

II. Business Conditions

1 Management Policy, Business Environment, and Issues to be Addressed

The statements about the future in the text are judgments we made at the end of the fiscal year ended January 31, 2023.

(1) Management policy

Based on our management philosophy of being an Engineer Support Company, we are committed to serving as a technical partner that contributes to the sustainable growth of our clients. This basic stance, developed over many years, has built up a lot of trust and achievements, establishing our firm position as a pioneer in the industry.

We will continue to expand our corporate value by promoting management that will win the support and approval of our clients, shareholders, employees, and all other members of society.

(2) Corporate planning and strategy

(Guiding principle for the Medium-Term Business Plan)

“Build a foundation for sustainable and next-generation growth”

“Make Value for 2022 to 2024”

(Priority measures for the Medium-Term Business Plan)

(i) Promote strategies by segment

- Develop strategies for each segment (recruitment - education - assignment - system).
- Establish approaches to markets by segment.
- Explore and seek new specialist fields of technology.

(ii) Promote diversity and inclusion in talent management

- Utilize workers of retirement age, women, and foreign workers (overseas students) as personnel.
- Utilize and organize partner companies (set up a contracting system).

(3) Objective indicators for assessing the achievement status of management goals, etc.

In the engineer dispatching business, our main business, the following indicators are used. Net sales: the amount calculated by the number of operative personnel (number of engineers × utilization rate) × unit price of engineers × total work person-hours; cost of sales: labor costs for engineers assigned to our clients; and selling, general and administrative expenses: labor costs for engineers undergoing in-house training (standby status) and labor costs for other staffers.

We consider the engineer count, utilization rate, and unit price of engineers as particularly important management indicators, and will focus on efforts to improve them further.

(4) Business environment

For this fiscal year, the Japanese economy has slowly picked up in the “living with COVID” world. Due to factors such as the COVID-19 pandemic, the situation in Russia and Ukraine, and fluctuations in resource prices and exchange rates, some of our clients’ business results made a slightly downward swing, but our business environment did not receive any major negative impact. Looking ahead, in relation to the market environment for the fiscal year ending January 31, 2024, we expect that manufacturers will stay active in their development projects.

(5) Business and financial issues that should be prioritized

Our main business, which is the engineer dispatching business, consists of a cycle of recruitment, training, sales, and support activities. We must address the following issues for future business expansion.

(Recruitment activities)

We view securing and increasing the number of talented engineers as an essential requirement for the expansion of our business. Therefore, we will strive to secure high-quality talents that meet the market needs by implementing measures such as improving our recruitment criteria, securing recruitment opportunities, hiring diverse and inclusive talents, optimizing the composition of engineers by field and business domain, and optimizing the composition of new graduate and career hires.

With regard to the recruitment of new graduates, we will conduct company information sessions and interviews, etc., either online or in person, for students in order to secure participants in the selection process. We will also regularly provide detailed follow-ups to universities and prospective employees, and hold get-togethers for prospective employees in an effort to increase the percentage of prospective employees who join the Company.

(Training activities)

We will improve the skills of our engineers by providing general, external, basic, customized, and/or career training based on our long-accumulated experience.

In addition, we will strive to improve the technical and human skills of our staff by holding skill development seminars for all employees and human development training for managers.

(Sales activities)

We will secure and expand our business partners by strengthening our new business development and sales capabilities, utilizing online conferencing tools, and making proposals for the selection of engineers, team dispatching, and organization of contracting services in response to client needs.

In addition, we will negotiate with client companies to assign and place appropriate engineers for improved business terms and conditions, such as an increase in the unit price of engineers.

(Support activities)

Through regular interviews with engineers, including online meetings, we will strive to improve the retention rate by providing guidance and advice according to the engineers' wishes and actual conditions, and by providing dedicated counselors for improved mental health and motivation.

2. Business and Other Risks

Of the matters regarding business conditions and financial information included in the Annual Securities Report, those that may have a material impact on investors are stated below.

