FAQs for FY3/2024

May 14, 2024
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 the FY3/2024" for details of the retroactively revised data.

Consolidated financial results

Q1 What were the factors behind the year-on-year decrease in sales and increase in profit in FY3/2024?

A Amid stagnant demand for human resources in the manufacturing industry, demand for human resources from automobile-related manufacturers began to recover in 2H of FY3/2024. However, this did not offset the sluggish demand for human resources from semiconductor manufacturing equipment (SME) makers and semiconductor makers throughout the year, resulting in a decline in sales.

SG&A expenses decreased year-on-year, driven by the containment of personnel expenses, such as by reviewing of personnel plans, and the absence of stock-based compensation expenses that were recorded in 3Q of FY3/2023, despite an increase in investments related to the construction of a system for hiring 2,000 employees for further business growth and an increase in hiring-related expenses to respond to a recovery in demand from existing clients and an increase in orders resulting from the development of new clients.

As a result of the above, consolidated net sales decreased year-on-year but operating profit increased for FY3/2024. Profit attributable to owners of the parent and EPS increased significantly, renewing the previous high level recorded in FY3/2019.

Q2 What is the status of demand for workers by sector?

A While production activities of the manufacturing industry as a whole were stagnant, automobile-related manufacturers' production activities recovered, and demand for dispatched workers in 2H of FY3/2024 recovered strongly compared to 1H.

SME makers and semiconductor makers continued stagnant production activities due to the impact of inventory adjustments that have continued since the fall of 2022, and demand for workers remained weak throughout the year. In addition, some battery manufacturers (classified in the Industrial & Commercial Machinery subsegment of the Manufacturing Business), which manufacture EV batteries, etc. , were affected by a decline in production activities due to changes in the procurement policies of their customers.

Q3 Please tell us how you evaluate your hiring activities in 4Q of FY3/2024 and how you foresee the future trend.

A In March 2024, the number of mid-career hires significantly increased to a record high of 2,344. This was mainly due to 1) an increase in back orders (in addition to capturing the recovery in demand from automobile-related manufacturers in the Manufacturing Business, efforts were made to develop new clients and diversify projects of existing clients by strengthening inside sales in the Area Business) and 2) results of the enhancement and improvement of hiring activities (adoption of more effective media and channels for hiring, shorter lead time from application to entry to the company, etc.) Meanwhile, we are also aware of issues such as an increase in the cost of hiring, although it is generally within the range of the plan, and the need to further strengthen sales efforts in order to sufficiently secure back orders from April onward.

Based on these results and issues, in FY3/2025, we will work to further improve the efficiency of the hiring process and secure back orders, and to expand the number of hires with emphasis on 2H of the fiscal year, spending appropriate hiring costs and controlling the operational burden to a moderate level.

Manufacturing Business

Q4 What is the status of the Manufacturing Business?

A In the Industrial & Commercial Machinery subsegment and the Electronics subsegment, demand for workers remained weak due to the continued impact of semiconductor inventory adjustments and other factors. In the Transportation Equipment subsegment, despite production adjustments by some automobile-related manufacturers in 4Q of FY3/2024, overall demand for workers remained firm and we strengthened hiring activities throughout 2H. As a result, the number of technical employees increased.

Q5 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

Q6 What is the status of the Area Business?

A The Area Business segment strengthened "inside sales" and focused on developing clients and strengthening its sales base in each area. The segment also focused on making our existing client companies offer more diversified job openings and promoted hiring activities based on these efforts. As a result, the Area Business recorded a net increase of 348 and 672 in the number of tech employees in 3Q and 4Q respectively.

And, as mentioned above, in order to provide optimal services for our client companies, we have transferred dispatched workplaces of some clients from the Manufacturing Business to the Area Business, which has resulted in a move-in of approximately 1,900 technical employees. Expenses increased year-on-year, due to factors such as an increase of personnel in order to strengthen the sales structure and the acceleration of hiring activities in line with the development of projects.

Q7 What was the reason for the negative EBITDA in 4Q?

