

FAQs for FY3/2022

May 13, 2022
UT Group Co., Ltd.

Consolidated financial results

Q1 What are the main factors behind significantly-renewed record-highs in sales and the number of technical employees?

A In order to respond quickly to strong personnel demand, particularly in the automotive-related sector and the semiconductors and electronic components sector, which sharply recovered in 2H FY3/2021 and have since been robust, we have strategically strengthened hiring activities and have strived to maximize the number of tech employees. This is based on our decision to further expand our share in the manufacturing worker dispatch industry by responding firmly to demand at the time of a rapid recovery and normalization in production activities, after those activities were temporarily depressed due to the COVID-19 impact in FY3/2021. As a result, we hired 17,662 tech employees in domestic business. In addition, we made acquisitions according to the Area Platform Strategy of the Fourth Medium-Term Business Plan. In May 2021, we purchased all shares of Progress Group Co., which fully owned Progress Co., and all shares of SURI-EMU Corporation, which fully owned SURI-EMU Chubu Co., SURI-EMU Tokai Co., and SURI-EMU Staff Co. These acquired companies have become our consolidated subsidiaries. Moreover, on October 1, 2021, we consolidated Fujitsu FSAS Creative Inc., a worker dispatch company of the Fujitsu Group, as a part of efforts to promote our Solution Strategy of the Fourth Medium-Term Business Plan. These activities have resulted in renewing a record-high of 31,636 in the number of tech employees at year-end, an increase of 7,900 on a net basis (up 33.3% y-o-y and up 3.7% q-o-q), and in significantly increasing sales. Quarterly sales amounted to 42.7 billion yen (up 31.7% y-o-y and up 3.3% q-o-q). Sales for FY3/2022 were 156.7 billion yen (up 36.2% y-o-y).

Q2 Was a decline in operating profit in line with your plan?

A In response to the above-mentioned strong demand, our approach in FY3/2022 was to strengthen hiring activities. We thus recorded hiring expenses of 6.1 billion yen for FY3/2022, an increase of 3.7 billion yen from FY3/2021. In addition, we actively conducted M&A activities based on the Area Platform Strategy and the Solution Strategy, and the newly-consolidated operating companies boosted labor costs in SG&A expenses by 2.2 billion yen. These factors have resulted in a decline in operating profit, which, however, is in line with our plan.

Q3 Please explain the status of your orders.

A In the semiconductor and electronics components sector, production of semiconductor manufacturing equipment and devices is expanding due to an increase in demand for semiconductors for automobiles and demand related to the next-generation wire communication standard 5G, and the global shortage of semiconductors worldwide further accelerated, leading to a tight semiconductor supply and demand balance. Semiconductor manufacturing equipment manufacturers and semiconductor manufacturers devoted strong efforts to rapidly boost their production capacity, which resulted in a robust demand for personnel. Meanwhile, in the automotive-related sector, some major automakers have been making production adjustments due to a shortage of materials and components, caused by the lockdown in some ASEAN countries. Production normalization had been anticipated to occur within FY3/2022 but appears to have been delayed into FY3/2023. However, personnel demand was not affected as demand for finished vehicles remained strong and there is no change in projecting production normalization in the future. In terms of the domestic employment situation, while the jobs-to-applicants ratio for all industries was at a low level of 1.13 times for all industries in March 2022, the same ratio for the production

process sharply rose to 1.92 times, which is a level last seen in 2018, and the tight supply and demand balance for personnel in manufacturing has been continuing. As the difficulty in hiring has remained at a high level in the manufacturing industry, we believe that the key for UT Group to expand market share over the medium term will be to steadily achieve net increase in the number of technical employees with our strong hiring capability and high retention rate of employees.

Q4 How about the status of your hiring activities?

A At the time of the announcement of the earnings forecast in May 2021, our plan for FY3/2022 was to heavily allocate hiring expenses and to strengthen hiring activities in 1H, when demand was definitely expected to be strong. However, the status of orders received has been very strong, mainly in the automotive-related sector and the semiconductors and electronic components sector, and the level of our back orders in 2H continued to be high. We therefore revised our initial hiring plan in November 2021 and adopted an approach to continue strengthening hiring activities in 2H.