Please note that the statements about the future in the text are judgments we made at the end of the fiscal year ended January 31, 2023.

(Performance trends in the manufacturing industry)

Our major clients belong to the manufacturing industry, and we dispatch engineers primarily to their design and development departments. If these major clients were to reduce their capital investments, R&D costs, and the use of external engineers due to economic recession and other factors in the countries or regions in which they operate, our financial status and business performance may be affected.

In addition, if significant changes in the business environment take place for automobile-related manufacturers, which account for a large share of our sales, our financial status and business performance may be affected.

(Competition with other companies in the industry)

If competition with other companies intensifies due to market contraction or new entrants in the engineer staffing industry, where we operate our business, and this results in a fierce price competition, our financial status and business performance may be affected.

(Effectiveness of education and training)

We strive to improve the skills of our engineers by providing training programs that have been developed based on many years of experience. However, if the training does not turn out to be as effective as expected and the unit price of engineers does not increase due to low customer satisfaction, and/or if we fail to satisfy the requests from clients and they start to make complaints, our financial status and business performance may be affected.

(Securing suitable clients for our dispatching business)

Although we always strive to secure and expand our clients for our engineer dispatching business, if we are unable to find suitable clients that match our engineers and cannot maintain or improve the unit price of engineers and/or utilization rates, our financial status and business performance may be affected.

(Regulations on total work person-hours)

The total work person-hours of our engineers is determined based on the business conditions of the client company. If the revisions to relevant laws and regulations generate a larger pressure against long working hours, which may result in a significant decrease in the total work person-hours of engineers, our financial status and business performance may be affected.

(Securing science and engineering graduates)

We consider science and engineering graduates to be an important managerial resource, but if the population of science and engineering graduates were to decrease due to the declining birth rate and other factors, making it significantly more difficult to hire talented graduates, our financial status and business performance may be affected.

(Securing career engineers)

We consider engineers with work experience to be an important managerial resource. However, if the competition to secure career hires intensifies due to a shortage of engineers who wish to change jobs as a result of booming design and development activities in the manufacturing industry, making it significantly more difficult to hire talented career engineers, our financial status and business performance may be affected.

(Information management)

By introducing measures such as acquiring the "PrivacyMark," we have been committed to properly managing personal information,

confidential information, and all other information obtained in the course of our business operations. However, if such information is leaked to outside parties for some reason, our social credibility will be damaged, and our financial status and business performance may be affected.

In addition, although we take appropriate security measures to ensure the stable supply of our services, system failures and other problems may be caused by computer viruses, unauthorized access, natural disasters, or other unforeseen events, and in such cases, our financial status and business performance may be affected.

(Laws, regulations, licenses, and permits)

The following laws and regulations apply for each of our business categories:

(i) Worker dispatching business

Dispatching of engineers, which is our main business, is carried out under the license from the Minister of Health, Labour and Welfare as described below, based on the Act on Securing the Proper Operation of Worker Dispatching Businesses and Protecting Dispatched Workers (hereinafter referred to as “Worker Dispatching Act”):

License name	Supervisory authority	License number	Licensed date	Expiration date
Worker dispatching business	Ministry of Health, Labour and Welfare	派 27-020513	December 1, 2003	November 30, 2026

We consider compliance with the Worker Dispatching Act and relevant laws and regulations to be one of our highest priorities, and strive to maintain a legal compliance system by monitoring compliance with laws and regulations via internal audits and by regularly confirming compliance with laws and regulations at different meetings. However, in the unlikely event that we violate such laws and regulations, which would hinder the continuity of our business, our financial status and business performance may be affected.

