

September 13, 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: How are you progressing toward recruiting 220 new graduates to join next April?

A: We hired 130 new graduates last spring, and we aim to hire 220 this year. In this market, the first stage of the recruitment process generally finishes in the end of September, before the job offer ceremony is held in October.

While I cannot provide specific figures, the number of jobs we offered as of the end of September exceeds last fiscal year's 130 hires. We are still shy of this year's 220 target. Some people will change their mind and decide to apply to the private sector instead of the public service, or decide to look for jobs instead of applying to graduate school. Such people will be resuming their job-hunting activities after October 1, and we will closely follow the situation. After October 1, we will carry out our recruitment activities until around the end of February to achieve our 220-person goal.

Our Medium-Term Business Plan's recruitment strategy emphasizes balancing the number of new graduate hires and career hires from a mid-term perspective. As the parameter will be increasing, securing the actual number will become very difficult if there is bias toward hiring new graduates. As such, our Medium-Term Business Plan places significant emphasis on balancing new graduate and career hires. While we are only halfway through, we are making progress toward our ambitious targets to secure career engineers through trial and error, staff increases, investments in fees, and other initiatives.

Q: The gross margin for the final year of the Medium-Term Business Plan is 37.6%. Why is it lower than pre-COVID-19 levels despite recent improvements? The market environment is favorable, and there is a focus on high-unit price projects. Are you accounting for increases in the hiring of people with relatively low unit prices? Is this a conservative estimate?

A: Please see page 33 in the reference material. Earlier I explained in relation to our approach to improving the gross margin for our engineer dispatching services. There are two major factors that directly affect the gross margin.

The first is how much the unit price per engineer will increase. The second relates to the breakdown of total work person-hours into regular and overtime work person-hours. If regular work person - hours rise, the gross margin will also rise. The current labor regulations and encouragement of paid leaves make it environmentally impossible to physically increase regular work person-hours. Therefore, increasing the unit price per engineer will become key to improving the gross margin.

Artner has been rolling budgets from the Medium-Term Business Plan. The gross margin of 37.6% is based on a number of factors taken together, such as the current situation for unit prices and the regular work person-hour trend. That being said, at present, increasing salaries is critical for securing talent. Naturally, an increase in the cost rate negatively impacts the gross margin. However, it is offset by rises in unit prices, and that is why the margin is 37.6%. Furthermore, our clients currently have a strong demand for engineers, so there is a supply-demand balance, and the unit price of new hires at their first assignments is rising significantly. This will have a positive impact on next year's financial results. Therefore, 37.6% is a relatively conservative figure at this point in time.

Q: What is driving up the unit price of newly graduated engineers? Was this year's sharp rise in unit prices unexpected?

A: The spread of COVID-19 in 2020 made assignments of existing engineers challenging compared to normal years. Therefore, we prioritized assignments over pricing, which resulted in a temporary decline in the average unit price. However, the unit price gradually began to recover from around 2022, and it has already exceeded pre-pandemic levels by the first half of 2023. Coupled with across-the-board wage increases and other impacts, unit price negotiations with clients for existing contracts progressed relatively smoothly in FY2024 compared to previous years, which led to an increase in the unit price of existing engineers.

As for the unit price of new hires at their first assignments, our sales strategy in the Medium-Term Business Plan is to focus on key clients, such as automobile-related manufacturers, automotive parts makers, and semiconductor manufacturing equipment manufacturers, and to prioritize the assignment of high-quality new hires to these clients. As a result, the assignment ratio increased, which drove up the unit price. Ultimately, we will need to ensure the quality and quantity of hires that meet our clients' needs. The 130 people we hired this fiscal year are of relatively high quality and can meet our clients' needs. For this reason, the assignment ratio increased, and the average unit price for new hires rose.

Q: In the Medium-Term Business Plan, your targets are 11.6 billion yen in net sales and 1,600 total number of engineers. However, won't your net sales be higher, considering the current increase in the unit price of engineers, total work person-hours, and utilization rate?

A: Achievement of the 11.6-billion-yen net sales target in the Medium-Term Business Plan is heavily reliant on having 1,600 engineers. If we do not reach this target, it will depend on how much we can mutually compensate through increases in operative personnel through a higher utilization rate and increases in engineer unit prices.

Therefore, securing 1,600 engineers will depend especially on career hires, which is the most

challenging, and the recruitment of new graduates to join in April of next year. Net sales assume this possibility of mutual compensation. That means that even if we do not achieve the target number of engineers, we will still be progressing toward the 11.6-billion-yen target. A major element of net sales is the number of personnel, so it will depend on how much we can compensate for any shortage in personnel through unit price increases or an increase in the number of operative personnel through utilization rates. We can expect increases in unit prices to directly translate into increases in the profit margin and gross profit.

Q: It appears that career hires are falling short of the target. Is this just a seasonality issue, or are you falling short of the target?

A: There is a shortfall. Whether we reach our target or not will depend on how many engineers we can supplement in the second half of the year. As I mentioned earlier, the Medium-Term Business Plan has set the target high: "balance recruitment of new graduates and career hires to have a stable foundation in the future." For this reason, we do not adjust recruitment targets based on the number of hires, especially for career hires. Our target seems like quite a stretch from the actual numbers. How many more career hires we can make through innovative efforts in the next three years and how we can carry the momentum forward to the next Medium-Term Business Plan will be key to meeting our target.