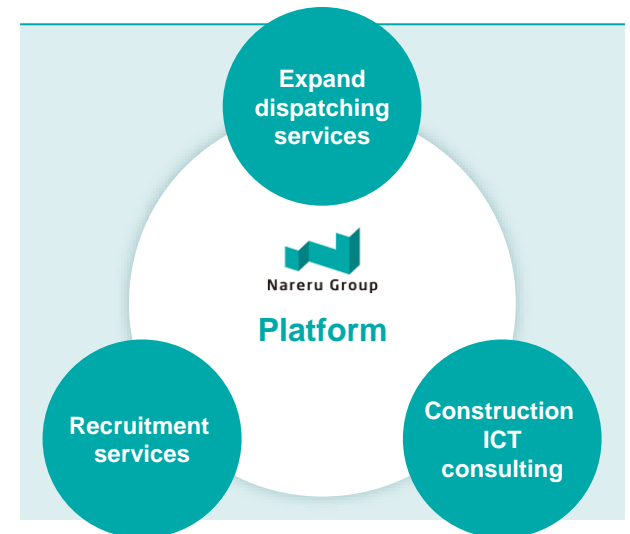
Operating margin

*Year ended October 2023

13.7%

3

High growth potential as a construction human resources platform company



(*1) Ministry of Health, Labor and Welfare "General Employment Placement Status (Employment Security Services Statistics)".

(*2) Created by Nareru Group based on Human Touch Research Institute "2030 forecast for construction engineers", 2023

(*3) Compared with sales growth rates and operation margins of the "Engineer Dispatch Companies", "Engineer Dispatch Companies" mean, amongst 17 companies listed on "the Sales Ranking of engineer Dispatching Industry" by gyokai-search.com, the following companies that meet the conditions of (i) a listed company, (ii) the annual sales of 10 billion yen or more and (iii) sales from the engineers dispatching business account for the majority of its total sales: TechnoPro Holdings, WDB Group, Meitec, Altech Corporation, Open Up Group (former BeNext-Yumeshin), Forum Engineering, and Copro Holdings. As for comparison of sales growth rate (CAGR in last 3 years) and operating profit margin (most recent fiscal year), refer to page 15 of the "Business Plan and Growth Potential" announced on December 13, 2023.



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1

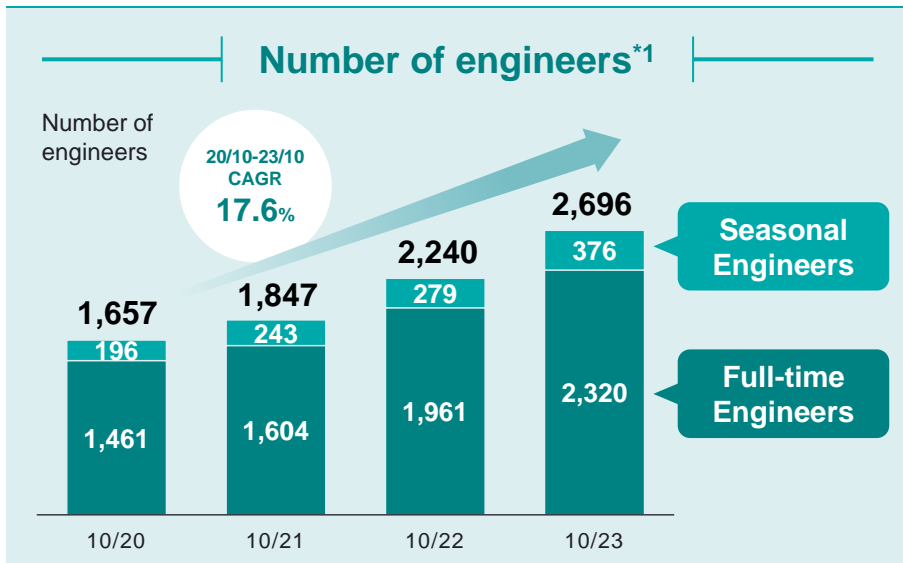
Recruitment

Increase the number of engineers through inexperienced worker recruitment strategy