In addition, Article 14 of the Worker Dispatching Act stipulates that if a dispatching business operator falls under any of the disqualification grounds provided in Article 6 of the Worker Dispatching Act (main possible grounds: if the Company is sentenced to imprisonment or more, or is sentenced to a fine for violating the Labor Standards Act, the Worker Dispatching Act, the Employment Security Act or other labor-related laws, or the Health Insurance Act, the Employment Insurance Act or other laws, or for committing a crime under the Penal Code, the Immigration Control and Refugee Recognition Act or other laws, and five years have not passed from the date on which the execution of the sentence is completed or the sentence is no longer executed; or if the Company becomes an adult guardian or warrantee, or goes bankrupt and has not had its rights restored, etc.) or violates the Worker Dispatching Act and the Employment Security Act, the business operator shall be ordered to have its business license canceled or its operations suspended. However, there are no such disqualification grounds applicable to us at this time. However, in the unlikely event that we violate such laws and regulations and are ordered to have our business license canceled or our operations suspended, it may become difficult to continue our business, and our financial status and business performance may be affected.

The Worker Dispatching Act and other relevant laws and regulations are being revised from time to time by means of adding modifications in response to changes in the labor environment, social conditions, and other factors.

We take appropriate measures whenever such laws and regulations are revised. However, if any such revisions made are significantly unfavorable to our business, our financial status and business performance may be affected depending on the details of the revised laws and regulations.

(ii) Paid employment agency business

Our paid employment agency business is conducted under the license from the Minister of Health, Labour and Welfare as described below, based on the Employment Security Act:

License name	Supervisory authority	License number	Licensed date	Expiration date
Paid employment agency business	Ministry of Health, Labour and Welfare	27-コ-020355	February 1, 2004	January 31, 2027

Article 32-9 of the Employment Security Act stipulates that if a provider of paid employment placement services (including its executives in case of a company) falls under any of the disqualification grounds as a paid employment agency business (if the Company is sentenced to imprisonment or more, or is sentenced to a fine for violating the Labor Standards Act, the Employment Security Act, the Worker Dispatching Act, or other labor-related laws, or for committing a crime under the Penal Code, the Immigration Control and Refugee Recognition Act or other laws, and five years have not passed from the date on which the execution of the sentence is completed or the sentence is no longer executed; or if the Company becomes an adult guardian or warrantee, or goes bankrupt and has not had its rights restored, etc.), or violates the Employment Security Act and the Worker Dispatching Act, the service provider shall be ordered to have its business license canceled or its operations suspended. However, there are no such disqualification grounds applicable to us at this time. However, in the unlikely event that we violate such laws and regulations and are ordered to have our business license canceled or our operations suspended, it may become difficult to

continue our business, and our financial status and business performance may be affected.

In addition, if such laws and regulations are revised in the future and if any such revisions made are significantly unfavorable to our business, our financial status and business performance may be affected.

(Disasters, accidents, etc.)

We have established a manual to deal with natural disasters, man-made disasters, and other disasters and accidents (hereinafter referred to as “Disasters, etc.”) in an effort to minimize the damage. However, if any Disasters, etc. that significantly exceed our prediction take place, our financial status and business performance may be affected.

In addition, in the event that our business activities are hindered as a result of the spread of COVID-19 infections and other factors, our financial status and business performance may be affected.

(Climate change)

In the event that our business activities are halted or stagnated as a result of our facilities being damaged by natural disasters due to climate change, our financial status and business performance may be affected.

In addition, if a carbon tax is introduced or environmental regulations are tightened as part of the government’s effort to transition to a decarbonized society, and if we are unable to offer personnel that meets our clients’ demands for engineers committed to carbon neutrality initiatives, our financial status and business performance may be affected.

(Mergers and acquisitions)

We have a policy of conducting mergers and acquisitions (M&A) to acquire new areas of expertise and technology with an aim to increase sales and revenues through expanding the scale of our business. Our M&As are implemented after thorough consideration of the risks involved by conducting preliminary research through detailed due diligence on market trends and client needs, as well as the financial status and contractual relationships of the target company. However, M&As may result in significant capital demands and amortization of goodwill, etc. In addition, such M&As may not necessarily generate synergies as expected by us. If the business performance does not progress as expected due to major changes in the business environment or business conditions, goodwill impairment losses or valuation losses on shares may arise, and our financial status and business performance may be affected. Also, when a new business that we have not been engaged in previously is added to our portfolio through M&As, additional risk factors specific to that business domain will emerge.

