

Chapter

2

Growth Strategy Centered on the Consulting & Cloud Business

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We are allocating management capital to the Consulting & Cloud Business to fulfill our mission.

Sakashita Hideki

President and Representative Director
Link and Motivation Inc.

A Time of Fundamental Corporate Change Driven by a Changing Labor Market

I have been involved in organizational and personnel consulting since Link and Motivation was founded, and I feel that this field is on the verge of an unprecedented wave of change. Momentum for the promotion of human capital management is also increasing as disclosure of human capital information in securities reports becomes mandatory, among other factors. It is clear to me that companies will be forced to make fundamental changes.

Specifically, it is becoming progressively harder for a company to remain the choice of its employees and job applicants. This is the result of intensifying competition for capable human resources due to factors including a decline in the working population, a business shift from products to services, diversifying motivation toward work, and technological advances in AI. As a prerequisite for sustainably creating value, companies must make a meaningful effort to confront two issues—improving human

resource capabilities so that current employees can perform at their best, and improving engagement to retain and acquire human resources. When talking with senior management of leading companies, I find that many now consider human resources to be a core management issue, which is a dramatic difference from when Link and Motivation was founded.

A Thorough Focus on the Consulting & Cloud Business, Our Growth Driver

Under these circumstances, our current policy is to focus on the Organizational Development Division's Consulting & Cloud Business, which has high growth potential. The number of companies the Consulting & Cloud Business supports has grown to approximately 1,500 in Japan, but considering that some 100,000 domestic companies have 50 or more employees, we see ample room for further expansion. The preeminence of the Link and Motivation Group's Consulting & Cloud Business stems from its ability to provide comprehensive support for human capital management throughout a cycle of identifying issues through diagnosis, transformation of those issues, and disclosure of the results of the transformation—all based on our core Motivation Engineering technology and vast amount of accumulated data and insights. Through support for the transformation of major domestic companies, our initial target, we want to play a role in returning Japan to its position as a global leader. We will also offer value worldwide by working to introduce our services at the overseas subsidiaries of global Japanese corporations, starting in Asia, where a rollout is already underway.

Finally, to bring about these changes, the Link and Motivation Group must demonstrate its own leadership in human capital management. We will continue to practice what we preach in order to capitalize on the current advantageous conditions and achieve dramatic growth.

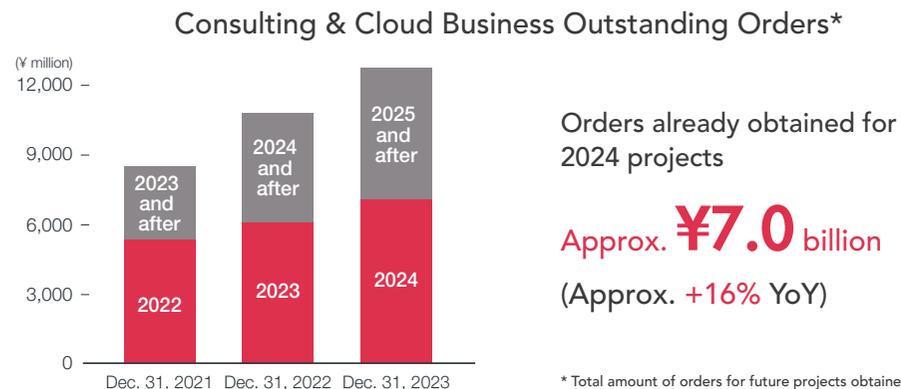
We are currently focusing on the Organizational Development Division's Consulting & Cloud Business, which has high growth potential, and working to expand the Motivation Cloud series as the foundation for substantial ongoing growth.



