

FAQs for 1Q of FY3/2023

August 10, 2022
UT Group Co., Ltd.

Consolidated financial results

Q1 What contributed to a significant improvement in the record earnings of 1Q FY3/2023?

A In FY3/2022, we strengthened our hiring activities to maximize the number of technical employees at year end, while strategically increasing hiring-related expenses, in order to quickly respond to strong personnel demand, mainly among automobile manufacturers, semiconductor manufacturing equipment (SME) manufacturers and semiconductor manufacturers, which recovered rapidly from 2H FY3/2021.

In the current FY3/2023, we are making efforts to raise our top line starting with the number of technical employees accumulated by the end of March 2022. We also strive to improve the efficiency in use of SG&A expenses by optimizing the allocation of personnel through the integration of hiring and administration functions within the Group, based on the reorganization implemented on April 1, 2022 and the gradual introduction of new operating systems.

As a result of these efforts, quarterly sales increased by 18.0% y-o-y and the operating profit margin improved 4.4 basis points, which resulted in significantly renewing record-high earnings.

Q2 How do you assess your 1Q performance relative to your EBITDA target of 15 billion yen for FY3/2023?

A Our plan for FY3/2023 is to raise our top line starting with the number of technical employees accumulated by strategically investing in hiring-related expenses in the previous fiscal year, and to generate profit through profit increase on sales gain and the improvement in the SG&A expense ratio to sales. We recognize that we have made a good start in 1Q in line with the plan to raise the probability of achieving our performance targets for the year. As personnel demand is expected to remain strong, we will focus on building a leaner business base to achieve EBITDA of 15 billion yen.

Q3 Please explain the status of your orders.

A Demand for semiconductors was sharply increased, reflecting the digitization of society partly prompted by the COVID-19 pandemic and the acceleration of efforts aimed at decarbonization worldwide. As a result, semiconductor manufacturing equipment (SME) makers and semiconductor makers have been rapidly increasing their production capacity, and personnel demand has been robust. Meanwhile, since the summer of 2021, major automobile manufacturers have intermittently suspended operation mainly due to shortages of semiconductors and other parts. However, personnel demand remained steady, reflecting the anticipated recovery in production activities. In June 2022, the jobs-to-applicants ratio in the production process rose to 1.86 times vs. the ratio of 1.09 times for all job categories, indicating the continued tight supply and demand balance for personnel in manufacturing industries.

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 Our plan for FY3/2023 is to increase the number of technical employees while focusing on hiring efficiency. Specifically, we plan to reduce the rate of hiring expenses to sales to 3.0% or less, while continuing to hire around 1,200 to 1,300 mid-career hires per month. This 1Q processed as planned and the rate of hiring expenses to sales was 2.1% in 1Q.

We will continue to improve the efficiency in hiring operations by utilizing the Group's integrated hiring database, and will expand the functions of our comprehensive job site JOBPAL (enhanced job listings and contacts with job seekers), which was launched on April 1, 2022 to respond to the strong demand mainly in the sectors of "Industrial and Commercial Machinery," "Electronics," and "Transportation Equipment" of the Manufacturing Business segment.

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

A 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 Q14 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 What is the outline and objective of the business segment change in April 2022?

A From the current first quarter of FY3/2023, the segment classification has been changed from the previous three segments (Manufacturing, Solution, and Engineering) to five segments (Manufacturing, Area, Solution, Engineering, and Overseas). The objective of the new segmentation that corresponds to each of the growth strategies set forth in the ongoing Fourth Medium-Term Business Plan is for us to become more agile and clearer in promoting our business. For a summary of each segment, please refer to the segment descriptions below.

Q8 What is the outline of the Manufacturing Business?

A The new Manufacturing Business is made up of UT Aim, which acquired UT Pabec on April 1, 2022. It is divided into the "Industrial and Commercial Machinery," "Electronics," "Transportation Equipment," and "Other" subsegments. The Manufacturing Business focuses on personnel services for large manufacturing industries, which UT Group has traditionally identified as a core business, and is strongly promoting the "One-stop Strategy to provide personnel to large manufacturers" in the Medium-term Business Plan. Personnel services that meet regional demand, mainly in the "Other" subsegment of the Manufacturing Business prior to the segment change, have been transferred to the newly established "Area Business" segment. Personnel services in Vietnam have been transferred to the newly established "Overseas Business" segment. In addition, some of the design and development engineers and all of the semiconductor manufacturing equipment engineers in the "Design and manufacturing engineers" subsegment in the Engineering Business prior to the segment change have been transferred to this business segment.

In the first quarter of FY3/2023, personnel demand remained as firm as in FY3/2022 for the "Industrial and Commercial Machinery," "Electronics," and "Transportation Equipment" subsegments. In the "Transportation Equipment" subsegment, major automobile manufacturers' production adjustments have caused a decrease in the number of operating days and overtime hours of some technical employees dispatched by UT Group, but demand for UT Group employees has not declined, given the anticipation of production normalization. Similarly, in the "Industrial and Commercial Machinery" and "Electronics" subsegments, demand for dispatched workers, particularly those of UT Group, was robust as demand for semiconductors increased. In response to these circumstances, UT Group focused on the efficiency of its hiring activities, achieved a y-o-y increase in the number of technical employees, and promoted high-level personnel management and the dispatch of internally-developed, highly-skilled personnel. These initiatives resulted in an increase in segment sales. Segment profit also increased due to efforts to reduce SG&A expenses, such as raising the efficiency of hiring-related expenses.

Q9 How were you affected by automobile production cuts in 1Q?