(Medium-Term Business Plan)

In March 2022, we announced our new Medium-Term Business Plan “Build a foundation for sustainable and next-generation growth — Make Value for 2022 to 2024,” which concludes in the fiscal year ending January 31, 2025, and have been promoting specific measures accordingly. However, as the Medium-Term Business Plan is based on the outlook of the market environment and economic conditions at the time the plan was formulated, there is a possibility that the numerical business targets may not be achieved in the event that the market environment or economic conditions change dramatically beyond expectations and the business environment does not develop as predicted.

(Prime Market listing maintenance criteria)

We selected the Prime Market for our new market segment, applied since April 2022 by Tokyo Stock Exchange, Inc. However, we do not meet the listing maintenance criteria for the Prime Market on tradable share market capitalization as of January 2023. We are committed to taking necessary measures to meet the listing maintenance criteria by the fiscal year ending January 31, 2025. However, depending on our financial status and business performance as well as the market environment and economic conditions, we may not be able to meet the Prime Market’s listing maintenance criteria by the fiscal year ending January 31, 2025.

3 Management Analysis of Financial Status, Business Performance and Cash Flows

(1) Overview of business performance and other conditions

Artner’s financial status, business performance, and cash flows (hereinafter referred to as “financial performance and other conditions”) for the fiscal year ended January 31, 2023, are summarized as below.

(i) Financial status and business performance

For this fiscal year, the Japanese economy has slowly picked up in the “living with COVID” world. Due to factors such as the COVID-19 pandemic, the situation in Russia and Ukraine, and fluctuations in resource prices and exchange rates, some of our clients’ business results made a slightly downward swing, but our business environment did not receive any major negative impact.

The automobile industry, which is our major client, is working to achieve carbon neutrality in 2050 as well as technological innovation (e.g., CASE technologies). With software being created for these purposes, demand for semiconductors is rapidly growing. The industries involved in all these efforts have been in a business environment that allows them to accelerate

development, regardless of the latest economic trends. Hence, there was enormous demand for engineers available from us. In these circumstances, we turned out to have more employees in operative personnel than the same period last year because the number of engineers we have in our engineer dispatching business increased. In addition, the increase is attributable to the facts that the utilization rate remained high as demand for engineers recovered, and that newly graduated engineers who joined us in 2022 were assigned to their work ahead of the initial schedule. Furthermore, the unit prices of engineers are on the rise. This fiscal year saw a slight increase year on year. The total work person-hours slightly decreased year on year.

The contracting business actively engaged in sales activities. Consequently, we had a larger number of engineers assigned to outsourced projects.

In regard to profits, as means to process our engineers' labor costs, we record the costs of engineers as SG&A expenses when they are not yet assigned to client companies, and as cost of sales after they are assigned. With more engineers assigned to projects, SG&A expenses as labor costs decreased and cost of sales increased. However, while SG&A expenses as labor costs dropped, the expenses slightly increased because recruitment and travel expenses rose as our recruitment and sales activities became active again.

As a result of all this, our financial status and business performance for this fiscal year are as stated below.

a. Financial status

The total assets at the end of this fiscal year increased JPY 584,205 thousand compared to the end of the previous fiscal year to JPY 5,673,188 thousand.

The total liabilities at the end of this fiscal year increased JPY 118,493 thousand compared to the end of the previous fiscal year to JPY 1,625,230 thousand.

The total net assets at the end of this fiscal year increased JPY 465,711 thousand compared to the end of the previous fiscal year to JPY 4,047,958 thousand.

b. Business performance

Net sales for this fiscal year totaled JPY 9,242,360 thousand (up 14.1% year on year), operating profit JPY 1,194,108 thousand (up 18.2% year on year), ordinary profit JPY 1,203,054 thousand (up 16.5% year on year), and profit JPY 895,148 thousand (up 22.8% year on year).