Driven mainly by increases in the automotive-related sector and the semiconductors and electronic components sector, we hired 17,662 tech employees and approximately 1,470 per month on average in FY3/2022, greatly exceeding our FY3/2022 goal of normalizing the monthly hiring of 1,000. A turnaround to a sharp growth was mainly driven by the Manufacturing Business, which experienced sluggish demand for tech employees due to COVID-19 in 1H FY3/2021, and our aggressive hiring activities led to accelerating the momentum for market share expansion. In FY3/2023 our approach is to raise efficiency in hiring activities and control hiring costs, and to increase the number of tech employees at the same time.

Q5 Tell me about the status of the new consolidation and sale of companies.

A In May 2021, Progress Group, Progress Co., SURI-EMU Corporation, SURI-EMU Chubu, SURI-EMU Tokai, and SURI-EMU Staff were newly consolidated. This is based on the "Area Platform Strategy," which is positioned as one of important strategies in the Fourth Medium-Term Business Plan. We acquired these companies to strengthen our business base in the area and create a stable employment environment. All of these companies are mainly located in the Tokai region, where the automotive industry and other major manufacturing industries are concentrated. Together with UT Aim, one of our Group's largest operating companies, the two groups will work to develop their businesses using their respective operating, client, and hiring bases. We will thereby deepen and expand our career platform in the area. On October 1, 2021, Fujitsu FSAS Creative Inc. (renamed to UT FSAS Creative Co., Ltd.) was newly consolidated. This is also based on our Solution Strategy of the Fourth Medium-Term Business Plan. (See Q15 for details.)

Meanwhile, as of March 31, 2022, UT System Products Co., a consolidated subsidiary of UT Group, was sold to Taihei Co., Ltd. (Head office: Sosa City, Chiba Prefecture; President: Kenjiro Ota). On April 1, 2020, we acquired shares of UT System Products together with UT Toshiba Co. (current corporate name), which was engaged in a worker dispatch business, from Toshiba Information Systems Co. UT System Products provided purchasing agent services for corporate customers and were engaged in the sales of supply products. However, since the synergies with UT Group's existing businesses were limited, we have decided to divest the shares of UT System Products in order to selectively concentrate our management resources and increase management efficiency toward achieving the Fourth Medium-Term Business Plan.

Q6 Please explain about your subsidiary reorganization that was implemented in April 2022.

A With the aim of enabling flexible, efficient decision making in the One-stop Strategy for Large Manufacturers and the Area Platform Strategy, the reorganization in April 2022 divided the UT Group companies into two groups: subsidiaries engaged in our competitive personnel services business for major manufacturers and subsidiaries engaged in the Area Platform Strategy, which has been promoted in the Fourth Medium-Term Business Plan. Both of these groups have been reorganized so as to promote the acceleration of their growth in keeping with their respective clear strategy. In addition, by consolidating subsidiaries that share common business

characteristics in the area platform business, we aim to consolidate common indirect functions and management resources, and thereby increase profitability.

Q7 Will you explain the differentiating factors between the actual results and the earnings forecasts announced on March 8, 2022?

A As already mentioned in Q1 and Q2, we strategically strengthened hiring activities throughout the year and aimed at maximizing the number of technical employees at the end of the fiscal year. In such an environment, operating profit and ordinary profit exceeded the previous forecasts as a part of the budget mainly for hiring-related expenses was not executed and there were some adjustments for account settlement for such items as provision for bonuses. In addition, the strengthening of hiring activities in FY3/2022 met the requirements for tax applications concerning the active recruitment of new graduates and mid-career personnel and investment in human resource development. This has led to deduction of income taxes and net income attributable to owners of parent thereby exceeded the previous forecast.

About the Manufacturing Business

Q8 What are the factors behind the sales increase and the profit decline?

A In the Manufacturing Business, the order booking situation was favorable. In the automotive-related sector, major automakers secured their requirements of personnel for the anticipated normalizing production despite the continuing production adjustments, and in the semiconductor and electronic components sector, personnel demand continued to be strong. In order to respond quickly to the strong personnel demand of client companies, the segment carried out aggressive hiring activities and greatly increased the number of technical employees.

In addition, with the aim of deepening and expanding the area career platforms, six companies of two local worker dispatch groups, centered in Aichi Prefecture, became UT Group's consolidated subsidiaries. At the end of May 2021, UT Group acquired all shares of Progress Group, Inc., which fully owned Progress Co., Ltd., and of SURI-EMU Corp, which fully owned SURI-EMU Chubu Co., Ltd., SURI-EMU Tokai Co., Ltd. and SURI-EMU Staff Co., Ltd. These acquisitions contributed to an increase in sales.