A While the gross profit margin tended to decline throughout the year due to the diversification of projects, the gross profit margin declined in 4Q due to a sharp increase in the number of hires at the end of the fiscal year, which generated cost of sales (statutory welfare expenses, company housing expenses, etc.) ahead of sales. In addition, the increase in the number of new hires resulted to an increase in the ratio of hiring costs to sales, which further depressed EBITDA margin to a negative EBITDA.

However, the decline of EBITDA margin and the negative EBITDA were within the plan and temporary.

Solution Business

Q8 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 weak performance and completion of some subcontracting projects.

Q9 Would you elaborate more on the acquisition of shares (conversion into a subsidiary) of Hitachi Ibaraki Technical Service?

A UT Group acquired 51% of outstanding shares of Hitachi Ibaraki Technical Service Ltd. and made it a subsidiary on May 1, 2024 (renamed to UT Hites Co., Ltd.).

As a manufacturing subsidiary of Hitachi, Ltd., Hitachi Ibaraki Technical Service has outstanding know-how and reliable technology, and provides contracting services and worker dispatch services for design and manufacturing of electrical machinery and equipment and processed metal products. The company has approximately 500 technical employees and supports manufacturing of Hitachi, Ltd. and the Hitachi Group in the energy, industrial and mobility fields.

Since UT's acquisition of all shares of Mito Engineering Service Co., Ltd. (currently UT MESC Co., Ltd.) from the Hitachi Group in July 2020, the Hitachi Group and the UT Group have deepened their cooperation. The strengths and know-how of both groups will be further integrated with this acquisition of shares, while UT will closely follow the changing needs of clients with the changing times, and aim to pursue new service value.

Engineering Business

Q10 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 efforts to hire both of mid-career and new graduates who will join us in April 2024, and this increased hiring expenses. In the field of construction engineers, 113 employees transferred to client companies with the aim of strengthening relationships with client companies and supporting the career development of engineers.

Q11 Please tell us about the sale of shares of operating companies in the Engineering Business.

A As described in Q14 below, we have resolved to sell all shares of our consolidated subsidiaries UT Technology Co., Ltd. and UT Construction Co., Ltd. to Open Up Group Inc. on April 1, 2024. As a result of this share transfer, the Engineering Business ceased to exist at the end of FY3/2024.

Overseas Business

Q12 What is the status of the Overseas Business?

A Production activities of Vietnam's major export industries stagnated due to the impact of the global economic slowdown, resulting in lower demand for human resources, particularly among manufacturing client companies. However, efforts to acquire projects in the service sector led to an increase in the number of technical employees. And demand for auto parts and electronics components has gradually turned upward since late November. 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 (in 1Q) 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 December 2023 are recorded in the FY3/2023 with a delay of three months.)

Q13 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

Q14 Please tell us about the Acquisition of shares (conversion into subsidiary) of BeNEXT Partners Inc., and change in consolidated Subsidiaries (share transfer)

A The Board of Directors' meeting of UT Group Co., Ltd., held on November 27, 2023, resolved that on April 1, 2024 1) UT Group would acquire all outstanding shares of BeNEXT Partners Inc., a consolidated subsidiary of Open Up Group Inc. and make it a subsidiary ("Share Acquisition"), and 2) UT Group would sell all shares of its consolidated subsidiaries UT Technology Co., Ltd. and UT Construction Co., Ltd. to Open Up Group Inc. ("Share Transfer"). As a result of the Share Transfer, UT Technology and UT Construction were excluded from the scope of consolidation of UT Group.

As a subsidiary of Open Up Group in the manufacturing dispatch sector, BeNEXT Partners, which we acquired at this time, operates business in 25 locations nationwide and employs approximately 2,800 persons. Its strength is ability to secure employment in various sectors and job types of the manufacturing industry, and to match job seekers and employees from all over the country with their workplace, placing the highest priority on their wishes and preferences.

UT Technology and UT Construction both belonged to the Engineering Business Segment of UT Group (until March 31, 2024), and provided engineer dispatch and outsourcing services in the electromechanical and IT sector and the construction sector, respectively. Under the theme of "cultivating the field of high-skill engineers," the Engineering Business Segment had been seeking to build a business foundation by strengthening functions through alliances with leading companies and M&As of engineer dispatch companies.