(ii) Cash flows

Cash and cash equivalents (hereinafter referred to as "cash") at the end of this fiscal year increased JPY 421,681 thousand compared to the end of the previous fiscal year to JPY 3,975,881 thousand.

Cash flows for the fiscal year and factors therein are as stated below.

(Net cash provided by (used in) operating activities)

The cash gained as a result of operating activities totaled JPY 872,598 thousand (up JPY 101,662 thousand year on year). This is mostly because we recorded JPY 1,203,054 thousand in profit before income taxes, whereas we also recorded JPY 399,953 thousand in income taxes paid. (Net cash provided by (used in) investing activities)

The cash used as a result of investing activities totaled JPY 24,085 thousand (the same period of the previous year saw a gain of JPY 33,643 thousand). This is mostly because we recorded JPY 10,154 thousand in payments of leasehold and guarantee deposits.

(Net cash provided by (used in) financing activities)

The cash used as a result of financing activities totaled JPY 426,831 thousand (up JPY 156,793 thousand year on year). This is because we recorded JPY 426,831 thousand in dividends paid.

(iii) Records of production, orders received, and sales

a. Record of production

A record of production has been omitted because the mainstay of our business consists of software, electronics, and machine engineer dispatching services, which, based on the nature of services provided, are not fit to be presented for a production record.

b. Record of orders received

A record of orders received has been omitted because orders received are almost equal to sales in terms of monetary amounts due to how our business works.

c. Record of sales

Sales results by business category for this fiscal year are as shown below.

Business Category	FY2023 (Fiscal year ended January 31, 2023)	
	Amount (thousands of yen)	YoY (%)
Engineer Dispatching Business	8,413,395	112.3
Contracting Business	794,627	132.7
Other businesses	34,337	256.4
Total	9,242,360	114.1

Notes: 1. Since we have only one reportable segment, the figures are sorted by business category.

2. The table below shows sales results sorted by major client and percentages they make up of overall sales for the last two fiscal years.

Client	FY2022 (Fiscal year ended January 31, 2022)		FY2023 (Fiscal year ended January 31, 2023)	
	Amount (thousands of yen)	Percentage (%)	Amount (thousands of yen)	Percentage (%)
Honda Motor Co., Ltd.	826,783	10.2	1,051,753	11.4
Honda R&D Co., Ltd.	1,017,018	12.6	895,763	9.7

(2) Analysis and discussion of the state of business performance and other conditions from the perspective of the management

The management of Artner understands, analyzes, and discusses the Company's business performance and other conditions as stated below.

Please note that the statements about the future in the text are judgments made at the end of the fiscal year ended January 31, 2023.

(i) Significant accounting estimates and assumptions used in the estimates

Artner prepares its financial statements based on accounting standards that are generally accepted as fair and appropriate in Japan. The significant accounting policies we have used to prepare the financial statements are as stated in "V. Financial Information 1. Financial Statements and Other Documents (1) Financial statements." The financial statements and other documents include projections, which is based on our decision as of the end of the fiscal year ended January 31, 2023. We made these projections based on logical judgments that consider results in the past. However, since estimates are by their nature uncertain, results may turn out to differ from the projections.

(ii) Understanding, analysis, and discussion of the state of business performance and other conditions for the fiscal year ended January 31, 2023

a. Business performance

(Net sales)

We turned out to have more employees in operative personnel than the same period last year because the number of engineers we have in our engineer dispatching business increased. In addition, the increase is attributable to the facts that the utilization rate remained high as demand for engineers recovered, and that newly graduated engineers who joined us in 2022 were assigned to their work ahead of the initial schedule. Furthermore, the unit prices of engineers are on the rise. This fiscal year saw a slight increase year on year. The total work person-hours slightly decreased year on year. As a result of all this, net sales for this fiscal year increased 14.1% year on year to JPY 9,242,360 thousand.

