

FAQs for FY3/2023

May 15, 2023

UT Group Co., Ltd.

FY3/2023 consolidated financial results

Q1 What contributed to a significant improvement in the record EBITDA of FY3/2023?

A In FY3/2023, we made efforts to raise our top line starting with the number of technical employees accumulated by the end of March 2022. We also made efforts to establish a leaner business base and improve profitability in order to realize accelerated growth over the medium to long term.

Effective April 1, 2022, UT Group carried out a major reorganization within the Group. Operating companies with common business characteristics were integrated to enhance the ability to execute each growth strategy of the Medium-term Business Plan. In addition, since April 2022, we have been gradually introducing a new business system to standardize and communize administration and other tasks among the operating companies with the aim of improving productivity and further optimizing staffing. Moreover, efforts to improve hiring efficiency have been made by integrating job opportunities held by each operating company and promoting optimal hiring operations.

As a result of these initiatives, in addition to an 8.8% year-on-year increase in sales, a rise in the gross profit margin, and a significant improvement in the rate of SG&A expenses (excluding the stock-based compensation expenses) to sales, we significantly renewed a record high in EBITDA. We achieved EBITDA of 15 billion yen one year ahead of the initial plan of the Fourth Medium-Term Business Plan, and more than doubled the profit generated in FY3/2022. Net sales also reached a record high, marking the 14th consecutive year of sales increase since the global financial crisis of 2008.

Q2 What is the status of dispatched worker demand by sector?

A Although demand for semiconductors is expected to increase over the medium to long term on the back of the expansion of information and communication technology and the acceleration of global decarbonization, capital investment and production activities by semiconductor manufacturing equipment (SME) makers and semiconductor makers have recently been affected by inventory adjustments and other factors and have shown a sign of slowdown.

Meanwhile, automobile-related manufacturers have intermittently suspended operation mainly due to shortages of parts supply. Along this backdrop, some clients in the Manufacturing Business postponed to satisfy demand for additional workers and filling vacancies, and we had to carry out cautious hiring activities. In the Area Business, which provides community-based human resource services, demand for human resources increased briskly as we strengthened the sales structure and focused on developing new clients and diversifying projects for dispatched workers from existing clients.

Q3 How about the status of your hiring activities?

A Our plan for FY3/2023 was to increase the number of technical employees while focusing on hiring efficiency. Specifically, we planned to reduce the rate of hiring expenses to sales to 3.0% or less, while continuing to hire around 1,200 to 1,300 hires per month. The rate of hiring expenses to sales was 2.1% for FY3/2023 and the number of hires ended up to be less than 1,200 per month on average. We have however kept the average hiring cost below 0.3

million yen, and as stated in Q1, efforts to improve hiring efficiency are progressing gradually. As stated in Q2, the number of new hires was the result of careful hiring activities in response to stagnant demand for new hires at some clients in the Manufacturing Business.

Q4 Tell me about the status of the new consolidation and sale of companies.

A 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.

Q5 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.

Q6 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.

Q7 I am concerned about the impact of the global economic downturn on manufacturing worker dispatch. Any thoughts on this issue?

A Mainly due to semiconductor inventory adjustments and other factors, demand for workers by SME makers and semiconductor makers showed a sign of slowdown since the fall of 2022. Some clients in the Manufacturing Business are suspending or postponing to satisfy demand for additional workers, but we expect this situation to be resolved in the second half of 2023 or later. In addition, the production activities of automobile-related manufacturers are recovering as supply constraints have been resolved, but the situation remains uncertain. Meanwhile, efforts by the Area Business to expand business have worked well and a certain level of order backlogs for the entire UT Group has been secured.

As shown in the FY3/2023 financial results briefing material, looking back on the past, the UT Group has pursued the top share strategy to capture the economic recovery that follows the economic downturn and has increased its market share. 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. In the future, even if demand for dispatch workers decreases for a certain period of time, we believe that the top share strategy will enable us to keep the impact to a minimum. On top of that, we are developing a foundation so that we can demonstrate our strength to further grow during the succeeding economic recovery period.

Manufacturing Business

Q8 What is the status of the Manufacturing Business?

A In the "Transportation Equipment" subsegment, automobile-related manufacturers continued to experience production adjustments due to a shortage of parts and materials. The "Industrial and Commercial Machinery" and "Electronics" subsegments have cautiously carried out hiring activities since the beginning of autumn, taking into account customer conditions such as postponing new demand for increased headcount and for filling vacancies due to the impact of inventory adjustments in semiconductors and other factors. The subsegments also strengthened relationships with client companies by making problem-solving proposals that were welcomed by clients and increased the share of dispatched workers in the factories, which led to minimizing the impact of the decline in personnel demand.

Under these circumstances, the number of technical employees decreased year-on-year, but segment sales increased by 8.0% due to the promotion of high-level human resource management and the dispatch of highly-skilled workers who were developed in-house. In terms of expenses, successful efforts were made to reduce SG&A expenses such as streamlining hiring-related expenses, which resulted in a significant increase in segment profit.

Q9 What is the impact of the current reduction in automobile production?

A In the Transportation Equipment subsector, although automobile-related manufacturers' production adjustments continued mainly due to shortages in parts supply, the amount of decrease in gross profit has gradually been reduced throughout the fiscal year and the immediate impact is extremely limited.

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. 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

Q11 What is the status of the Area Business?