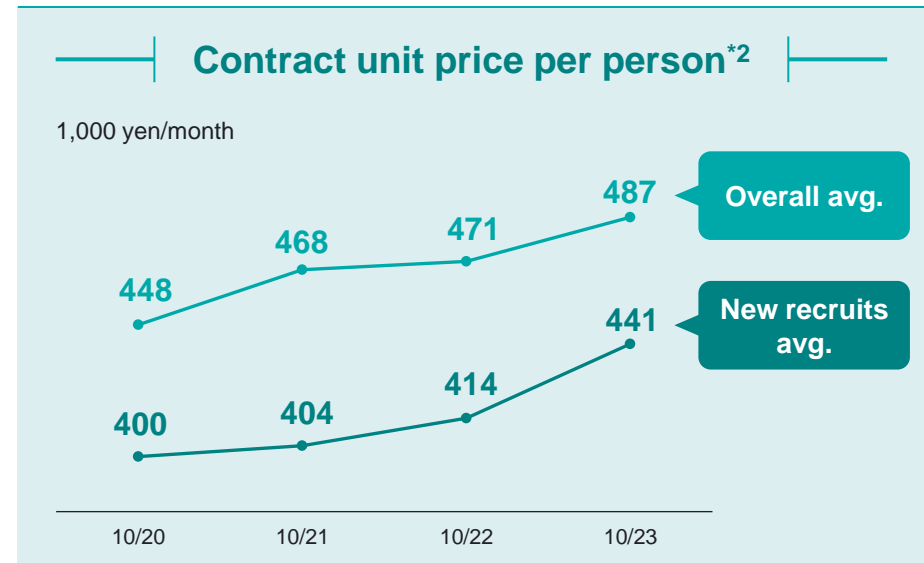
2

Room for improvement in Unit Price

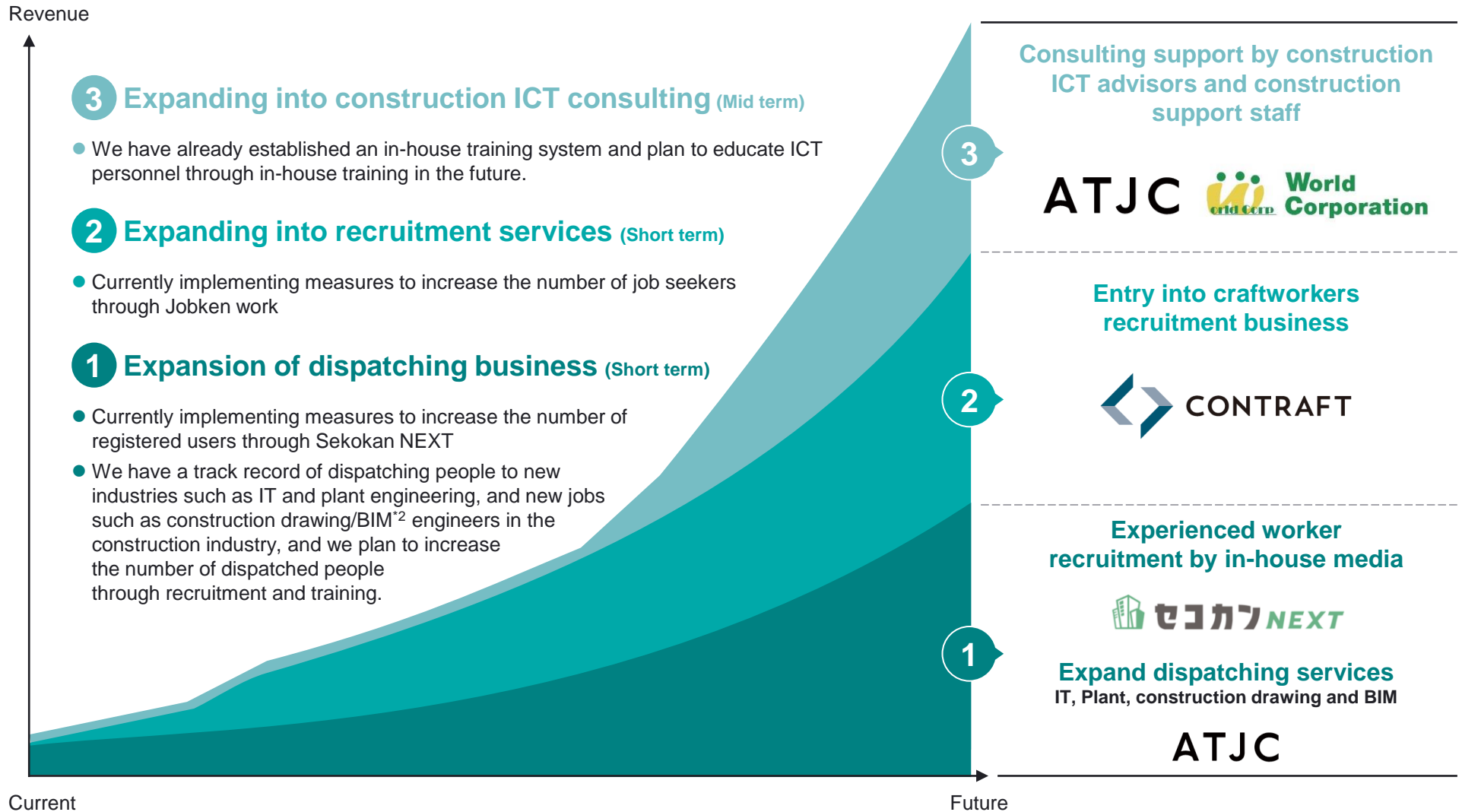
Realized continuous improvement of contract unit price by continuing to supply young engineers who are in high demand



