

FAQs for the Third Quarter of FY3/2022

February 4, 2022

UT Group Co., Ltd.

Consolidated financial results

Q1 What are the main factors behind achieving significant new record-highs in sales and the number of technical employees?

A In order to respond quickly to strong personnel demand, particularly in the automotive-related sector and the semiconductors and electronic components sector, which have been recovering rapidly since 2H FY3/2021, we have strategically strengthened hiring activities and working to Maximize the technical workforce by March 2022. This is based on our decision to further expand our share in the manufacturing worker dispatch industry by responding firmly to demand at the time of a rapid recovery in production activities, after those activities were temporarily depressed due to the COVID-19 impact in FY3/2021.

In the first nine months of FY3/2022, as a result of aggressive hiring activities in response to the vigorous demand for personnel as described above, we hired 13,219 employees in domestic business and has achieved a record high in the number of domestic tech employees and a significant increase in sales. In addition, we made acquisitions according to the Area Platform Strategy of the Fourth Medium-Term Management Plan. In May 2021, we purchased all shares of Progress Group Co., which fully owned Progress Co., and all shares of SURI-EMU Corporation, which fully owned SURI-EMU Chubu Co., SURI-EMU Tokai Co., and SURI-EMU Staff Co. These newly-consolidated companies contributed to sales growth. Moreover, we consolidated On October 1, 2021, Fujitsu FSAS Creative Inc. (renamed to UT FSAS Creative Co., Ltd.), a worker dispatch company of the Fujitsu FSAS Group, as a part of efforts to promote our Solution Strategy of the Fourth Medium-term Business Plan.

As a result, the number of technical employees increased significantly to 30,516, up 35.8% y-o-y and up 6.3% q-o-q. Quarterly sales amounted to 41.4 billion yen, up 39.9% y-o-y and up 10.8% q-o-q. Sales for the first nine months were 113.9 billion yen, up 37.9% y-o-y.

* The number of technical employees stated above does not include overseas employees.

Q2 Will you explain factors for y-o-y and q-o-q increases in profit for the third quarter?

A The profit increase was due to increases in sales and gross margin. Despite an increase in cost of sales associated with promotion of hiring activities, gross margin improved to 18.8% in 3Q, thanks to the upward adjustment of contract unit prices and other positive developments, driven by our strengthened relationships with client companies on the back of our overwhelming personnel hiring capacity.

Q3 Please explain the status of your orders.

A In the semiconductor and electronics components sector, production of semiconductor manufacturing equipment and devices is expanding due to an increase in demand for semiconductors for automobiles and demand related to the next-generation wire communication standard 5G, and the global shortage of semiconductors worldwide further accelerated, leading to a tight semiconductor supply and demand balance. Semiconductor manufacturing equipment manufacturers and semiconductor manufacturers devoted strong efforts to rapidly boost their production capacity, which resulted in a robust demand for personnel. Meanwhile, in the automotive-related sector, some major automakers have made production adjustments since August 2021 due to a shortage of materials and components, caused by the lockdown in some ASEAN countries. However, personnel demand was not affected as demand for finished vehicles remained strong and production normalization at an early stage was expected.

In terms of the domestic employment situation, while the jobs-to-applicants ratio for all industries has been at a low level (1.14 times in December 2021), the same ratio for the production process rose to 1.86 times, which is a level last seen in 2018, further increasing the tight supply and demand balance for personnel in manufacturing. Hiring has become more and more difficult in the manufacturing industry, and we believe that it will be the extent that we can further increase the number of technical employees in this phase that will be the key to market share expansion over the medium term.

Q4 How about the status of your hiring activities?

A At the time of the announcement of the earnings forecast in May 2021, our plan was to heavily allocate hiring expenses and to strengthen hiring activities in 1H, when demand was definitely expected to be strong. However, the status of orders received has been very strong, mainly in the automotive-related sector and the semiconductors and electronic components sector, and at the moment the level of our back orders is high. We have therefore revised our initial hiring plan and have decided to continue strengthening hiring activities in 2H.

