

## FAQs for 2Q of FY3/2023

November 11, 2022

UT Group Co., Ltd.

### Consolidated financial results

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**Q1 What contributed to a significant improvement in the record earnings of 1H 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, sales increased by 16.1% y-o-y and the operating profit margin improved 5.0 basis points, which resulted in significantly renewing record-high earnings.

**Q2 How do you assess your 1H 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. EBITDA in 1H FY3/2023 was in line with the annual plan, representing 49.5% of the full-year forecast. We will continue to focus on building a more muscular business foundation while flexibly responding to trends in demand for dispatched workers from our client companies. We thereby aim to achieve EBITDA of 15 billion yen.

**Q3 What is the status of dispatched worker demand by sector?**

A SME manufacturers and semiconductor manufacturers are moving to raise their production capacity in response to increasing demand for semiconductors against the backdrop of the expansion of information and communication technology and the acceleration of global decarbonization. As a result, demand for dispatched workers remained firm. On the other hand, automobile-related manufacturers continued to intermittently suspend operations due to a shortage of parts, and their production trends required close monitoring.

As for overall personnel demand, the effective jobs-to-applicants ratio for all job categories in September 2022 stayed at 1.20 times, while the ratio in the production process rose to 1.97 times. Although the supply and demand balance for workers in the manufacturing industry is tight, current demand is mixed by sector. We therefore worked to allocate resources flexibly by strengthening hiring and allocation to clients with strong demand for dispatched workers. In the Area Business, which provides community-based human resource services, the sales structure was strengthened, and the number of job offers increased favorably.

**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. The rate of hiring expenses to sales was 2.3% in 1H and the number of mid-career hires amounted was around 1,200 per month on average.

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 Industrial and Commercial Machinery sector and the Electronics sector of the Manufacturing Business segment and to the various job openings in the Area 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 Q16 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 Appendix in Financial Results Briefing Material.

**Q8 Are you concerned about the impact of the global economic downturn on manufacturing dispatch?**

A Currently, demand for workers has not rapidly deteriorated. As we mentioned in Q3, although the trend is mixed depending on the sector, we have a sufficient backlog of orders due to demand for dispatched workers in the semiconductor-related sector and the expansion of projects in the Area Business.

As shown in the financial results briefing material for the current term, looking back on the past, the UT Group has pursued the top share strategy and has increased its market share by taking advantage of the market environment, which fluctuates with each economic downturn. Since the global financial crisis (around 2008), we have strongly promoted the top share strategy, which aims to capture the top share in the number of dispatched workers at client factories by being close to clients in service offerings. As a result of strengthening relationships with client companies on a daily basis, we have been asked later than our peers to reduce workers when production declines at client factories and our rate of decline in dispatched workers is much smaller than those of our peers. During the subsequent period of expansion of production volume, we have further expanded our share of the factory by taking advantage of the Group's hiring capability and quickly hiring to fill open spots for dispatched workers. In fact, UT's market share has increased from around 5% in FY3/2020 to 8.5% after the COVID-19 pandemic. Even if the Japanese economy deteriorates from here, we can minimize the impact by staying close to customers, assessing the situation, and striving to allocate resources flexibly. In addition, we are also looking ahead to the next recovery period and developing a foundation to demonstrate even stronger growth.

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Manufacturing Business

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**Q9 What is the outline of the Manufacturing Business?**

A In 1H of FY3/2023, the Manufacturing Business focused efforts on the "Industrial and Commercial Machinery" and "Electronics" subsegments, as the "Transportation Equipment" subsegment was expected to continue dealing with production adjustments caused by the component shortages experienced by automotive-related manufacturers.

Under 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.

**Q10 What is the impact of the current reduction in automobile production?**

A In the Transportation Equipment sector, although production adjustments by automobile-related manufacturers continued due to shortages in parts supply, etc., they have eased compared to the April-June quarter, and the loss of gross profit in the July-September quarter was minimal. In September, operations were temporarily suspended due to the impact of Typhoon #14.

**Q11 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."

#### Area Business

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**Q12 What is the outline of the Area Business?**

A In 1H of FY3/2023, the Area Business strived to develop new clients and deal with more diversified job openings of its existing clients in each of its operating areas, so that to respond to diverse needs of job applicants. As a result, 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.

**Q13 What is your view on the market expansion potential of the Area Business?**

A In the Area Business, we are not limited to the manufacturing industry but also developing and handling projects in a wide range of job categories across Japan. It has been stated that the number of dispatched workers nationwide is approximately 1.4 million (according to the Ministry of Internal Affairs and Communications' Basic Labor Force Survey in FY2021), but we have only approximately 13,000 employees in the Area Business, which accounts for a market share of less than 1%. We therefore believe that there is considerable room for market development in the future, leveraging our Group's strength in hiring and M&A.

#### Solution Business

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**Q14 What is the outline of the Solution Business?**

A In 1H of FY3/2023, the Solution Business segment increased sales and profit, in spite of the impact of a subsidiary UT System Products sold, thanks to the increases in the number of technical employees of the existing subsidiaries and in operating days and hours in some outsourced workplaces as well as the addition of UT FSAS Crea in October 2021.

**Q15 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.

**Q16 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

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**Q17 What is the outline of the Engineering Business?**

A In 1H 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

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**Q18 What is the outline of the Overseas Business?**

A In 1H of FY3/2023, Vietnam's economy achieved a clear recovery, as COVID-19 restrictions were lifted and GDP maintained high growth. The Overseas Business has expanded its business areas from the southern region centering on Ho Chi Minh City, Vietnam, where it has offices, to the northern region centering on Hanoi, and made efforts to acquire contracts from Japanese companies. The number of technical employees tends to seasonally decrease around the time of the Tet Lunar New Year holiday (from late January to mid- February) in Vietnam, but the relaxation of COVID-19 restrictions in October 2021 led to lifting of restrictions in production activities. As a result, a higher number of technical employees continued be active in operation in 2022 compared to the previous year, and the Overseas Business increased sales and profit.

(Please note that the Overseas Business recorded its results for the January-June 2022 period in the first half of FY3/2023 with a delay of three months because its settlement date was the last day of December.)

**Q19 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

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**Q20 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.

**Q21 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*	<b>180.0</b>	<b>220.0</b>	<b>270.0</b>
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*	<b>15.0</b>	<b>19.0</b>	<b>25.0</b>

**Q22 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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