As a leading company in manufacturing dispatch, UT Group currently provides human resources services in multiple business segments, and while reviewing the optimization of the Group's business portfolio and the optimal allocation of management resources, we had been engaged in discussions with Open Up Group. To sum up, UT Group had decided to execute the transaction as stated above for the purpose of prioritizing the allocation of management resources to its core business of manufacturing worker dispatch.

Going forward, UT Group will build a solid business foundation as a career platform company that can respond to the desires and interests of more and more workers, and will contribute to resolving major social issues such as the rapid decline in the working-age population envisaged in the medium term and structural changes in human resource utilization in the manufacturing industry. In addition, we will establish a solid position as a leading company in manufacturing dispatch and realize high growth over the medium to long term.

Q15 Please explain the outline of the Rolling Plan of the Fourth Medium-term Business Plan

A 1) Concept

The aggregation of the personal growth of each employee leads to the growth of UT Group. This is the concept at the roots of UT Group's human capital management. By continuing to expand the multiplication of “diversity (creating workplaces where diverse people can work comfortably), market value (improving the value of each individual), and engagement (building long-term relationships with workers),” UT Group will be able to achieve sustainable growth and the purpose of the Group.

Against the backdrop of a decline in the working-age population due to the declining birthrate and aging population, the increasing severity of Japan's labor shortage is requiring our client manufacturers to work harder to secure a sufficient labor force and improve productivity. As a result, these manufacturers’ way of utilizing dispatched workers is changing from securing the conventional temporary labor force to the use of dispatched workers who would replace regular employees. For dispatching companies, it is not sufficient to only have the function of a conventional hiring agency that gathers and dispatches workers. Also, it is becoming increasingly important for dispatching companies to create an environment in which diverse people can work and increase productivity through career development. Expectations that dispatching companies that can shift to this mode of operation will rise even further.

These various large-perspective changes represent a major turning point for UT Group. "What should we do to be chosen by the people who work in manufacturing?" This is the core of all our thinking for the Rolling Plan. We view the “dispatch” workstyle as a service we provide to workers, and by making it more convenient, we will sharpen our focus on creating a situation wherein we are chosen by workers, with the aim of becoming the most preferred company in the manufacturing dispatch market. We plan to increase the number of our technical employees in Japan from the current 32,000 to around 50,000 by the final year of the Rolling Plan. Moreover, we are committed to creating a new form of manufacturing dispatch. This is the proper role of UT Group as a leader in manufacturing dispatch and this is our commitment.

2) Strategy

We will make the “dispatch” workstyle more convenient and achieve the target of regular monthly hiring of 2,000 employees. UT Group’s core operations of the Manufacturing Business and the Area Business will be drivers of growth in our efforts to expand our share in the manufacturing dispatch market. In the Manufacturing Business we aim to maximize our share in the client companies’ factories by increasing the value of our workers there. In the Area Business we aim at becoming the “best local outlet” in various parts of Japan by responding to the needs of people working locally. In other businesses, we intend to develop a business that will become the third pillar of business, in addition to the existing two pillars of the Manufacturing Business and the Area Business, so that we can provide working opportunities for a greater number of diverse workers, such as by increasing the utilization of Nikkei (Japanese origin) workers. In addition, while we will continue to focus on expanding the scale of the business through M&As, the key of our strategy is to make it meaningful to “those working in manufacturing dispatch in Japan.”

The numerical targets are stated in 4) below. Our aim is to improve profitability and achieve sustainable EPS growth by consolidating management and other operations in line with the expansion of the scale of the dispatch business.

3) Period of the Plan

The final year will be FY3/2026, one year later than the Initial Plan.