In response to the above-mentioned order situation, we have greatly strengthened the recruitment organization that had been downsized up to 1H FY3/2021 due to the COVID-19-driven reduction in personnel demand, and have focused on hiring activities since 2H FY3/2021. Driven mainly by increases in the automotive-related sector and the semiconductors and electronic components sector, we hired 13,219 technical employees and 1,468 per month on average in the first nine months of FY3/2022, greatly exceeding our FY3/2022 goal of normalizing the monthly hiring of 1,000. A turnaround to a sharp growth has been mainly driven by the Manufacturing Business, which experienced sluggish demand for tech employees due to COVID-19 in 1H FY3/2021, and our aggressive hiring activities have led to accelerating the momentum for market share expansion.

Q5 Was a decline in operating profit in line with your plan?

A In response to the above-mentioned strong demand, we have been strategically strengthening hiring activities in FY3/2022 and posted hiring expenses of 1.2 billion yen in 1Q, 1.6 billion yen in 2Q, and 1.6 billion in 3Q. The hiring expenses for the first nine months increased by 3.2 billion yen compared to those of 1.2 billion yen for the same period of FY3/2021 during the COVID-19 pandemic. In addition, we have actively conducted M&A activities based on the Area Platform Strategy and the Solution Strategy and the newly-consolidated operating companies boosted SG&A expenses by 1.7 billion yen. These factors have resulted in a decline in operating profit, which, however, is in line with our plan.

Q6 Tell me about the status of the new consolidation.

A In May 2021, Progress Group, Progress Co., SURI-EMU Corporation, SURI-EMU Chubu, SURI-EMU Tokai, and SURI-EMU Staff were newly consolidated. This is based on the "Area Platform Strategy," which is positioned as one of important strategies in the Fourth Medium-Term Management Plan. We acquired these companies to strengthen our business base in the area and create a stable employment environment. All of these companies are mainly located in the Tokai region, where the automotive industry and other major manufacturing industries are concentrated. Together with UT Aim, one of our Group's largest operating companies, the two groups will work to develop their businesses using their respective operating, client, and hiring bases. We will thereby deepen and expand our career platform in the area.

On October 1, 2021, Fujitsu FSAS Creative Inc. (renamed to UT FSAS Creative Co., Ltd.) was newly consolidated. This is also based on our Solution Strategy of the Fourth Medium-term Business Plan. (See Q16 for details.)

Q7 What are the factors behind the sales increase and the profit decline?

A In the Manufacturing Business, the order booking situation was favorable as major automakers were increasing their requirements of personnel for the anticipated normalizing production following then-current production adjustments, and personnel demand continued to be strong in the semiconductor and electronic component-related sector. In order to respond quickly to the strong personnel demand of client companies, the segment carried out aggressive hiring activities and greatly increased the number of technical employees.

In addition, with the aim of deepening and expanding the area career platforms, six companies of two local worker dispatch groups, centered in Aichi Prefecture, became UT Group's consolidated subsidiaries. At the end of May 2021, UT Group acquired all shares of Progress Group, Inc., which fully owned Progress Co., Ltd., and of SURI-EMU Corp, which fully owned SURI-EMU Chubu Co., Ltd., SURI-EMU Tokai Co., Ltd. and SURI-EMU Staff Co., Ltd. These acquisitions contributed to an increase in sales.

On the cost side, SG&A expenses increased due to the strategic investment in hiring-related expenses and an increase in personnel expenses associated with the new consolidation. We allocated 3.7 billion yen of 4.4 billion yen in hiring-related expenses to the Manufacturing Business and promoted a strategy to quickly increase our share.

Q8 Were you affected by cuts in automobile production?