A 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. The segment conducted hiring activities accordingly, which resulted in a significant increase in the number of technical employees and sales growth of 14.8% in FY3/2023. Segment profit also increased significantly due to efforts to reduce SG&A expenses, such as commonizing the operating base through the Group's major reorganization on April 1, 2022.

Q12 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

Q13 What is the status of the Solution Business?

A In FY3/2023, the Solution Business segment sales decreased as the positive effects of sales increase from UT FSAS Creative, which became a consolidated subsidiary in October 2021, came to an end and due to the sale of UT System Products Co., Ltd. at the end of March 2022. The segment, however, increased profits due to an increase in the number of technical employees at the existing subsidiaries and an increase in operation at some contract sites.

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.

Engineering Business

Q15 What is the status of the Engineering Business?

A In FY3/2023, thanks to the segment's ongoing efforts to develop and place new graduates for assignment, approximately 200 new graduates who joined UT Group in April 2022 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 status of the Overseas Business?

A In 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. And since the relaxation of COVID-19 restrictions in October 2021, production activities in Vietnam have recovered, resulting in an increase in segment sales and profit.

(Please note that the Overseas Business recorded its results, with a delay of three months, for the January-December 2022 period as the results for FY3/2023.)

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.

Other matters related to FY3/2023

Q18 Please tell us the details of the stock-based compensation expenses that was recorded in the third quarter.

A In light of the increased probability of achieving the performance conditions for the exercise of stock acquisition rights (performance-linked stock acquisition rights) announced on May 20, 2020 (EBITDA of 15 billion yen to be achieved in FY3/2023), we recorded stock-based compensation expenses of 5.5 billion yen in the consolidated statements of income for the first nine months of FY3/2023. They are recognized as expense for accounting purposes and do not involve cash-out. After exercising the rights, they will be transferred to stated capital and additional paid-in capital on the balance sheet. They are temporary and do not affect the consolidated statements of income for FY3/2024 and thereafter.

Q19 Will you talk about your shareholder return policy and the shareholder return for FY3/2023?

A We recognize returning profits to shareholders as an important management issue. To achieve a total return ratio of 30% as our baseline target, we adopted the policy of making a comprehensive assessment of the share price level, business environment, and other factors and on that basis to deliver shareholder returns through dividend payment or share buyback that helps to improve capital efficiency.

Regarding a shareholder return policy for FY3/2023, while stock-based compensation expenses of 5.5 billion yen have been recorded, we have set a significant record high in earnings if the stock-based compensation expenses is excluded. Considering the EPS growth rate excluding stock-based compensation expenses that do not involve cash-out, as the actual profit growth potential of the UT Group, we have recognized that the share price was at an extremely undervalued level.

That is why we will buy back our own shares, funded by the amount of 2,817 million yen, which is equivalent to 30% of net income attributable to owners of the parent of 9,393 million yen, excluding the stock-based compensation expenses, for FY3/2023. The maximum number of shares to be acquired is 1.3 million shares, which accounts for 3.22% of the total number of outstanding shares excluding treasury stock. As a result, the total payout ratio is 73.6% for FY3/2023.

(See details in the "Notice Regarding Decision on the Matters Related to Stock Acquisition" announced today.)

Outlook for FY3/2024 and actions to be taken in the last two years of the Fourth Medium-term Business Plan

Q20 Please explain the outlook for the business environment and management policy for FY3/2024?

A Labor shortage in Japan's labor market in Japan is expected to become even more serious due to the decline in the working-age population, as a consequence of the declining birthrate and aging population. Under these circumstances, in order to respond to the diverse needs of diverse job seekers and corporate human resource needs, UT Group has established its long-term management vision, UT Vision 2030, to continuously create and support vigorous workplaces empowering workers, and to "become the company with a future workstyle platform."

The first five years of UT Vision 2030 have been set as a period of the Fourth Medium-term Business Plan (FY3/2021 to FY3/2025). With a medium-plan target of "becoming a career platform that can respond to more workers," we will continue investing to improve the value and convenience provided to job seekers.

In the meantime, the number of technical employees in Japan as of the end of FY3/2023 had initially been expected to increase significantly but ended to be lower than expected due to a slowdown in capital investment and production activities by SME makers and semiconductor makers, and a delay in the recovery of production activities by automobile-related manufacturers.

Regarding the future business environment, the production activities of automobile-related manufacturers are on the way to recovery, and the production activities of SME makers and semiconductor makers are also anticipated to recover from the second half of 2023 onward.

FY3/2024 started with the less-than-planned number of technical employees. However, we intend to continue hiring activities that match demand trends in 1H and to strengthen hiring activities from 2H in line with an expected increase in demand. In addition, in order to meet the diverse needs of job seekers, we will promote the development of new client companies in each area of Japan and the diversification of dispatch worker projects by existing clients, while also focusing on the utilization of foreign workers to make up for the labor shortage in Japan. In addition, we will make investments throughout the year to achieve EBITDA of 25 billion yen in the final year of the Fourth Medium-term Business Plan.

Q21 What are the key measures for the last two years of the Fourth Medium-term Business Plan?

A We aim to achieve EBITDA of 25 billion yen targets in the final year of the Fourth Medium-term Business Plan, and to increase the number of technical employees in Japan to 50,000-60,000. To this end, we will focus on implementing measures to improve the cost efficiency in hiring technical employees, increase the number of new hires, and raise the retention rate and skills of workers. For details, please see page 15 of the financial results briefing material.

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