(*1) Number of engineers who were enrolled for one day or more from the beginning of the month to the end of the month
 Figures are non-consolidated figures for World Corporation



(*2) Figures are non-consolidated figures for World Corporation
 The contract unit price per person is the average value of each contract unit price (excluding overtime pay) for all dispatched employees, including experienced and inexperienced employees.



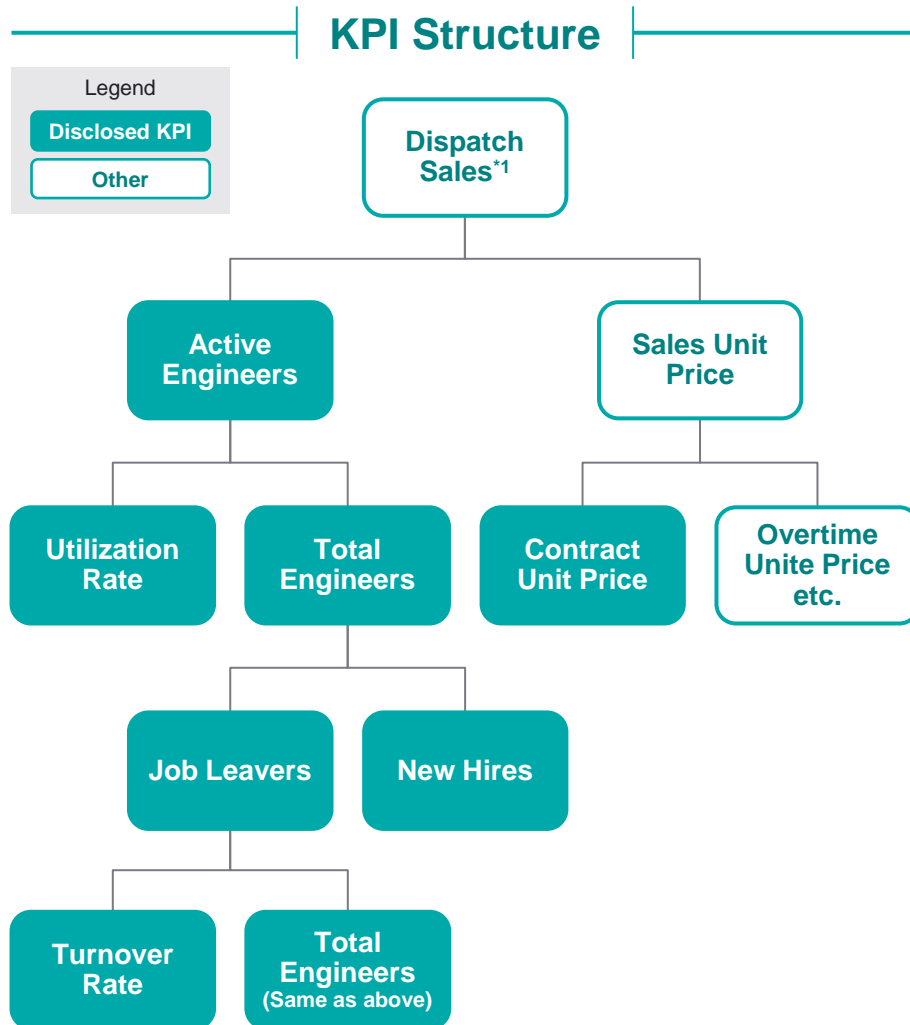
(*1) Image diagram created by Nareru Group

(*2) BIM(Building Information Modeling): A tool that enables the construction process from design to construction to maintenance management using 3D digital models created on computers in the architectural field.

