

September 22, 2022 - Investor Briefings for Analysts and Institutional Investors

Key Questions and Answers

(Some parts of the contents have been added or modified for easier understanding.)

Q: Artner categorizes engineers into HVG, WVG, and PVG, and it is reported that there is a strong demand for dispatch from manufacturers and that this is continuing, but in which sector is the demand strong and the unit price of engineers high?

A: In terms of the unit price of engineers, the Company's group includes HVG, which covers the R&D area, WVG, which covers the product development area, and PVG, which covers the production-related area, experimental evaluation, and the final process of R&D. HVG is the highest, followed by WVG and PVG at the unit price of engineers that the market is forming. Projects related to CO₂ reduction, such as so-called electric vehicles, fuel cell vehicles, autonomous driving, and new models of semiconductor manufacturing equipment for the manufacture of new semiconductors, are positioned as projects that belong to the areas of advanced development because they are not in existing technology areas.

Q: I understand that the unit price of engineers related to carbon neutral is about 10% higher than that of other projects. Is there any difference between the work processes?

A: When engineers are placed on a CO₂ reduction project, the R&D area is the highest, followed by the technology area of the product development area, and then the PVG area, so the unit price level is about 10% higher than other projects.

Q: Overall, demand is said to be strong, but is there any strength or weakness in each industry in the forecast for next year and beyond?

A: As for finished automobile manufacturers and auto parts manufacturers, which are currently the main focus of the Company, we expect that there will continue to be strong demand for engineers for projects related to the development of electric vehicles, fuel cell vehicles, etc., as introduced earlier. Even at this point, we are receiving a lot of demand, but because we are required to have highly skilled human resources, the supply of human resources relative to demand has not kept up with so-called recruitment. Therefore, we continue to predict that the needs for engineers for CO₂-related projects, especially for auto completion manufacturers and part manufacturers, will remain robust in the next fiscal year and beyond.

Although there are fluctuations in other industries depending on the fiscal year, the composition of the Company's business partners at this time indicates that there are no industries that are expected to experience a significant slowdown at this time. However, there was a newspaper announcement that some orders from manufacturers related to semiconductor manufacturing

equipment might slow down, and Company needs to analyze such impact. But we think we need to take a look at which group's projects, which we have just introduced, will see a decrease in demand, together with the forecast responses. For example, even if the human resource needs of semiconductor manufacturing equipment manufacturers decrease, we think we need to calmly analyze and respond, including whether the demand for the PVG area or the WVG area will decrease, or whether the demand for HVG will decrease, or all.

Q: If demand slows, what factors do you assume will be contributing?

A: At the moment, it is difficult to imagine foreign exchange including a weak yen. At this stage, there have already been press releases and other announcements regarding CO₂-related projects by semiconductor manufacturing equipment manufacturers, or in particular, automotive-related manufacturers. But in a situation where active government budget support has already been provided, the budget environment is a little different from the impact of core business performance. In that sense, we believe that CO₂-related projects, in particular, are in an environment that is not directly affected by economic trends.

Q: Is there room to consider raising the current payout ratio from 50% to 50% or higher in order to achieve the tradable share market capitalization, which is the listing maintenance criteria on the Prime Market? I don't think Artner's business needs much cash unless it conducts M&A, but how do you plan to use the cash on hand?

A: Now, as we are introducing, the Company has raised its payout ratio from 30% to 50% last year in part for Prime response policy. We have included some consideration of commemorative dividends, etc., but naturally, meeting the requirements for Prime response is an important theme in the current Medium-Term Business Plan. So, we will flexibly consider this in order to achieve our objectives over the three years, including raising dividends or considering aggressive share buybacks based on the idea of total return ratio, taking into account stock price trends, market trends, etc.

Q: In the three years of the Medium-Term Business Plan, what are the big things in terms of investment?

A: At the moment, when it comes to active investment in a single-year business plan, it inevitably comes down to hiring investment and recruiting investment, but that is at a level that can be recouped in earnings in a single year. Other than that, we will continue to investigate the target companies for M&A, etc., and although we have not yet achieved it, we hope to push forward with it within the three years. For large investments, if it is an M&A-related acquisition, it is acquisition funds. We believe that is the larger investment fund that we are currently assuming.

Q: If you take stock prices as your biggest mission, can I expect a payout ratio of, say, 100%?

A: We can't give you any assurances at this point, but of course, that's where the biggest mission of this Medium-Term Business Plan is, so we don't think there's any need to think about sticking to 50%.

Q: The assumption for the utilization rate in the forecast of financial results for the current fiscal year was set at the same level as that of the previous fiscal year. But looking at the utilization rate so far, it has remained at a high level, about 2 percentage points higher than the previous fiscal year. You say you don't expect any particular slowdown in demand in the second half, but are there any upward revisions to your forecast of financial results for this fiscal year?

A: First of all, with regard to the preconditions, considering the situation in FY22, as is the corporate culture of the Company, we have adopted a budget with a utilization rate on a par with the previous fiscal year's budget of 96.6% due to the relatively conservative trend of budgeting. However, as you pointed out, the current utilization rate is very high amid a need for engineers, and we are making progress in placements well ahead of schedule. As a result, the actual utilization rate has exceeded 96.6%. Currently, the results for August are available, and while rolling the monthly results from September to January, we are watching monthly figures to see how the final results will be. At the moment, we think the forecast is above 96.6%. However, we have been in line with the forecast of financial results in the sense that there has not been sufficient aggregation to disclose an upward revision at this time. However, in rolling, we naturally roll the utilization rate from time to time according to performance. The situation is that we watch net sales and profits every month to determine the full-year achievement.

Q: Is the placement of newly graduated engineers going smoothly?

A: At the end of September forecast, approximately 80% of newly graduated engineers who joined the Company in April of this fiscal year were placed or expected to be placed. According to our budget, we are planning to place the remaining 20% by December 1, so under the current circumstances, we believe that we can achieve placement ahead of schedule beyond our budget.

Q: I expected that the unit price of engineers on carbon-neutral projects would be high, which would raise the unit price of engineers on a company-wide basis. But the performance of the unit price of engineers on a company-wide basis in Q2 was not much different from previous years. What are the factors in this?

A: We believe that the effect of actively placing engineers to CO₂ reduction projects on the unit price of engineers will be evident in the next fiscal year and beyond. We are mainly increasing the number of new graduates this year and career hires this year, so specifically, we think the effect

will be seen in the next fiscal year and beyond. Partly due to the impact of the COVID-19 pandemic, we preferentially placed engineers who are workers with little or no experience ahead of schedule to a certain extent, while controlling the unit price of engineers. As a result of this placement, under the situation of the COVID-19 pandemic, the average unit price of engineers declined slightly and has since returned.