

March 22, 2023 - 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: The number of new graduates recruited was 169 in the previous fiscal year and 128 in the current fiscal year. To make up for that, the number of career hires has increased from 50 in the previous fiscal year to a planned 180. As salaries are generally raised as a recruitment measure, what measures do you envisage, including company benefits, to constantly recruit engineers?

A: The number of employees planned for the current fiscal year has been set without changing the master plan in order to achieve a system of 1,600 employees in the final fiscal year of the Medium-Term Business Plan. The number of career hires was 50 last year, and this fiscal year, we have followed the master plan of 180 as is.

The decrease in the number of university graduates who are eligible for the recruitment of new graduates will increasingly accelerate in the future. Under these circumstances, the medium- to long-term approach is to balance the number of new graduates and career hires recruited to roughly 1:1, instead of our previous emphasis on recruiting new graduates. This is reflected in the Medium-Term Business Plan Master Plan, which sets the number of new graduates and career hires to recruit in the plan for this fiscal year.

We believe that it is necessary to put ourselves in the position of the applicant, to put Artner in the forefront, to think about how to beat competitors and to do so continuously. On page 52 of the reference material, we compare the Company with other competitors, and we list part of the various options to help those who wish to find employment choose Artner. For example, in a performance-based salary system, we can ensure higher level of performance-based compensation than our peers. The starting salary was announced in the Nikkei newspaper, and we have set our starting salary at the top level.

In addition, although this is a business entity called “dispatch,” there is a support system that allows an employee to work only in a limited area in the eastern, central, or western areas, or, if the employee so wishes, to change jobs or agents, mainly in the client company. Furthermore, in the case of the Company, employees join each group at HVG, WVG, and PVG, respectively, but after that, we design an internal recruitment program that allows transfers between groups based on their career advancement.

While we have developed these characteristics, it is still insufficient, but we are in a situation where we are working on how to win amid recruitment competition with other competitors rather than with manufacturers, and how to secure human resources in a way that resonates with Artner while designing the system to support recruitment.

Q: I recognize that the cost will rise according to the increase in career hires. Are the measures to generate profits against rising costs raising unit prices or reducing costs in the Medium-Term Business Plan?

A: Please see page 33 of the document. In this chart of the correlation between performance targets and key indicators in the current Medium-Term Business Plan, recruitment costs will increase to 660 million yen from 320 million. The cost of hiring as a percentage of net sales will increase to 5.7% from 3.5%. We simply show the correlation between cost and sales/profit, which is to absorb this cost increase and ensure an operating profit margin of 12.9% to 14.0%.

Q: Page 33 “Carbon neutrality” projects “the unit price of engineers increased by about 10% compared with other projects.” Does this mean that your clients understand the increase in the unit price of engineers?

A: The results show that projects related to “carbon neutrality” are about 10% more expensive per unit price of engineers than other projects. Based on that, we assume that if we can hire people who can be placed on the project, it is possible to secure the unit price of engineers.

Q: I think the unit price of engineers will increase if people involved in “carbon neutrality” join the Company this fiscal year, which will lead to an increase in profit margins. But is it difficult to raise the unit price of engineers this fiscal year because not many of those people have joined the Company? Are you looking at it conservatively?

A: Please see page 15 of the document. Gross margin was 34.6% in FY2022 and 33.3% in FY2023, a decrease from the previous fiscal year. For FY2023, we paid 180,000 yen per employee per year as a special payment in the form of an inflation allowance. Regarding these special allowances, we did not plan them in the FY2024 budget. In light of these special factors, we hope you will understand that our gross margin in FY2023 was strong enough to exceed 34.6% in the previous fiscal year.

Q: The forecast of financial results for the current fiscal year is for an operating profit margin of 13.5%, but will the profit margin go up with the assumption that expenses will increase due to strengthened hiring, while the utilization rate and the unit price of engineers will remain flat?

A: Even if the unit price of engineers goes up slightly, the factor that causes the gross margin to increase is the correlation between the cost and the unit price of engineers. To some extent, the base salary is based on seniority, so even if the unit price of engineers is the same, if the average age goes down, the ratio of net sales to cost, or gross margin, will rise. The result is that even a slight increase in the unit price of engineers has a positive impact on gross margin if the average salary is reduced by the increase in the number of engineers.

Q: Now that the world is experiencing inflation and wages are on the rise, is it difficult to raise the unit price of engineers at the moment? Is there room for an increase in negotiations with your clients?

A: The contract period for most customers is from April to March of the following year, and automatic renewal every three months is the contract system for the technician dispatch business. In this context, approximately 100% of customers requested renewal in or after April. Therefore, we are off to a good start in maintaining a high utilization rate in FY2024.

In this context, a sales representative reported that price negotiations with our clients are progressing more smoothly than usual in an environment of increasing wages. Therefore, we estimate at this point that the April renewal is expected to be at a cost per the unit price of engineers that is generally higher than planned.

Q: Workers' wages are on the rise, but if that trend continues, will Artner receive more fees from its clients and pay engineers more salaries?

How will Artner's margins change in the future as wage increases in the world progress?

A: All employees of the Company, with exceptions, are employed by Artner as full-time employees. With the exception of HVG of the performance-based salary system, wages are paid in accordance with Artner's Wage Rules regardless of the increase or decrease in the price of a contract with the customer. In this context, the idea is to maintain the margin ratio based on whether or not the base is increased and at what rate, considering the upward trend in the price of a contract.

Q: Engineers directly employed by manufacturers can benefit straight from the wage increase situation.

On the other hand, for Artner's engineers, direct employment by the manufacturer would seem more attractive if the wage increase was through Artner's Work Rules.

A: We think so, structurally. It is quite difficult in reality for us to guarantee an overall salary comparable to that of a manufacturer, so in the case of the Company, rather than enjoying a base increase, we have taken a stance of actively returning profits to engineers through bonuses and other measures.

Q: If the engineers can't directly benefit from the wage increase situation, will it affect the hiring plan in comparison with manufacturers?

A: We don't think every worker's values are based solely on salary, so it's important to know how rewarding it is, how the foundation for the worker's growth as an engineer is in Artner, and where the worker resonates. The idea is that we will win amid competition for employment for engineers who don't wish to be employed by manufacturers to consider our industry and choose Artner.

Q: As was the case a year ago and six months ago, I think the overall need for engineers in the manufacturing industry remains strong, but are there different levels of need in different industries?

A: By about the end of February, the client and the Company will confirm whether the contract will be renewed on or after April. We are in a situation where there is almost no cancellation of contract renewals in or after April due to customer reasons. Therefore, at this time, the fluctuations in human resource needs in the projects under the Company's placement is not being seen.

However, the assumption is that orders and demand for semiconductor-related products, especially for equipment manufacturers, will decline for a while in FY2023. The impact may vary in the future, depending on which areas of semiconductor manufacturing equipment-related projects involve engineers. The areas of development for next-generation semiconductors in semiconductor manufacturing equipment are expected to be less affected by economic trends, and the demand for engineers will increase continuously. On the other hand, a decline in orders for semiconductor manufacturing equipment is expected to have a short-term impact on contracts in or after July in the PVG area of the Company, which is close to field engineers and is an exit point for semiconductor manufacturing equipment installation adjustments, etc. At the moment, no one is expressing such opinions, but that could happen in the future. In this context, the degree of risk varies depending on the ratio of placement in the PVG area. Thanks to this, the Company has controlled itself with a ratio of placement that is less susceptible since the 2008 global financial crisis. Even if there were to be a decrease in human resource needs there, we control the number of personnel for placement to a level that we can adequately absorb.