On the cost side, SG&A expenses increased due to the strategic investment in hiring-related expenses and an increase in personnel expenses associated with the new consolidation. We allocated 5.1 billion yen of 6.1 billion yen in hiring-related expenses to the Manufacturing Business and promoted a strategy to quickly increase our share.

Q9 Were you affected by cuts in automobile production in 4Q FY3/2022?

A In the automotive-related sector, some major automakers are still making production adjustments due to a shortage of materials and components, caused by the lockdown in some ASEAN countries, and a global shortage of semiconductors. Production normalization was anticipated to occur within FY3/2022 but has been delayed into FY3/2023. During 4Q FY3/2022, the impact varied by automaker and production line, but the workplaces where we dispatch workers closed for a period of one day to around 10 days at maximum, and UT's technical employees dispatched to these places took days off or had their work days transferred. In addition, even on production lines that did not stop operating, there was a reduction in operating time, such as a reduction in overtime hours and rest time. The degree of the impact has gradually been declining.

The current demand for finished vehicles is very strong, and our major automotive client companies have secured personnel, as they had been short of personnel even before the COVID-19 pandemic and were expecting early normalization of production in the future. Therefore, there was no impact on UT Group's business, such as a decline in personnel demand. Rather, the number of dispatched workers from UT Group in the automotive-related sector has continued to increase, and personnel demand is expected to remain strong.

Q10 How is the status of the semiconductors and electronic components sector and the automotive-related sector?

A In the semiconductors and electronic components segment, quarterly sales exceeded 9.0 billion yen in 4Q as in 3Q and increased 15.8% y-o-y. Both on a y-o-y basis and on a q-o-q basis, transactions in semiconductor manufacturing equipment, semiconductor manufacturing, and electronics and devices increased across the board.

In the automotive-related sector, some production adjustments resulted in a reduction in operating hours including overtime hours but the overall order booking remained favorable due to the tight personnel demand in production process. The number of dispatched workers actually increased. As a result, we were able to increase transactions with our largest and medium-sized clients in auto assembly and auto parts manufacturing. The sector posted record-high quarterly sales of 8.8 billion yen, up 48.8% y-o-y and up 10.1% q-o-q.

Q11 What are other areas which recorded growth?

A Other areas include subsidiaries that have joined UT Group via acquisition, based on the Area Platform Strategy. Sales in other areas increased by 85.8% y-o-y due to an organic growth and a significant contribution by Progress Group and SURI-EMU (consolidated in 1Q FY3/2022).

Q12 What are the factors behind the significant increase in the number of technical employees abroad as of March 31, 2022 compared to the previous quarter end?

A Our overseas business results are comprised of Vietnam's subsidiaries Green Speed Joint Stock Company, Green Speed Co., Ltd. and Hoang Nhan Company Limited, which have been consolidated since January 2021. The consolidated results for the January-December period of 2021 were reflected in the consolidated results of FY3/2022 with a 3-month lag.

Several months after April in Vietnam faced the COVID-19 lockdown when the authorities' labor regulations and other measures affected the business of the subsidiaries and they substantially reduced their number of tech employees at the end of the previous quarter (September-end). During that period, Green Speed tried to further strengthen client relationships and its operating base in anticipation of client needs after the economic recovery. This approach proved successful. Green Speed has received new large-scale orders mainly from Japanese companies since October 2021 when production began to recover, and has significantly increased the number of overseas tech employees by the end of this quarter (December-end).

About the Solution Business

Q13 What are the factors behind the sales increase and the profit decline?

A The Solution Business experienced an increase in operation for manufacturing of automobile batteries, driven by global growth in production of electric vehicles (EVs). In addition, we started to receive In-house Solutions® (full-time employee transfer-type contract) projects from major corporate groups in July 2021. In October 2021, a worker dispatch company of the Fujitsu Group, Fujitsu FSAS Creative Inc. (renamed to UT FSAS Creative Co., Ltd.) was newly consolidated. These factors have contributed to an increase in both the number of technical employees and sales. Meanwhile, hiring-related expenses increased due to the strengthening of hiring of tech employees in line with the firm growth in personnel demand.

Q14 Will you explain about the In-house Solution® project for large corporate groups?