2024 Forecast

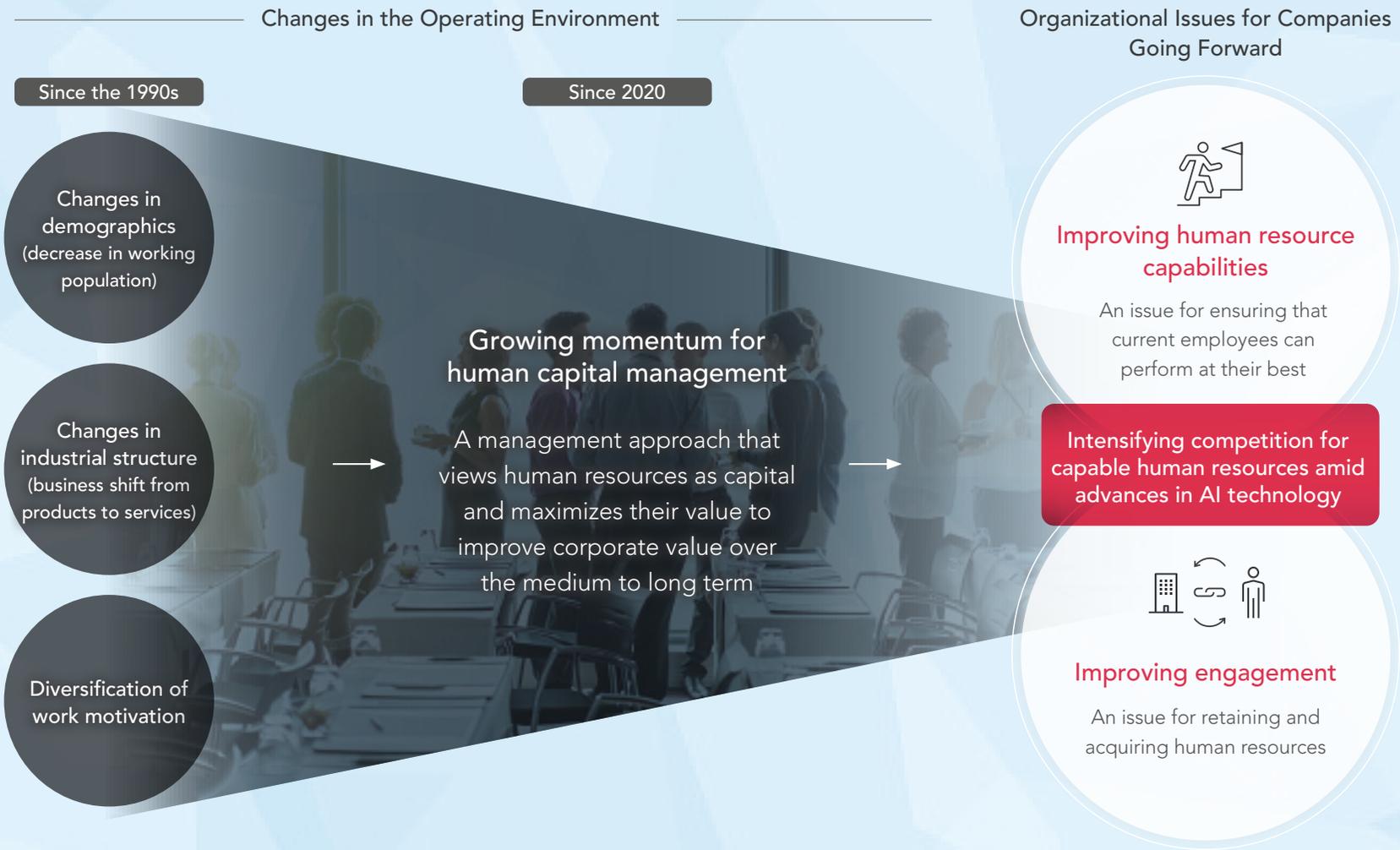
Organizational Development Division		Motivation Cloud Series
Revenues	Gross Profit	Monthly Fee Revenue
¥15.0 billion	¥10.6 billion	¥530 million
+16.4% YoY	+17.3% YoY	+24.0% YoY

Progress toward Target



* Total amount of orders for future projects obtained at a given point in time. Figures in the graph indicate the timing of delivery.