A In the automotive-related sector, some major automakers made production adjustments due to a shortage of materials and components, caused by the lockdown in some ASEAN countries, and a global shortage of semiconductors. As reported in the press, the production cuts have had an impact since August, and UT Group received its largest impact in September. The impact varied by automaker and production line, but the workplaces where we dispatch workers closed for a period of one day to two weeks, and UT's technical employees dispatched to these places took days off or had their work days transferred. In addition, even on production lines that did not stop operating, there was a reduction in operating time, such as a reduction in overtime hours and rest time. A similar impact has continued up to the present but the degree of impact peaked in September 2021 and has since been declining.

The current demand for finished vehicles is very strong, and our major automotive client companies have secured personnel, as they had been short of personnel even before the COVID-19 pandemic and were expecting early normalization of production in the future. Therefore, there was no impact on UT Group's business, such as a decline in personnel demand. Rather, the number of dispatched workers from UT Group in the automotive-related sector has continued to increase, and personnel demand is expected to remain strong.

Q9 Will you tell us the current status of operations?

A In the Manufacturing Business, all of work days, overtime hours and holiday work hours decreased in 3Q FY3/2022, unlike 3Q (October to December) of normal years when the hours of operation are seasonally the greatest in the year, mainly due to production adjustments at major automakers.

Q10 How is the status of the semiconductors and electronic components sector and the automotive-related sector?

A In the semiconductors and electronic components segment, Quarterly sales exceeded 9.0 billion yen (increased 22.5% y-o-y and 5.1% q-o-q). Both on a y-o-y basis and on a q-o-q basis, transactions in semiconductor manufacturing equipment, semiconductor manufacturing, and electronics and devices increased across the board.

In the automotive-related sector, some of you might have been concerned about the impact of the production cut but sales increased 54.1% y-o-y and 19.4% q-o-q. The sector actually posted record-high quarterly sales, which exceeded 8.0 billion yen. We were able to increase

transactions with our largest and medium-sized clients in auto assembly and auto parts manufacturing.

Q11 What are “Other” sector which recorded growth?

A The “Other” sector includes subsidiaries that have joined UT Group via acquisition, based on the Area Platform Strategy. Quarterly sales in “Other” sector increased by 76.4% y-o-y due to an organic growth and a significant contribution by Progress Group and SURI-EMU (consolidated in 1Q FY3/2022).

Q12 What are the factors behind the decline in the number of technical employees abroad?

A Our overseas business results are comprised of Vietnam's subsidiaries Green Speed Joint Stock Company, Green Speed Co., Ltd. and Hoang Nhan Company Limited, which have been consolidated since January 2021. The consolidated results for the April-September period of 2021 were reflected in the consolidated results for 3Q FY3/2022 with a 3-month lag. The April-September period in Vietnam included several months of the COVID-19 lockdown when the authorities' labor regulations and other measures affected the business of the subsidiaries and substantially reduced their number of tech employees at the end of September. During that period, Green Speed tried to further strengthen client relationships and its operating base in anticipation of customer needs after the economic recovery. Since October 2021 when production began to recover, the number of our overseas tech employees has been steadily increasing to respond to new large-scale orders from Japanese companies.

About the Solution Business

Q13 What are the factors behind the increase in sales increase and the profit decline?

A In the Solution Business, both the number of technical employees and sales increased as a result of the efforts to support personnel mobilization of major companies. Since July 2021, UT Group started to receive In-house Solutions® (full-time employee transfer-type contract) projects from major corporate groups. In October 2021, a worker dispatch company of the Fujitsu FSAS Group, Fujitsu FSAS Creative Inc. (renamed to UT FSAS Creative Co., Ltd.) was newly consolidated. While some existing operating companies were affected by a shortage of semiconductors and an insufficient procurement of materials and components, the overall orders increased and consequently number of technical employees and sales of this business went up. Meanwhile, hiring-related expenses increased due to the strengthening of hiring of technical employees in line with the firm growth in personnel demand.