Appendix 2

Other KPIs

- The Group discloses the following major KPIs related to dispatch sales.



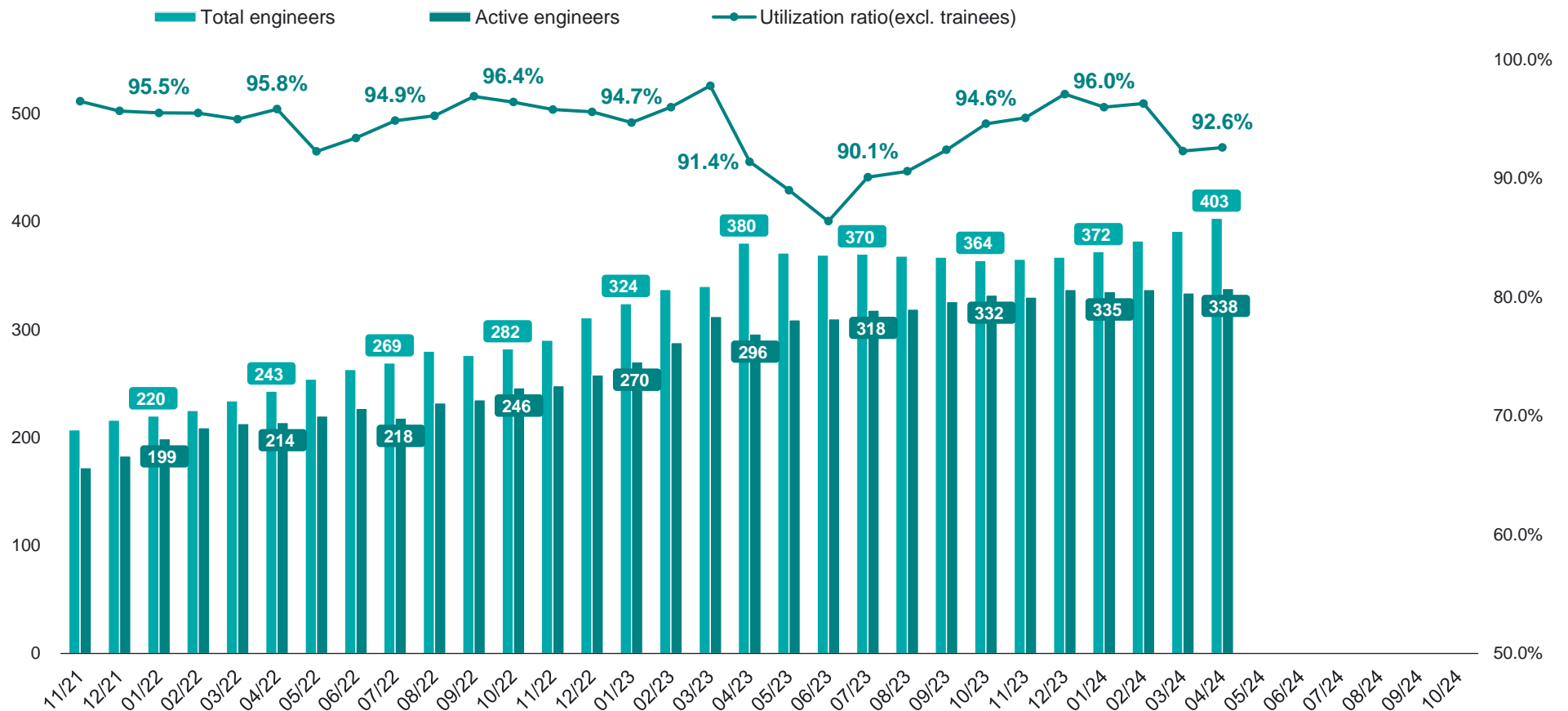
*1 At ATJC, sales based on the SES contract is included.