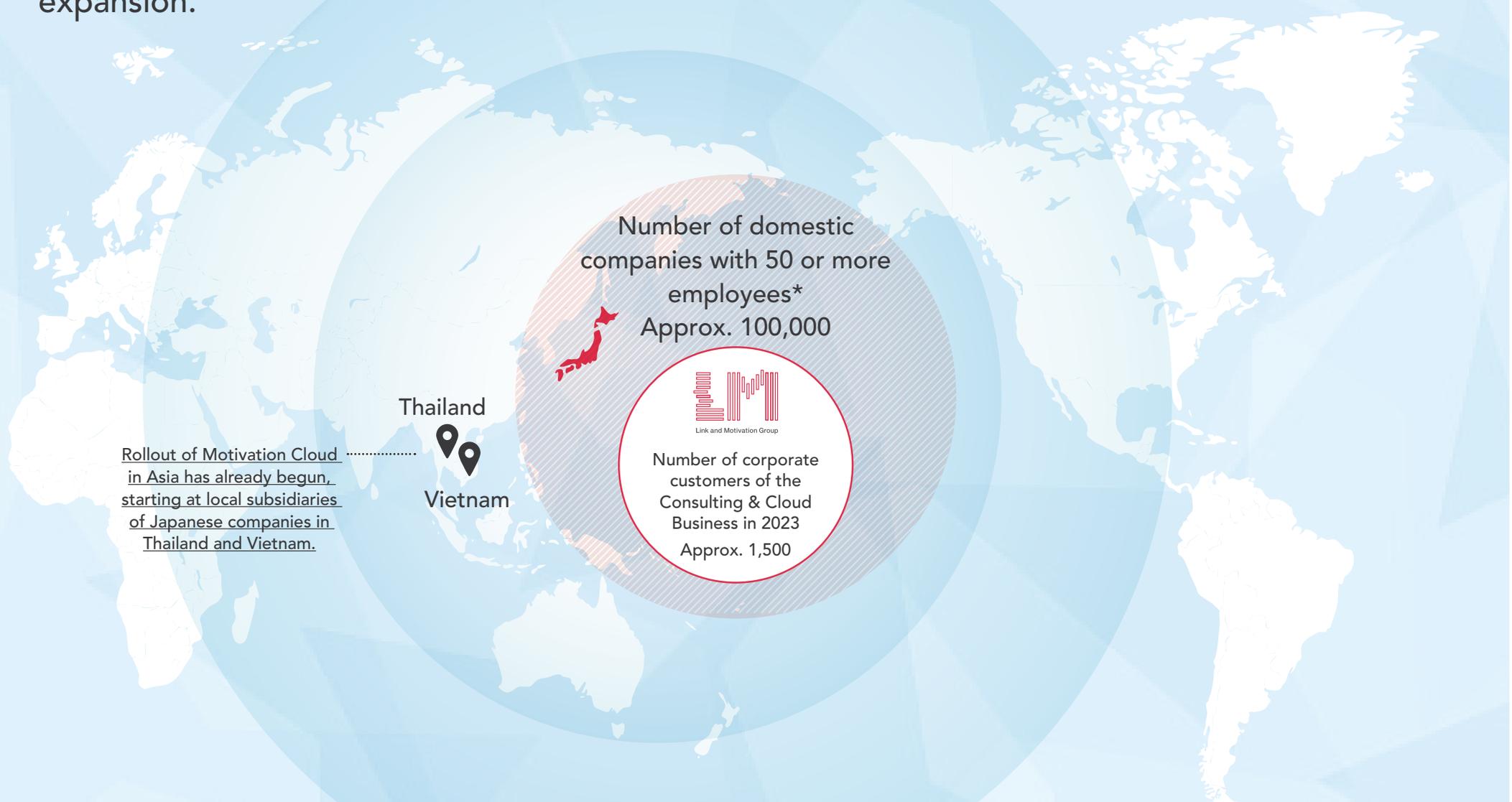
Remaining the choice of employees and job applicants has been increasing in importance and difficulty for companies, and this trend will continue to accelerate.



We demonstrate our superiority in providing comprehensive support for corporate human capital management through diagnosis, transformation and disclosure based on Motivation Engineering, the core technology we have cultivated since our founding.



