

FAQs for 1Q of FY3/2024

August 10, 2023
UT Group Co., Ltd.

(Note) In 1Q of FY3/2024, dispatched workplaces of some clients moved from the Manufacturing Business to the Area Business and about 1,900 technical employees have been transferred from the Manufacturing Business to the Area Business as of the end of June 2023. As for reference, this document has retroactively revised some data of the two business segments for the past years. Please refer to "Financial Results Briefing Material for 1Q of the FY3/2024" for details of the retroactively revised data.

1Q of FY3/2024 Consolidated financial results

Q1 Is the year-on-year profit decline in 1Q of FY3/2024 according to your initial plan?

A We have actually made more progress in profits than we initially planned. During FY3/2024, while continuing hiring activities in line with trends in human resource demand, we have been building a system that enables monthly hiring of 2,000 mid-career employees. We have been doing this with the target of completion of the system in 2H of FY3/2024, when demand is expected to increase. We have also been working to further improve the retention rate of technical employees and strengthen functions to improve their skills. We are making strategic investments aimed at strengthening our business base for achieving the targets for FY3/2025. As a result, SG&A expenses increased, and hence we had a decline in profit.

Since the beginning of the fall of 2022, production activities of semiconductor manufacturing equipment (SME) makers and semiconductor makers have continued to stagnate, and demand for workers remained weak in 1Q. This has led to a decline in sales of the Electronics subsegment and the Industrial and Commercial Machinery subsegment of the Manufacturing Business, which was a major factor of the decline in overall consolidated sales. However, due to weak demand for workers, hiring activities were restrained compared to the internal plan, and the decrease in profit was due to the strategic investments as mentioned above.

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, production activities by SME makers and semiconductor makers have continued to stagnate since the beginning of the fall of 2022. Although automobile-related manufacturers' production activities were on a moderate recovery trend as the impact of the shortage of semiconductors and other components had eased, there was no significant recovery due to production adjustments at some manufacturers, so that the overall demand for workers remained sluggish.

Q3 How about your outlook for the market environment and personnel demand for FY3/2024, and the status of your hiring activities?

A Regarding the business environment for FY3/2024, the production activities of automobile-related manufacturers are beginning to recover, and the activities of SME makers and semiconductor makers are expected to recover from 2H onward. Based on this, in 1H of FY3/2024, we plan to continue hiring activities in line with demand trends, and in 2H, we plan to strengthen hiring activities to meet the expected increase in demand.

We hired about 3,300 (total of new graduates and mid-career workers) in 1Q as we restrained hiring activities in line with weak demand for workers in the Electronics subsegment and the Industrial and Commercial Machinery subsegment of the Manufacturing Business.

In addition, the gross profit margin for the Manufacturing Business in 1Q was 21.2%. Despite weak demand, we maintained a high level of gross profit margin without sacrificing profitability due to hiring activities. Furthermore, we believe that the stagnant demand for workers has already bottomed out, as the number of vacancies, which had been sluggish from April to June, started to increase in July. We are now working to strengthen our hiring system to respond to the recovery in demand.

Q4 What is the status of the Manufacturing Business?

A In the Electronics subsegment, the impact of inventory adjustments in semiconductors continued as in 4Q of FY3/2023. In the Industrial and Commercial Machinery subsegment, SME makers continued to experience a similar impact, and battery makers also saw a decline in demand for workers.

In the meantime, in the Transportation Equipment subsegment, while the production activities of automobile-related manufacturers were recovering thanks to the alleviation of the impact of the shortage of components, the recovery in demand for workers lacked strength due to production adjustments at some manufacturers, but sales recovered quarter-on-quarter for the first time in two quarters.

Overall, the demand for workers was sluggish in the quarter, but in preparation for the future recovery in demand, we worked to further strengthen relationships with our client companies, including the deployment of a full-scale human resource (HR) development and dispatch model (*Please refer to Q6.) This model is to provide training programs that enable inexperienced employees to acquire the necessary skills quickly, and realize continuous workplace improvement, working closely with our client companies.

Q5 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. To achieve our goal to "develop and produce 5,000 engineers in four years by the end of FY3/2025," we will continuously strive to develop work-ready engineers who can play an active role in the semiconductor industry.

Q6 Please tell us about the full-scale HR development and dispatch model with client companies.

A The aim of this model is to provide education curricula that enable inexperienced employees to acquire the necessary skills at an early stage and to realize continuous workplace improvement through close cooperation with client companies.

As the first step, we have placed 72 new graduates at work positions at SCREEN Semiconductor Solutions Co., Ltd. and began training them jointly with SCREEN. In this initiative, we provided a customized education curriculum of our Technology Skill Development Center to meet the needs of the company, and sent our instructors to the company for training. In addition, we will continue to work with our client companies to address their HR-related issues, such as by improving skills of their workers and their work environment. Further, we plan to deploy this collaborative human resource development and dispatch model not only in the semiconductor industry but also in other manufacturing industries.