Definition of KPI	
Active Engineers	Engineers who were dispatched for at least one day during the month
Total Engineers	Engineers who were employed for at least one day during the month (Engineers at the beginning of the month + Engineers hired in the month)
Utilization Rate	Active Engineers / Total Engineers
New Hires	Engineers who joined the company during the period
Job Leavers	Engineers who left the company during the target period
Turnover Rate	Job leavers during past 12 months / (Total engineers at the end of the month 12 months prior + New hires during past 12 months)
Sales Unit Price	Sales per active engineer
Contract Unit Price	Average of contract unit prices (excluding overtime charges) for all engineers
Overtime Unite Price etc.	Amount per active engineers of total of (i) Additional amount such as overtime charges and (ii) unavailability reduction

- The number of total and active engineers increased by 31 from the previous quarter.
- Utilization rate was 92.6%, showing a downward trend from the previous quarter, but it was improved in April.

Trends in total engineers, active engineers and utilization ratio

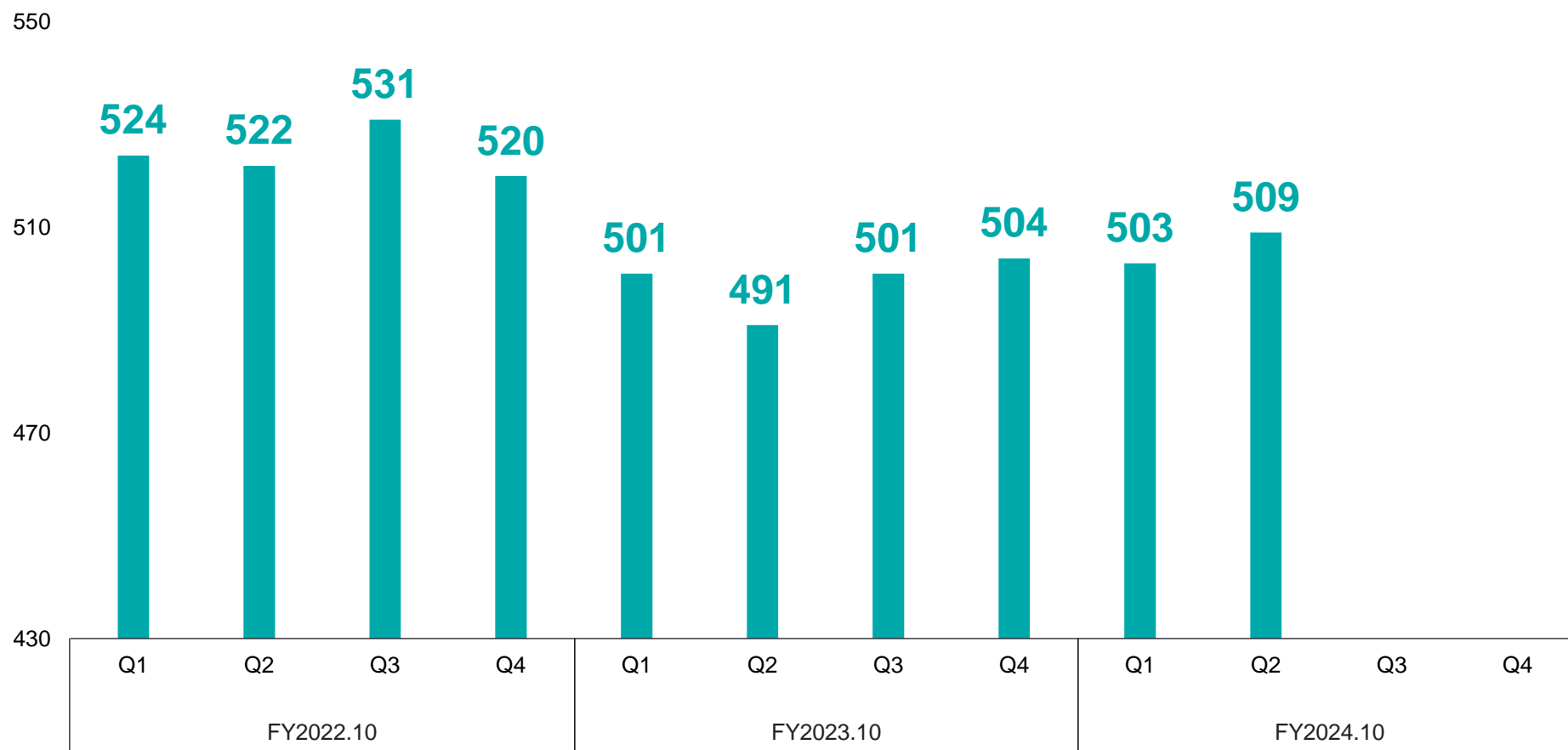
Number of people



- The contract unit price increased by 6000 yen from the previous Q and improved.