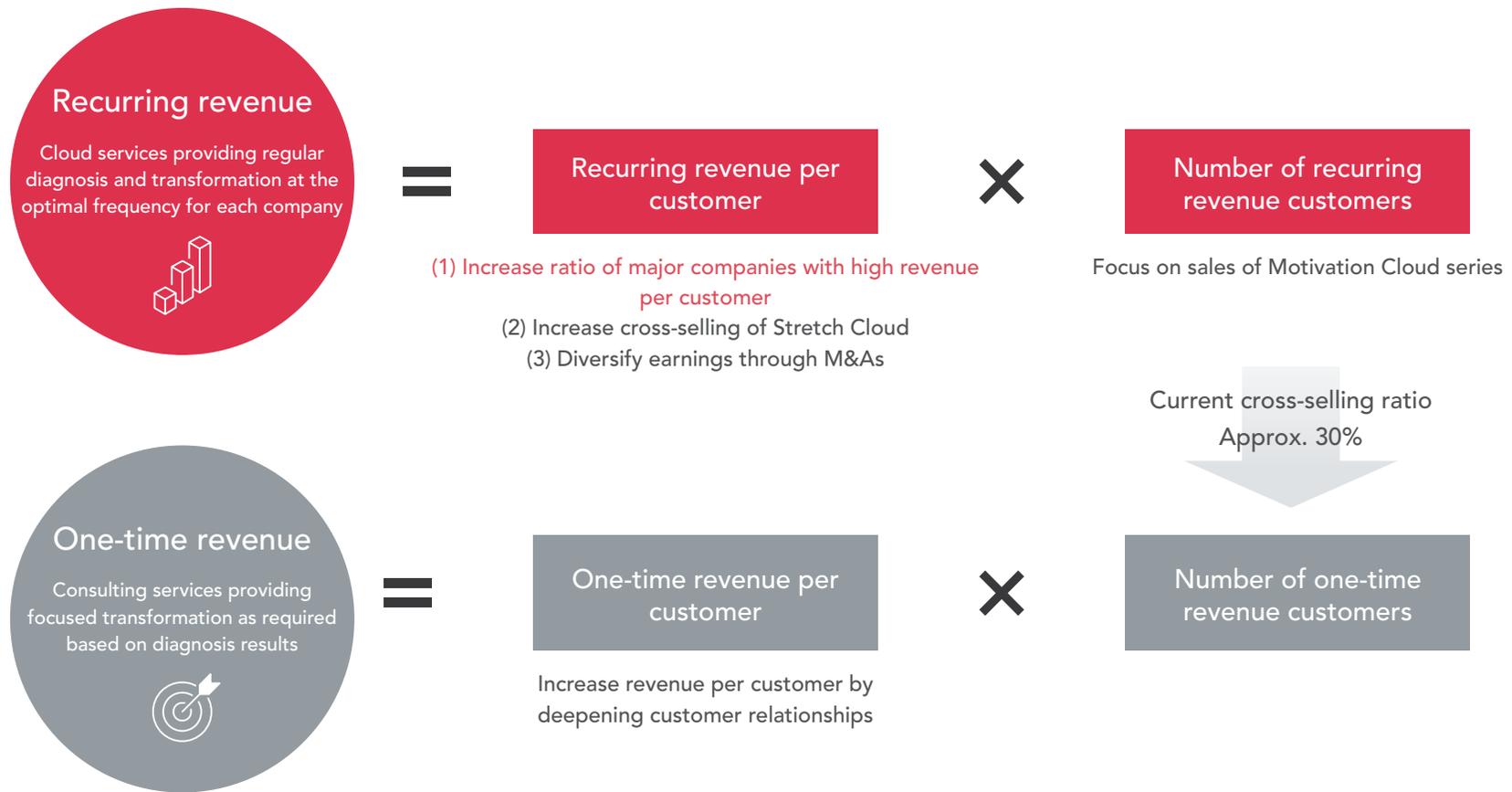
We are working to expand sales by focusing on major domestic companies that have substantial room for development. We will also roll out Motivation Cloud in Asia with a view toward global expansion.



Rollout of Motivation Cloud in Asia has already begun, starting at local subsidiaries of Japanese companies in Thailand and Vietnam.