A In the transportation equipment sector, some major automakers made production adjustments even in 1Q, due to global supply chain disruptions and semiconductor shortages. On average, one or two days of downtime per technical employee occurred per month, although the impact varies by each automaker and production line. In addition, production lines that did not stop working had an impact on working time, such as a decrease in overtime hours and idle time.

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. And personnel demand is expected to remain strong.

Q10 What is the status of 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 Osaka City, Osaka Prefecture in May 2021. Using a skill development program specialized for SME engineers, we are developing manufacturing operators who have experience in the manufacturing process and promoting their advance in career to manufacturing engineers. We are thereby focusing on producing engineers. As of April 30, 2022, manufacturing engineers who graduated from the Technology Skill Development Center surpassed 1,000, and our original plan to "develop and produce 3,000 manufacturing engineers in three years from FY3/2022 to FY3/2024" has been revised upward to "develop and produce 5,000 engineers in four years up to the end of FY3/2025."

Q11 What is the outline of the Area Business?

A The Area Strategy Business Division responsible for the Area Platform Strategy of UT Aim was transferred to UT Community through the absorption-type company split on April 1, 2022. In addition, UT HP, Support System, Seekel Holdings, Seekel and UT Progress were absorbed into UT Community, which then changed its name to UT Connect. The Area Business consists of UT Connect and UT SURI-EMU, and is engaged in the Area Platform Strategy of the Medium-term Business Plan. This segment promotes the creation of a stable employment environment in local workplaces through business alliances with and M&As of leading local dispatch companies.

In the first quarter of FY3/2023, segment sales increased y-o-y, despite that some operating companies were affected by automakers' production cut, driven by a surge in the number of technical employees which was resulted from efforts in hiring based on the strength of diverse job opportunities in response to strong demand for personnel in each area. Segment profit also increased due to efforts to reduce SG&A expenses including personnel expenses, such as commonizing the operating base through the Group's major reorganization described above.

Q12 What is the outline of the Solution Business?

A The Solution Business is composed of Fujitsu UT, UT Toshiba, UT FSAS Creative, and UT MESC, and is promoting personnel mobilization based on the strong relationship established through capital alliances and other means with large corporate groups. UT Pabec and UT HP, which formed the "Solution Business" before the segment change, were transferred to a separate segment. UT Pabec was transferred to the "Manufacturing Business" and UT HP to the "Area Business." In addition, UT Group sold all of its shares of UT System Products outside UT Group at the end of March 2022.

In the first quarter of FY3/2023, the Solution Business segment increased sales and profit, in spite of sales reduction due to a subsidiary sold, thanks to the addition of UT FSAS Creative in October 2021, the increase in the number of technical employees led by Fujitsu UT, and efforts to reduce SG&A expenses.

Q13 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.

Q14 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

Q15 What is the outline of the Engineering Business?

A The Engineering Business after the segment change is composed of UT Construction and UT Technology, and is divided into "Construction Engineers" and "IT Engineers" as subsegments. And some of the design and development engineers and all of the semiconductor manufacturing equipment engineers in the "Design and manufacturing engineers" subsegment in the Engineering Business prior to the segment change have been transferred to the Manufacturing business segment.

In the first quarter of FY3/2023, approximately 200 new graduates who joined UT Group in April 2022 were assigned and in active operation at an early stage. Profit margin increased as the segment's efforts to develop and assign new graduates have been successful and the new graduates who joined this year were assigned and became operational at an earlier time than those who joined in the previous year. In addition, order booking was favorable for both the construction and IT fields, and the number of technical employees increased y-o-y, resulting in an increase in segment sales and profit.

Overseas business

Q16 What is the outline of the Overseas Business?

A The Overseas Business is comprised of Green Speed Joint Stock Company, Green Speed Co., Ltd. And Hoang Nhan Company Limited, which were newly consolidated in January 2021. It is engaged in personnel services, mainly in manufacturing, in Vietnam. The Overseas Business recorded its results for the January-March 2022 period in the first quarter of FY3/2023 with a delay of three months because its settlement date was the last day of December.

In the first quarter of FY3/2023 (January - March of 2022), Vietnam's economy achieved a clear recovery, as COVID-19 restrictions were lifted and GDP maintained high growth. The Overseas Business has been expanding its business areas from the southern region centering on Ho Chi Minh City, where it has offices, to the northern region centering on Hanoi. New orders have increased in the northern region and in particular from Japanese companies. The number of technical employees tends to seasonally decrease around the time of the Tet Lunar New Year holiday (which usually occurs in January or February) in Vietnam, but the number of technical

employees at the end of March 2022 was higher than at the end of December 2021, resulting in an increase in segment sales and profit.

Q17 What is the positioning and objective of the Overseas Business?

A Japan's domestic labor population is on a declining trend, and we believe it is certain that the shortage of manpower will become more serious in the future. In the manufacturing industry, there is a trend to utilize non-Japanese workers, including foreign technical interns, and the number of non-Japanese working in Japan is on an increasing trend (despite a temporary decline caused by the COVID-19 pandemic). However, it is also true that after returning from Japan, these workers who have acquired skills in Japan have no job or are unable to work in a job that demonstrates their skills.

In Japan, UT Group has been engaged in the foreign technical interns' management agency business in the Manufacturing Business. By connecting this with the Overseas Business, we will support the career formation of foreign technical interns and aim to create a workplace where they can reliably work in their home country.

FY3/2023 Earnings Outlook

Q18 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.

Q19 Please explain about the revision of the Fourth Medium-Term Business Plan which was announced on May 13, 2022.

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

Q20 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 8.7 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 3.2 billion yen). This will make a total shareholder return ratio to be 81% (shareholder return of 2.6 billion yen to net income of 3.2 billion yen).

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