Trends in contract unit price

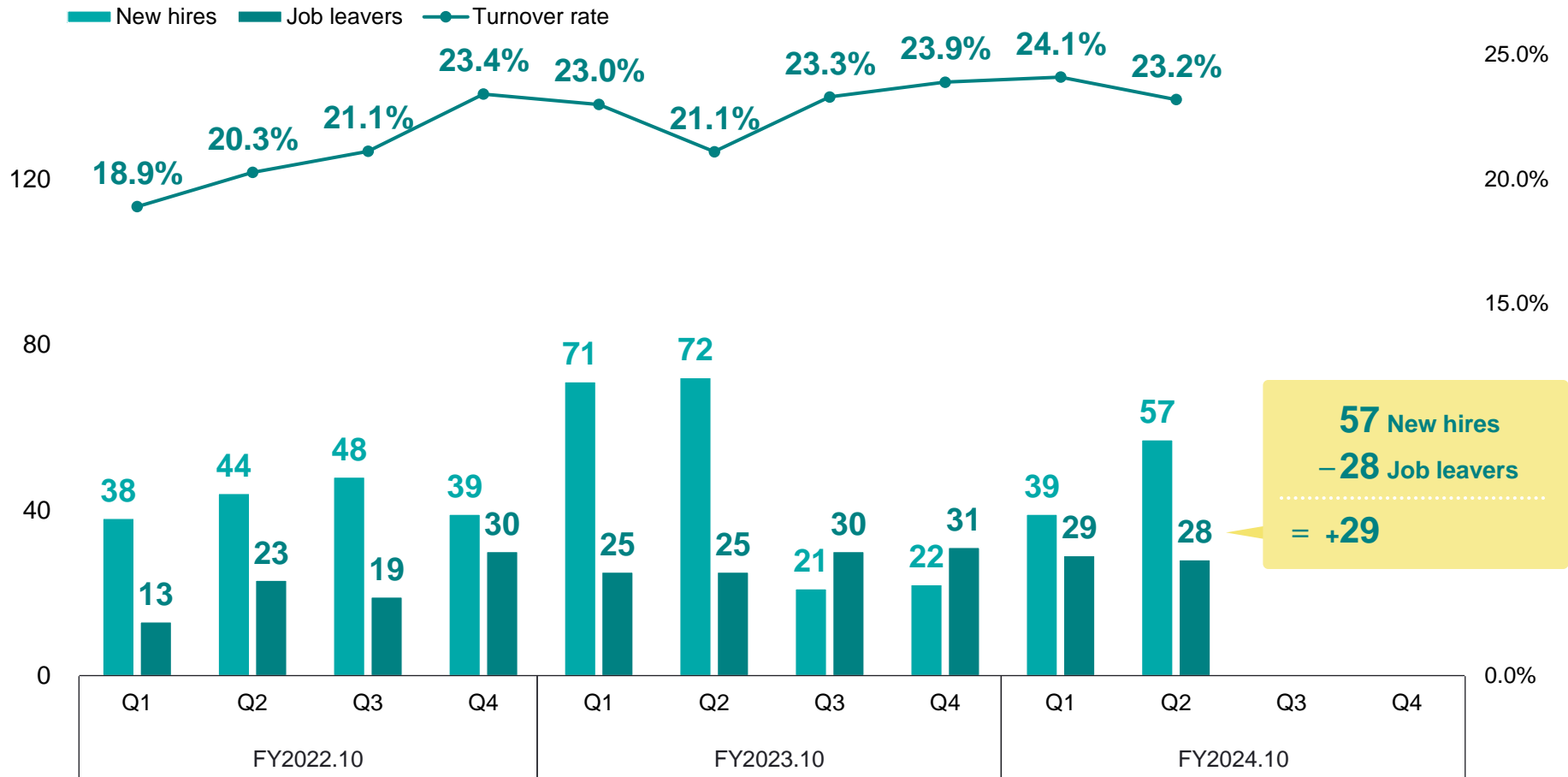
JPY thousands



- Net increase of 29 in this quarter due to hiring of new graduates.

Trends by Quarter

Number of people



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