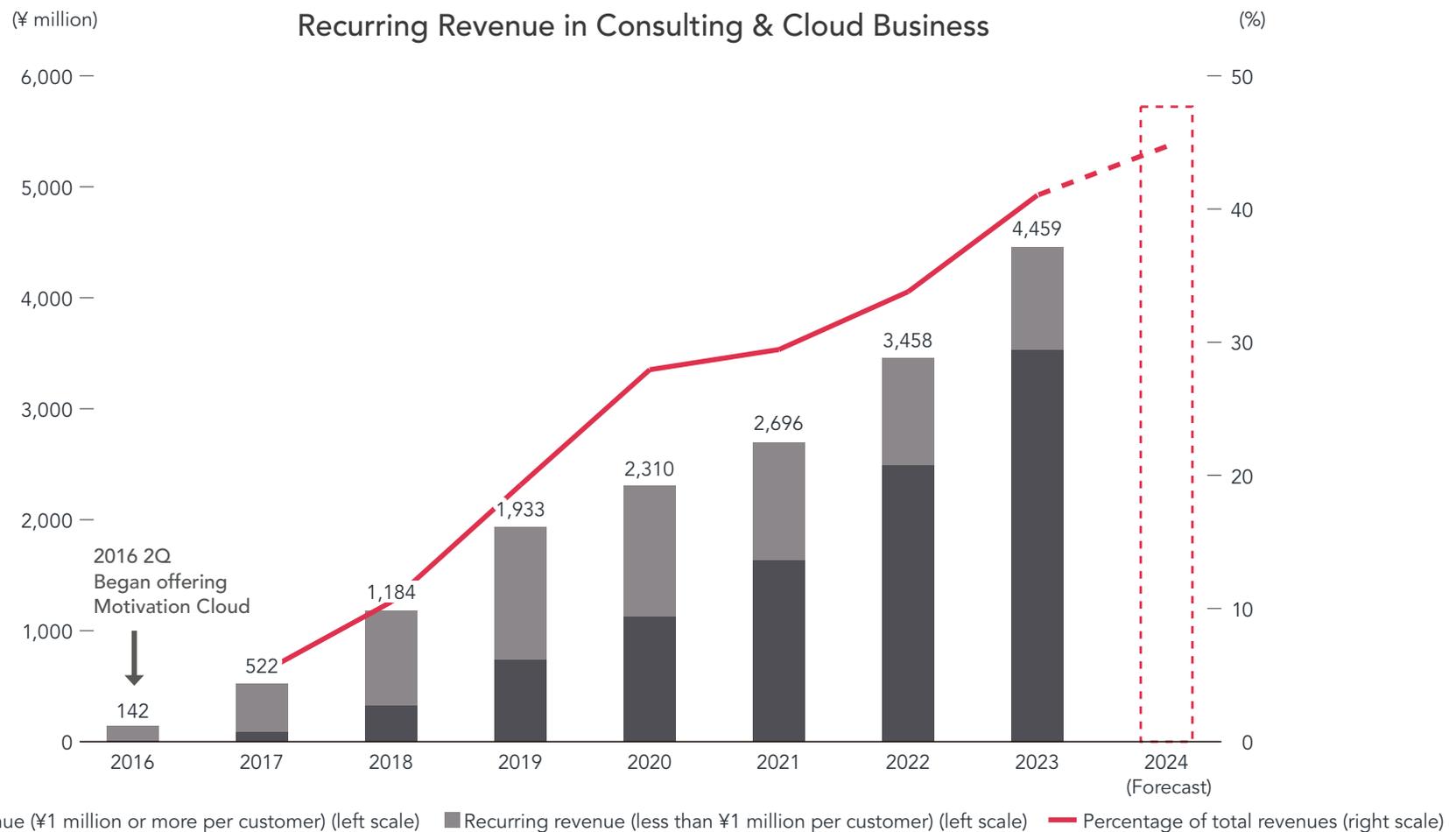
* Determined based on 2021 Economic Census for Business Activity from the Ministry of Internal Affairs and Communications and the Ministry of Economy, Trade and Industry

By increasing revenue per customer and the number of customers for the Motivation Cloud series, we aim for growth in recurring (subscription) revenue by continuously providing products and services premised on long-term use.



Increasing Recurring Revenue

In addition to introducing our services at major companies, we will ramp up growth in recurring revenue by cross-selling Stretch Cloud and diversifying earnings through M&As.



Increasing One-Time Revenue per Customer

As business issues become more complex, demand is rapidly increasing for comprehensive support for organizational and personnel issues. We develop numerous top consultants by leveraging the knowledge we have cultivated since our founding.



As business issues become more complex, comprehensive human capital management becomes essential.

We develop numerous top consultants who resolve complex organizational and personnel issues.