A The Solution Strategy, which is one of the growth strategies of the Fourth Medium-Term Business Plan, focuses on supporting personnel mobilization and further expanding UT's business base. Specifically, UT Group takes over operations in non-core businesses, such as manufacturing of non-core products and office worker dispatching, as well as personnel engaged in these areas from large corporate groups which need to reorganize operations due to changes in their business environment and management strategy. Among several schemes,

representative ones are 1) to create subsidiaries through M&A; 2) to form joint ventures based on joint investment; 3) carve-outs; and 4) the In-house Solution®.

The most unique scheme is the "In-house Solution®", in which UT Group accepts the transfer of employees of a client manufacturing company and receives the outsourced work of its manufacturing line. We have so far accepted a total of about 2,700 employees from 13 clients as our full-time employees, and have enhanced the relationship of trust with these companies by maintaining continuity in these employees' employment and career.

We will continue to expand this business, which will contribute to the resolution of management issues that are unique to large corporate groups, such as an inflexible workforce, a review of the business portfolio, and the reemployment of retiring employees.

Q15 Would you elaborate more on the newly consolidated company in October?

A On October 1, 2021, UT Group acquired 51% of shares of Fujitsu FSAS Creative Inc. and made it a subsidiary (renamed to UT FSAS Creative Co., Ltd.) Fujitsu FSAS Creative has primarily Fujitsu Group companies, including Fujitsu Limited and Fujitsu FSAS Limited, as its main clients. With approximately 850 employees, the company dispatches office staff and ICT-related engineers to various industries and business types, including banks, government agencies, and foreign-affiliated companies. It is also engaged in outsourced operations of help desks and support desks concerning the operation of IT infrastructure, including internal mainframe systems. Fujitsu FSAS Creative thereby provides optimal human resources solutions that promptly respond to the business environment of its clients.

UT Group's Solution Business provides support for structural reform of major corporate groups, including mobilization of their human resources. Based on the long-cultivated relationship with the Fujitsu Group through manufacturing dispatch, UT Group acquired a 51% stake of Fujitsu Aprico Limited (renamed to Fujitsu UT Co., Ltd.) in 2018, and has been collaborating with the Fujitsu Group in the personnel dispatch business. The acquisition of shares of Fujitsu FSAS Creative will further strengthen the relationship with the Fujitsu Group. By combining the strengths and know-how of both companies, we, as a career platform company that meets the needs of more workers, will contribute to solving the major challenges of structural changes in human resource utilization, which are expected to progress significantly going forward.

Engineering business

Q16 What are the factors behind the increase in sales and profit?

A In the Engineering Business, mainly leading semiconductor manufacturing equipment manufacturers and semiconductor manufacturers increased demand for field engineers. UT Group resumed the "One UT" program that supports career change from manufacturing operator to engineer, which had been difficult to sustain due to the spread of COVID-19 in FY3/2021. In addition, the fourth "Technology Skill Development Center," a specialized training facility for developing semiconductor manufacturing equipment engineers, has been opened in Osaka to strengthen the development and production capabilities of semiconductor manufacturing equipment engineers.

In response to the growing demand in the field of construction engineers, we focused on hiring and prompt assignment of technical employees and increased sales. Concerning SG&A expenses, hiring-related expenses increased due to the strengthened hiring activities of tech employees in order to meet the above mentioned demand for personnel, while we improved efficiency in use of indirect expenses. These efforts contributed to an increase in both sales and profit.

Q17 Please explain about the Technology Skill Development Centers.

A In December 2020, the UT Group Technology Skill Development Center was established in Kitakami City, Iwate Prefecture, to train manufacturing engineers in the semiconductor field. We then established three centers: in Yokkaichi City, Mie Prefecture, and Kumamoto City,

Kumamoto Prefecture in March 2021, and in Kadoma City, Osaka Prefecture in May 2021. The Centers will help promote our "One-stop strategy for large manufacturers," another key strategy of the Fourth Medium-Term Management Plan. By focusing on the development of engineers and strengthening our development capabilities through a capacity development program dedicated to semiconductor manufacturing equipment (SME) engineers, we will be able to be a one-stop provider of the personnel needed by major manufacturing industries, along with our core manufacturing dispatching business, improving service quality and competitiveness. We plan to develop 890 engineers in FY3/2022 and 3,000 SME engineers in total by FY3/2024.