4) Numerical targets

［100 million yen］

	FY3/2024 (Current year forecast)		FY3/2025		FY3/2026 (Final year of the Plan)	
	Forecasts	% of total	Plan	% of total	Plan	% of total
Net sales	1,690	100.0%	2,150	100.0%	2,765	100.0%
EBITDA	111	6.5%	160	7.4%	250	9.0%
Operating Profit	95	5.6%	136	6.3%	224	8.1%
Profit attributable to owners of parent	61	3.6%	130	6.1%	145	5.3%
EPS ［yen］	153	-	275	-	306	-
(Reference indicator) Technical employees (Domestic)	-	-	44,641	-	54,478	-
(Reference indicator) ROE ［%］	-	-	23%	-	23％	-

Note: Profit attributable to owners of parent for FY3/2025 is incorporated the rough estimate of the impact of the Extraordinary Income as announced in "Notice Regarding Recording of Extraordinary Income (Gain on Sale of Shares of Subsidiaries and Associates)" released today.
Note: EPS for FY3/2025 and FY3/2026 are fully diluted.
Note: ROE for FY3/2025 and FY3/2026 are calculated based on an increased shareholders' equity as stock acquisition rights are fully exercised.

5) Approach to profit distribution and change in shareholder return policy

We will appropriately manage cash allocation with an emphasis on balancing the improvement of capital efficiency, the maintenance of financial soundness, and the enhancement of shareholder return. We also aim to optimize internal reserves by taking into account the cost of capital and business investment plans including M&As. The Plan's numerical targets and target levels are as follows.

- Goodwill equity ratio: 50% or less
- Net D/E ratio: Less than 0.5 times
- Dividend payout ratio: 60%

We have reconsidered the shareholder return policy. We expect to be able to secure a sufficient cash position even after taking into account the balance of business investments including M&A activities, which are necessary for the sustainable growth of the Group, as well as financial soundness. Therefore, we have decided to provide a stable dividend payout ratio of 60%, instead of a total return ratio of 30% through dividends or share buybacks. For details, please refer to the "Notice Regarding Change in Shareholder Return Policy, Decision on Shareholder Return Method for FY3/2024, and Dividend Forecast for FY3/2024" announced on February 9, 2024.

Before change	Deliver shareholder returns through dividend payments or share buybacks that help to improve capital efficiency, using a total return ratio of 30% as the baseline target, and making a comprehensive assessment of the share price level, business environment, and other factors.
After change	Deliver shareholder returns through dividend payments, using a total payout ratio of 60% as the baseline target.

Q16 Please tell us your intentions behind the change in the representative director and president and the change to a structure of having two representative directors, which were announced on March 25, 2024.

A Mr. Sotomura, who was newly appointed as President and Representative Director on April 1, 2024, demonstrated strong leadership in UT Group by utilizing his abundant business experience in HR affairs and development, and sales fields as well as his knowledge of overall management as director in charge of all business divisions of the Company until FY3/2024.

UT Group is promoting the Rolling Plan described above up to FY3/2026, in which Mr. Sotomura will be engaged in realizing the Rolling Plan and strengthening organizational capabilities by spearheading the business operations and pushing the establishment of service base and business foundations.

Meanwhile, Mr. Wakayama, who has assumed the position of Chairman and Representative Director, will play a role in formulating the next medium-term management plan and management policies to realize the long-term management vision for FY3/2030, looking beyond the Rolling Plan.

Under the system of having two Representative Directors, with both of them as the top management to carry the expectations and play the key roles, we will accelerate decision-making and strengthen business execution functions.

Q17 Tell me about shareholder return for FY3/2024.

A In accordance with the above shareholders' return policy in Q15, we will pay an ordinary dividend of 96.15 yen per share, which is 60.0% of net income attributable to owners of the parent in FY3/2024.

Q18 What is the extraordinary income to be recorded in 1Q of FY3/2025?

A As announced in the "Notice Regarding Acquisition of Shares (Conversion into Subsidiary) of BeNEXT Partners Inc. and Change in a Consolidated Subsidiary (Share Transfer)" as of November 27, 2023, UT Group sold all of its holding shares of its consolidated subsidiaries UT Technology Co., Ltd. and UT Construction Co., Ltd. to Open Up Group Inc. on April 1, 2024. Accordingly, UT Group is expecting to record extraordinary income of approximately 6.3 billion yen on a consolidated basis and approximately 6.6 billion yen on a non-consolidated basis as gain on sale of shares of subsidiaries and associates in the first quarter of FY3/2025. the numerical targets for FY3/2025, described in Q15 above, has incorporated the rough estimate of the impact of this change.