 Recruiting	 Training	 Systems	 Corporate Culture
<ul style="list-style-type: none"> • Strengthen recruiting of human resources with high aptitude for consulting • Maintain and increase sympathy with our philosophy 	<ul style="list-style-type: none"> • Add new employee training programs for rapid development of consultants 	<ul style="list-style-type: none"> • Improve compensation for consulting specialists 	<ul style="list-style-type: none"> • Introduce a new award system for projects that demonstrate the most value for customers during the year



We are leading society by bringing Japan up to speed in the organizational and personnel sector.

Kawauchi Masanao

Managing Director
Link and Motivation Inc.

A Sense of Urgency and Responsibility to Adapt Corporate Management to a Rapidly Changing World

I joined Link and Motivation in 2003 after graduating from university. At the time, in Japan the word “motivation” was only heard in the field of sports, but now it is common in corporate management, and the idea that the power of people and organizations is the most important aspect of corporate management has taken hold throughout society. I take pride in Link and Motivation’s contribution to this social trend. At the same time, I feel somewhat disconcerted because we have not yet been able to fundamentally change society at large. Over the past 20 years, waves of change have swept through the field of human resources in Japan, bringing in performance-based pay and work style reform. In each case, broadly speaking, Japanese companies have struggled to adapt. They merely copied or applied superficial elements, ignoring the essence of their objectives and reasons for changing, and as a result have not truly changed. No matter how many new technologies and ideas emerge, it is up to people and organizations to incorporate and utilize them. Now that changes more widespread and rapid-fire than ever before are bearing down on Japanese companies, will their people and organizations be able to change? I feel a sense of urgency and responsibility for Japan as it stands at a crossroads.

Increasing Recurring Revenue to Maintain Substantial Growth

Link and Motivation’s Consulting & Cloud Business has been growing steadily by addressing these changes in the operating environment. However, considering the world we aim to create and the expectations of the market, I believe we must grow at a faster pace. The Consulting & Cloud Business generates two types of earnings: recurring revenue, mainly from cloud services that provide regular diagnosis and transformation at the optimal frequency for each company; and one-time revenue from consulting services that provide focused transformation solutions when the diagnosis results uncover issues that cannot be resolved through the cloud service. Increasing recurring revenue is a pressing matter, both to provide ongoing support for resolving corporate organizational issues, and to reinforce the foundation for achieving substantial growth. In addition to broadening support for and increasing the number of customers for our services, we will focus on improving total revenue per customer by increasing the ratio of major companies (with high revenue per customer), conducting cross-selling among our cloud-based services, and diversifying earnings through M&As.

Driving the Future of Link and Motivation

Motivation Cloud has grown steadily since its launch in 2016 as Japan’s first cloud-based service for organizational improvement. However, Japan is thought to lag 10 years behind the United States in the HR Tech field. We must establish a greater presence as a pioneer in organizational and personnel consulting, and I strongly feel that employees of my generation must be the ones to lead Link and Motivation in doing so. While treasuring our accomplishments, we will continue taking on new challenges as the drivers of further growth with the determination to change the world.

Close-Up: Motivation Engineering in the Consulting & Cloud Business

Since our founding, we have developed a wide range of products and services based on academic findings in our Consulting & Cloud Business.

For example, even individual programs used in training are developed with a thorough grounding in academic findings to support a real transformation for customers. In this way, the high levels of practicality and reproducibility lead to a high repeat rate.

Perspective of Humans

Humans are not completely driven by economic rationality.
They are emotional beings with limits to their rationality.



Because people are emotional beings, it is important to take a step to “unfreeze” them rather than forcing a sudden change.

Example: First part of management training

Blind Square

All members other than the instructor are blindfolded and do not know what to do. The instructor then gives directions to the members so that they form a single shape using a rope.

- Facilitates understanding of the different positions of managers who have objectives, methods and information, and members who do not
- Hands-on experience that demonstrates members’ motivation decreases when they do not know their objective

Psychologist Kurt Lewin: Three-stage model of attitude change
Unfreeze → Change → Refreeze

Perspective of Organizations

An organization is a **cooperative system** that is not reducible to its constituent elements.



As it is a collaborative system, problems tend to arise in the gaps between people, such as misunderstandings between departments. It is important for managers to play the role of a “junction point” connecting departments.