As competition for acquiring human resources intensifies in the future, we will continue to build a robust manufacturing system together with our client companies.

Q7 Please explain your recent transfer of dispatched workplaces of some client companies from the Manufacturing Business to the Area Business.

A UT's Manufacturing Business not only hires and assigns employees to needed workplaces of major manufacturing industries, but also provides the human resource services that include arrangements for retention, development, and mobilization of workers according to the needs of each client. In order to provide more optimal services to clients, UT's section in charge of some clients has been moved from UT Aim (an operating company of the Manufacturing

Business) to UT Connect (an operating company of the Area Business). As a result, approximately 1,900 technical employees have been transferred from the Manufacturing Business to the Area Business as of the end of June 2023.

Area Business

Q8 What is the status of the Area Business?

A We strengthened inside sales to respond to diverse needs of job applicants, and focused on developing clients in each area and strengthening our sales base. We also made efforts to diversify job openings for existing clients, and promoted hiring activities accordingly. As mentioned above, in order to provide optimal services for each client company, UT's section in charge of some clients has been moved from the Manufacturing Business to the Area Business and about 1,900 technical employees have been transferred as of the end of June 2023.

Q9 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 1.53 million (according to the Ministry of Internal Affairs and Communications' Basic Labor Force Survey in June 2023), but we have only approximately 15,000 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

Q10 What is the status of the Solution Business?

A In addition to promoting proposal activities aimed at acquiring new solution projects, we worked to develop new clients (outside of the former Group companies) and to develop subcontracted projects in which technical employees of a wide range of ages can be expected to play an active role. In the meantime, sales decreased due to the completion of some subcontracting projects.

Q11 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, need for review of the business portfolio, and the reemployment of retiring employees.

Engineering Business

Q12 What is the status of the Engineering Business?

A 184 new graduates who joined UT Group in April 2023 have started work at an early stage. In light of strong demand trends in the fields of construction engineers and IT engineers, we made more aggressive efforts than usual to hire new graduates who will join us in April 2024 and this increased hiring expenses. In the field of construction engineers, 76 employees transferred to client companies in 1Q with the aim of strengthening relationships with client companies and supporting the career development of engineers. The profit margin decreased due to an increase in personnel costs caused by the improvement of the sales structure in the IT engineer field, and an increase in hiring expenses, aimed at strengthening of mid-career recruitment and a focus on new graduate recruitment for 2024 in both the construction engineer field and IT engineer field.

Overseas Business

Q13 What is the status of the Overseas Business?

A Production activity in Vietnam's major export industries stagnated due to the impact of the global economic slowdown, and there was the reactionary impact of the Vietnamese government's "With COVID-19" policy and economic revitalization measures in 2022. These resulted in a decline in demand mainly by manufacturing clients and a decline in UT's technical employees in active operation. Under such circumstances, we worked to acquire not only production process projects, which were our strengths, but also service-type projects. Also, in order to expand our business area, we expanded the scope of our activities from the southern region, centered on Ho Chi Minh City, where we have a base, to the northern region, centered on Hanoi City, and focused on acquiring projects from Japanese companies.

In addition, as the total conditional consideration for the acquisition of shares of Green Speed Joint Stock Company in October 2020 was finalized, goodwill of ¥687 million was newly recorded from 1Q of FY3/2024, and the goodwill amortization of ¥129 million corresponding to the period from the initial share acquisition date to the determination of the consideration for the acquisition was recorded at the determination date of acquisition price.

(With regard to the Overseas Business, as the subsidiary's closing date of fiscal year is December 31, actual results for the period from January to March 2023 are recorded in 1Q of FY3/2023 with a delay of three months.)

Q14 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, those 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 1Q of FY3/2024

Q15 Please tell us the details of the stock-based compensation expenses that were recorded in 3Q of FY3/2023.

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 expenses 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.

Q16 Will you talk about your shareholder return policy?

A We recognize that the return of profits to shareholders is an important management issue. Based on a total return ratio of 30%, we have established a policy to return profits through dividends and share buybacks that contribute to improving capital efficiency, after comprehensively judging stock price levels, business environment and other factors. At this time, the details of shareholder returns for FY3/2024 have not been decided.

Q17 Please explain the content of shareholder returns for FY3/2023.

A For FY3/2023, we have decided to buy back our own shares in accordance with the aforementioned shareholder return policy. The acquisition amount is set at 2,817 million yen, which is equivalent to 30% of net income attributable to owners of the parent of 9,393 million yen, excluding stock-based compensation expenses for FY3/2023, and the total number of shares that can be repurchased is up to 1.3 million shares. The period of acquisition is from May 16, 2023 to October 31 2023. By the end of July 2023, we have acquired 547,900 shares for the amount of 1,559 million yen.

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

Q18 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.

Q19 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 23 of "Financial Results Briefing Material for 1Q of the FY3/2024."

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