(Operating profit, ordinary profit, and profit)

As means to process our engineers' labor costs, we record the costs of engineers as SG&A expenses when they are not yet

assigned to client companies, and as cost of sales after they are assigned. With more engineers assigned to projects, SG&A expenses as labor costs decreased and cost of sales increased. However, while SG&A expenses as labor costs dropped, the expenses slightly increased because recruitment and travel expenses rose as our recruitment and sales activities became active again. As a result of all this, operating profit for this fiscal year increased 18.2% year on year to JPY 1,194,108 thousand, ordinary profit increased 16.5% year on year to JPY 1,203,054 thousand, and profit increased 22.8% to JPY 895,148 thousand.

b. Financial status

(Assets)

The total assets at the end of this fiscal year increased JPY 584,205 thousand compared to the end of the previous fiscal year to JPY 5,673,188 thousand. This is mostly because we recorded an increase of JPY 421,681 thousand in cash and deposits and an increase of JPY 118,368 thousand in trade receivables.

(Liabilities)

Liabilities at the end of this fiscal year increased JPY 118,493 thousand compared to the end of the previous fiscal year to JPY 1,625,230 thousand. This is mostly because we recorded an increase of JPY 92,111 thousand in provision for retirement benefits.

(Net assets)

Net assets at the end of this fiscal year increased JPY 465,711 thousand yen compared to the end of the previous fiscal year to JPY 4,047,958 thousand. This is mostly because we recorded an increase of JPY 464,813 thousand in retained earnings.

c. Sources of capital and liquidity of funds

The cash we have demand for is primarily to cover personnel expenses for engineers we dispatch to client companies. As a rule, we allocate our own funds to working capital, funds for equipment, and other required funds. Yet we also turn to borrowings from a bank to raise capital if the situation demands.

The state of cash flows is as stated in “II. Business Conditions 3 Management Analysis of Financial Status, Business Performance and Cash Flows (1) Summary of business performance and other conditions (ii) Cash flows.”

The table below shows indicators related to our cash flows.

	FY2019	FY2020	FY2021	FY2022	FY2023
Equity ratio (%)	71.5	71.8	70.5	70.4	71.4
Market value-based equity ratio (%)	300.1	230.9	206.9	181.4	186.7
Ratio of cash flows to interest-bearing liabilities (year)	—	—	—	—	—
Interest coverage ratio (times)	16,772.7	—	—	7,849.9	6,663.8

Equity ratio: $\text{Equity} / \text{Total assets}$

Market value-based equity ratio: $\text{Market capitalization} / \text{Total assets}$

Ratio of cash flows to interest-bearing liabilities: $\text{Interest-bearing liabilities} / \text{Operating cash flow}$ Interest coverage ratio: $\text{Operating cash flow} / \text{Interest payments}$

Notes: 1. The calculation of market capitalization is based on the number of shares issued, excluding treasury shares.

2. The ratios of cash flows to interest-bearing liabilities are not shown because there are no year-end interest-bearing liabilities.

3. The interest coverage ratios for the fiscal year ended January 2020 and the fiscal year ended January 2021 are not shown because there were no interest payments.

d. Factors that may have a material impact on business performance

In regard to factors that may have a material impact on business performance, we are aware that our business environment, business fields, how we operate our businesses, and a variety of risk factors may have a material impact on our business performance, as stated in “II. Business Conditions 2. Business and Other Risks.”

Therefore, while keeping an eye on market trends at all times, we plan to strengthen our internal management structure, hire and retain talented employees, and offer services designed to match market needs, thereby diversifying and reducing risks that may have a material impact on our business performance and taking appropriate actions.

e. Objective indicators for assessing management policies, corporate planning and strategies, and the achievement status of management goals

Our Medium-Term Business Plan has defined the engineer count of 1,600 as a particularly important indicator, and we focus on further efforts accordingly. With new graduates and career engineers who joined us this fiscal year, the term-end engineer count totaled 1,157 (up 84 year on year).

4 Important Business Contracts

Not applicable.

5 R&D Activities

Not applicable.