Example: 360-degree manager survey

360-degree Survey

Supervisors and team members rate their levels of expectation and satisfaction for four items required of managers: providing information, gathering information, making decisions, and providing support.

- To visualize the level of relationships of trust, everyone takes the survey (a co-worker version or a supervisor version).
- Items are positioned as points on the upper, lower, left, and right sections of two axes.
- Co-workers and supervisors attend a meeting to share results

Sociologist Niklas Luhmann: The ultimate function of social systems is to reduce complexity and build relationships of trust. (paraphrasing)

Close-Up: Practicality and Reproducibility of Motivation Engineering in the Consulting & Cloud Business

The Consulting & Cloud Business provides support to approximately 1,500 companies in Japan (as of December 31, 2023), and has received positive feedback from many customers for its practicality.

We continue working to increase practicality and reproducibility through technological development by the Motivation Engineering Institute.

Corroboration of Practicality

Customer Feedback

In addition to consulting on the indicators we use in disclosure, Link and Motivation also helped us set up core measures and KPIs, looking ahead to implementation and improvements after disclosure. In short, it was everything we needed.

There really wasn't any other company in our industry that explained its businesses and organizations from the perspective of its corporate philosophy to the extent we did, so I think Link and Motivation helped us communicate our uniqueness. The experience also served as a reference for how we formulate our policies for developing human resources and make in-house improvements to our securities report.

Thanks to the support Link and Motivation provided for disclosure in our medium-term management plan, our price-to-book ratio rose above 1.0. We also received practical support for improving the indicators we disclosed in areas including revising our personnel system, strengthening management and devising recruiting strategies, so we are very grateful.

Best Motivation Company Awards



The Best Motivation Company Awards are an event that recognizes companies with high engagement scores. Since we inaugurated the event in 2011, numerous companies have won awards, demonstrating that they have used our services to transform their organizations. They also use the award in branding when conducting human capital management, and we share the initiatives of award-winning companies in helping to build organizations at other participating companies.

2024 Award Winners

Major Companies Category

- 1st place: SBC Medical Group Holdings, Inc.
- 2nd place: Marubeni Corporation
- 3rd place: The San-in Godo Bank, Ltd.

Medium-sized Companies/Startups Category

- 1st place: KOSHO CORPORATION
- 2nd place: PROGRIT Inc.
- 3rd place: NorthSand, Inc.

Initiatives to Increase Practicality and Reproducibility

Motivation Engineering Institute

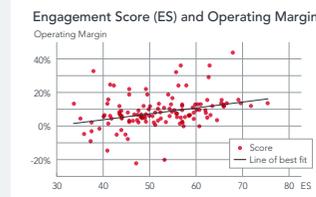
The Motivation Engineering Institute develops management technologies, products and services through advances in Motivation Engineering, and continues to seek out and deepen insights by combining academic findings with praxis, both inside and outside the Company. Our total commitment to practicality and reproducibility in product development means that we provide customers with only those products and services that have been applied in-house and shown to be effective.

Product development	We focus on developing unique solutions, and provide customers with new products and services that have been tested in-house and shown to be effective.
Human resource development	We are actively involved in popularizing Motivation Engineering through methods including study sessions held by Chairman Ozasa.
Technology development	We collaborate with industry, government and academia to develop management technologies based on Motivation Engineering and to conduct research studies.

Representative Research

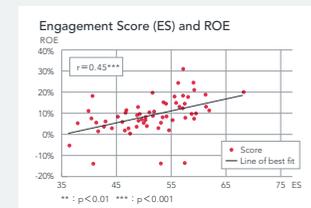
Results of Research on Engagement and Corporate Performance

Joint research with the Iwamoto Laboratory at Keio University's Graduate School of Business Administration showed that the higher a company's level of engagement, the higher its labor productivity and operating margin. These results are also published in the *Report of the Study Group on Improvement of Sustainable Corporate Value and Human Capital* (known as the *Ito Report for Human Capital Management*).



Results of Research on Engagement and Investment Metrics

We found that companies with higher engagement scores tend to perform better in terms of the investment metrics ROE, ROIC and PBR.



Source: Link and Motivation Inc., *Research Results on Engagement and Corporate Performance* and *Research Results on the Relationship between Employee Engagement and Investment Metrics*