

March 27, 2019 - Investor Briefings for Analysts and Institutional Investors

Key Questions and Answers

Q. In the Medium-Term Business Plan, the planned staffing ratio for the High Value Group, Wide Value Group, and Product Value Group is 2:6:2. What is the current ratio?

A. At the end of January 2019, HV was 16.3%, WV 70.1% and PV 13.7%.

The theme for the next two years will be to make adjustments at the point of hiring to achieve our goals.

Q. Differences in the unit price of engineers in each group

A. For example, in terms of the unit price for new graduates placed in their first job, the High Value Group is approximately 4,500 yen, the Wide Value Group is about 3,500 yen, and the Product Value Group is approximately 3,400 yen.

Q. Demand situation in areas close to production sites

A. Major revisions to the dispatch contract were made in March and September. The non-utilization rate at the revision in March was about 3%, which is comparable to normal levels, so we can conclude that economic risks have not materialized.

From our experience, the economy is most susceptible from the downstream sector. We believe that in our company, the Product Value Group is the most sensitive in turn. Therefore, we strategically control the risk of contract termination by having the personnel structure of the High Value Group, the Wide Value Group, and the Product Value Group at a ratio of 2:6:2. In terms of the Product Value Group area, to minimize risks as much as possible, we will secure numbers of preliminary transaction partners and projects regardless of industry.

Q. March revision status of non-utilization rate, about 3%, by group

A. Some contracts are not renewed at the request of our clients, while others are not renewed at the Company's request, accounting for approximately 3% of the total. In terms of the High Value Group, there was no case where the contract was not renewed at the request of our clients. The Wide Value Group and the Product Value Group combined accounted for about 3% of cases where contracts were not renewed at the request of our clients.

Q. Orders from foreign manufacturers

A. Although they are not among the top ten transaction partners, we have business experience with several companies, including Bosch, an automotive parts manufacturer.

Q. More and more manufacturers are developing their products overseas. Any possibilities of dispatching engineers overseas?

A. The transfer ratio of operations to overseas differs depending on the respective development area. Regarding the R&D area of our clients, many remain in the country. The areas that are being transferred overseas include product development modification areas. In this area, our clients are gradually increasing their overseas transfer ratio.

We are not considering dispatching engineers to overseas manufacturers in the Medium-Term Business Plan. However, we may consider doing so if our clients' overseas expansion increases.

Q. Manufacturers pay higher unit prices and take advantage of your company. Is it less expensive than developing on their own?

A. The Company's business is closely linked to the employment policies of our clients. Currently, there are no cases where our clients manage a project entirely in-house and hire all of their own personnel. Instead, they use internal and external personnel to complete a single project. Employment is controlled in terms of the cost of hiring in the long run, rather than on a temporary basis, which creates a need to use outside talent such as our company.

Q. The risk that your company's engineers may obtain the manufacturer's trade secrets in the course of their work

A. The more upstream the process, the stricter the NDA.

In addition, there are some cases where there is a restriction that after the completion of one project, a worker can not be dispatched to projects in the same industry for several years.

Q. Purpose of use of cash

A. The Company has a policy of holding roughly three months' worth of monthly net sales as cash on hand, with the remainder being excess cash. There are labor costs and other costs until the newly graduated engineers of the year start operations, but the Company's business structure does not require aggressive capital investment. This is an industry that is going to undergo a lot of restructuring in the future. So I think the ideal is to use it as part of M&A financing, including the Company's future growth.

Q. Projected achievement of the plan to recruit 170 new graduates for next fiscal year and recruitment environment

A. After receiving TSE First Section designation last year, the Recruitment Department reported that the quantity and quality of applicants for both new graduates and career hires had improved. Also, as the number of applicants increases, so the number of laboratories with hiring results increases. The Company secures the number of hires through its recruiter activities. As the number of laboratories with hiring results increases, we can expect to recruit through repeat recruiting. We recognize that 170 recruits, an increase of approximately 10% from 153 in the current term, is not a high target number.

Q. The unit price of engineers in this fiscal year's plan is at the same level as the previous year. Is this caused by the suppressed unit price due to the new graduates joining the Company?

A. The average age of engineers and the change in the unit price of engineers are relatively linked.

Q. The ratio of the contracting business in the future

A. In order to promote "diversity and inclusion in talent management", the basic measures of the Medium-Term Business Plan, the Company aims to utilize human resources who can not be fully utilized as dispatched workers. The Company intends to increase the volume and percentage of contracting business orders to achieve it.

In contracting work, we can arrange operations ourselves, so we can make full use of seniors, foreign nationals, and women who are former engineers, can use their time for other things than raising children, and want to work only certain hours. Although the Worker Dispatching Act prohibits using engineers from other companies in the same industry, it is possible to have dispatched engineers from other companies in the same industry as the Company for the contracting business.

In order to enhance the Company's growth potential, we believe it is imperative to increase the ratio of contracting, as this will allow us to utilize human resources even when they are non-regular employees.

Q. Mid- to long-term shift of the industries to be dispatched to

A. The Company has the following job categories: four in machinery; three in electronics; and two in software. However, it is difficult to make the transition across job categories, such as from machinery to electronics, and from electronics to software. In terms of the industries to which we are dispatching, for example, we rotate industries from automobiles to consumer electronics, and from consumer electronics to robots as part of our sales policy. We will continue to actively develop our business in order to avoid various risks.