

March 16, 2025 - Briefing for Individual Investors

Key Questions and Answers

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

Q: President Trump of the U.S. has criticized Japan over its automobile trade, expressing dissatisfaction with the low volume of U.S. automobile imports. Your company's clients are automobile manufacturers. Will this matter have any impact on your financial results?

A: President Trump is currently pursuing various automobile-related deals, including tariff increases. While the final tariff rate has not yet been determined, if tariffs do rise compared to the current levels, it naturally raises concerns about their potential impact on profits, which will depend on both the cost of automobiles and whether those costs can be passed on to prices.

Artner is an engineer dispatching company with upstream processes making up a large share of our business. The circumstance that led to the creation of this business model was the 2008 financial crisis. At that time, we needed to shift to a business model that would not be susceptible to our clients' deteriorating financial results as much as possible, even during sudden economic downturns. Therefore, we sought to transform our business structure—originally weighted toward downstream processes—into the business model we have today in which over 80% of our engineers are placed in upstream and midstream processes. Our business structure has evolved into the current business style, one that can mitigate the impact as much as possible when the financial results of our clients deteriorate.

Against this backdrop, while we cannot say that there will be no impact on the Company if President Trump's policies worsen the financial results of automobile-related manufacturers, which are our main clients, we expect any impact to be extremely limited. The reason is that, today, such manufacturers address societal issues, including reducing CO₂ emissions, which are often outside the scope of R&D cost cuts. Since a large proportion of our engineers are placed in these fields, we forecast that our clients may experience deterioration in financial results, but that its impact on the Company will be minimal.

Q: The number of engineers in January 2025 was 1,251, falling short of the 1,600 target in the previous Medium-Term Business Plan. What were the causes of this shortfall, and what measures are being taken to achieve the target?

A: As you indicated, we fell short of the 1,600 target in the previous Medium-Term Business Plan by approximately 350 engineers. One of the indicators that affect the number is the turnover rate—that is, how many engineers resigned. The term-end personnel count is determined by the number of resignations and the number of hires. Since our turnover rate has generally hovered around 10% annually, it cannot be said that the turnover rate was the cause of the shortfall. We believe that the shortfall in hires led to the shortfall in personnel count.

Our recruitment efforts are twofold: new graduate hires and career hires. Both fell short of their targets in the previous Medium-Term Business Plan, resulting in the shortfall in January 2025.

As you are aware, amid the current labor and employment environment, including a declining working population, competition for engineers is becoming increasingly intense. Basically, new graduate hires refer to the recruitment of students who graduated from science and engineering, engineering, and science faculties, while career hires refer to those who graduated from engineering and science faculties and are joining Artner with previous work experience. Manufacturers and technical service companies in the same industry compete in the hiring market for students who graduated from engineering and science faculties. As competition to hire students became highly intense, we were ultimately unable to outperform our rivals. In light of this, under our new Medium-Term Business Plan, we will increase the budget and proactively implement comprehensive measures, including reinforcing our recruitment staff and overhauling our recruitment methods, and strive to makeup for the shortfall in the previous Medium-Term Business Plan. Since the number of engineers is the most critical indicator in our business, we intend to further strengthen our recruitment efforts in the new Medium-Term Business Plan.

Q: I believe the unit price of engineers has a significant impact on net sales. How is the unit price determined in negotiations with clients?

A: At Artner, the company-wide unit price of engineers is determined through three ways. Firstly, when it is time to renew contracts for engineers who are dispatched to clients, the unit price is negotiated to continue the contract. Secondly, when a project ends, the unit price for reassigning engineers to the next project is determined. The third is the unit price for the first assignments of newly graduated engineers and career hires joining the Company in the current fiscal year. These three elements together determine the ultimate company-wide unit price of engineers. In the first way, where the unit price is determined during contract renewal negotiations, the client assigns engineers a grade of some form based on a comprehensive evaluation of their performance over the past year and improvement in skills. Artner assesses the engineer's market value internally and proposes to the client what we believe to be an appropriate unit price for that engineer. The unit price for the following year is then determined through final negotiations, based on the evaluation and market valuation by Artner and the client. In the second way, involving reassigning an engineer to the next project after a project ends, we determine the engineer's market value and submit a quotation to the client. If Artner and the client can come to an agreement on the price through negotiations, the staffing agreement is executed. In the third way, which is the initial unit price of engineers for their first assignments in the current year, we use the previous year's price as a benchmark and set the unit price of first assignments that does not fall below it. We then dispatch engineers to clients that approve this value.

(The following are responses to questions that could not be answered on March 16 due to time constraints.)

Q: The engineer turnover rate has been in the double digits for around the past five years. Could you talk about what you are doing to lower it?

A: Our turnover rate is currently hovering around 10% annually. Approximately 2 to 3% of them are engineers who left the Company through our job change assistance program. Therefore, the actual turnover rate is approximately 7 to 8%.

Regarding our retention measures, first of all, we are continuing to strengthen our education and training programs. In addition, we aim to offer engineers more rewarding work and channel the resulting profits into wages and bonuses, thereby increasing annual salaries. By continuing to create this positive cycle, we will strive to enhance engineers' sense of fulfillment and purpose in life, and in turn, lower the turnover rate.

Q: There are quite a few competing companies in the engineer dispatching industry. How is doing business with your company better than doing business with other companies?

A: Artner started this business in 1962. No other listed companies in the same industry have a history longer than ours. I believe it is not an exaggeration to say that we are pioneers in the engineer dispatching business. We have built a solid position in this industry for over 60 years through our achievements and by earning the trust of our clients. This is an undeniable fact and constitutes a value of the Company.

Compared to other companies in the same industry, we have a higher project participation rate in high-level technology fields, including upstream and midstream processes. This is an advantage of the Company and something we should continue to maintain. Notably, our main clients in industries related to automobiles and semiconductor manufacturing equipment sectors view Artner as a go-to brand for quality engineers. This is a value we must continue to uphold. Such an image is based on our strength in being able to provide a continuous and stable supply of talent, and it is our mission to keep meeting this expectation.

Q: Which industries does the Company excel in?

A: Our strengths are in automobile-related industries and the semiconductor manufacturing equipment industry.

Q: It has been reported that automobile manufacturers are facing poor financial results. Is this having any impact on your business?

A: If the number of vehicles sold by major automobile manufacturers decreases and their financial results are negatively impacted, it is anticipated that R&D budgets would be constrained and demand for our engineers would decline. However, no such trends have been observed at this point in time. Manufacturers in industries related to automobiles have large R&D budgets and demand our engineers based on their pace of development.