FY3/2023 Earnings Outlook

Q18 Is it OK to expect that the probability of achieving EBITDA of 15 billion yen in FY3/2023 is high?

A We believe that the growth base of EBITDA of 15 billion yen for FY3/2023 has been established. Based on the maximum number of tech employees at the end of FY3/2022, we plan to raise our top line from the beginning of the year and increase profit. We also intend to raise gross profit by improving the gross margin through increases in unit price and other measures. In addition, we plan to improve hiring efficiency by integrating group-wide hiring activities and to improve productivity by optimizing staffing and consolidating common indirect functions through the subsidiary reorganization mentioned in Q6. By taking these measures we will raise efficiency in use of SG&A expenses and aim at achieving EBITDA of 15 billion yen.

Q19 Will you tell us the details of the stock-based compensation expenses to be recorded in the consolidated income statement of FY3/2023 in the case of EBITDA of 15 billion yen to be realized in that fiscal year.

A If EBITDA 15 billion yen is realized, the conditions for the exercise of the stock acquisition rights (performance-linked acquisition rights) announced on May 20, 2020 will be met, and 5.5 billion yen will be recorded as stock-based compensation expenses in the consolidated income statement of FY3/2023. If EBITDA of 15 billion yen, the exercise condition, is not achieved in FY3/2023, such expenses will not be accrued. In addition, this is a one-off expense item. If the expenses are recorded in FY3/2023, they will not affect the consolidated income statement of FY3/2024 and beyond.

Q20 Please explain about the revision of the Fourth Medium-Term Business Plan.

A The Fourth Medium-term Business Plan started amid the uncertain outlook due to the continued spread of COVID-19 infections. However, UT Group managed to minimize the COVID-19 impact in FY3/2021, the first year of the plan, and implemented aggressive hiring activities during the subsequent period of a sharp recovery in personnel demand. This resulted to realize its sales target for FY3/2023 one year ahead of schedule in FY3/2022. In addition, we have steadily advanced the three growth strategies to significantly increase the number of technical employees and sales. In April 2022, we implemented measures to improve profitability, such as the corporate reorganization, including the integration of operating companies, and the establishment of a new hiring infrastructure. As a result of these efforts, we believe that the probability of reaching EBITDA of 15 billion yen in FY3/2023, one year ahead of the initially planned year of FY3/2024, is increasing.

As for the future business environment, despite the immediate concerns about resource price rises and inflation, the labor shortage in the manufacturing industry is expected to continue for the foreseeable future, and the supply and demand balance for personnel will continue to be tight.

In light of the above-mentioned establishment of our growth base and business environment outlook, we have decided to revise our earnings targets as shown below, anticipating sufficient opportunities to further expand our share of existing businesses by continuing to promote the three business strategies of the Fourth Medium-term Business Plan. The sales target for FY3/2023 has incorporated the impact of the sale of the operating company as of March 31, 2022, as stated in Q5.

		Fourth Medium-Term Business Plan					
		FY3/2020	FY3/2021	FY3/2022	FY3/2023E	FY3/2024E	FY3/2025E
Net sales (Billion yen)	Initial plan	-	103.8	130.0	150.0	180.0	200.0
	Actual*/Revised	101.1*	115.1*	156.7*	180.0	220.0	270.0
EBITDA (Billion yen)	Initial plan	-	4.9	10.0	12.0	15.0	20.0-30.0
	Actual*/Revised	8.6*	7.9*	7.5*	15.0	19.0	25.0

Q21 Will you talk about your shareholder return policy and how you think about the return to shareholder for FY3/2023?

A Our policy is to “achieve sustainable growth in corporate value, driven by aggressive business development and based on financial stability.” We regard returning profits to shareholders as an important management issue. We are committed to appropriately returning profit to shareholders, in consideration of the level of UT Group’s stock price, business environment, etc., and our base is a total return ratio of 30% or more via dividend payment and acquisition of own shares, which contribute to enhancing capital efficiency.

As for the return to shareholders for FY3/2023, we plan to return to shareholders the amount equivalent to 30% (2.6 billion yen) of the estimated net income of 8.6 billion yen excluding the stock-based compensation expenses, even if the above mentioned stock-based compensation expenses of 5.5 billion yen will be recorded (which is expected to reduce actual net income to 3.0 billion yen). This will make a total shareholder return ratio to be 84% (shareholder return of 2.6 billion yen to net income of 3.0 billion yen).

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