Q14 Will you explain about the In-house Solution® project for large corporate groups?

A The Solution Strategy, which is one of the growth strategies of the Fourth Medium-term Business Plan, focuses on supporting personnel mobilization and further expanding UT's business base. Specifically, UT Group takes over operations in non-core businesses, such as manufacturing of non-core products and office worker dispatching, as well as personnel engaged in these areas from large corporate groups which need to reorganize operations due to changes in their business environment and management strategy. Among several schemes, representative ones are 1) to create subsidiaries through M&A; 2) to form joint ventures based on joint investment; 3) carve-outs; and 4) the In-house Solution®.

The most unique scheme is the “In-house Solution®”, in which UT Group takes over the specific business and employees of a client company. We have so far accepted a total of 2,700 employees from 13 clients as our full-time employees, and have enhanced the relationship of trust with these companies by maintaining continuity in these employees' employment and career.

We will continue to expand this business, which will contribute to the resolution of management issues that are unique to large corporate groups, such as an inflexible workforce, a review of the business portfolio, and the reemployment of retiring employees.

Q15 Would you elaborate more on the newly consolidated company in October?

A On October 1, 2021, UT Group acquired 51% of shares of Fujitsu FSAS Creative Inc. and made it a subsidiary (renamed to UT FSAS Creative Co., Ltd.) Fujitsu FSAS Creative has primarily Fujitsu Group companies, including Fujitsu Limited and Fujitsu FSAS Limited, as its main clients. With approximately 900 employees, the company dispatches office staff and ICT-related engineers to various industries and business types, including banks, government agencies, and foreign-affiliated companies. It is also engaged in outsourced operations of help desks and support desks concerning the operation of IT infrastructure, including internal mainframe systems. Fujitsu FSAS Creative thereby provides optimal human resources solutions that promptly respond to the business environment of its clients.

UT Group's Solution Business provides support for structural reform of major corporate groups, including mobilization of their human resources. Based on the long-cultivated relationship with the Fujitsu Group through manufacturing dispatch, UT Group acquired a 51% stake of Fujitsu Aprico Limited (renamed to Fujitsu UT Co., Ltd.) in 2018, and has been collaborating with the Fujitsu Group in the personnel dispatch business. The acquisition of shares of Fujitsu FSAS Creative will further strengthen the relationship with the Fujitsu Group. By combining the strengths and know-how of both companies, we, as a career platform company that meets the needs of more workers, will contribute to solving the major challenges of structural changes in human resource utilization, which are expected to progress significantly going forward.

Engineering business

Q16 What are the factors behind the the sales increase and the profit decline?

A In the Engineering Business, mainly leading semiconductor manufacturing equipment manufacturers and semiconductor manufacturers increased demand for field engineers. UT Group resumed the "One UT" program that supports career change from manufacturing operator to engineer, which had been difficult to sustain due to the spread of COVID-19 in FY3/2021. In addition, the fourth "Technology Skill Development Center," a specialized training facility for developing semiconductor manufacturing equipment engineers, has been opened in Osaka to strengthen the development and production capabilities of semiconductor manufacturing equipment engineers.

In response to the growing demand in the field of construction engineers, we focused on hiring and prompt assignment of technical employees and increased sales. In terms of costs, hiring-related expenses increased due to the strengthened hiring activities of tech employees in order to meet the above mentioned demand for personnel.

Q17 Please explain about the Technology Skill Development Centers.

A In December 2020, the UT Group Technology Skill Development Center was established in Kitakami City, Iwate Prefecture, to train manufacturing engineers in the semiconductor field. We then established three centers: in Yokkaichi City, Mie Prefecture, and Kumamoto City, Kumamoto Prefecture in March 2021, and in Kadoma City, Osaka Prefecture in May 2021. The Centers will help promote our "One-stop strategy for large manufacturers," another key strategy of the Fourth Medium-Term Management Plan. By focusing on the development of engineers and strengthening our development capabilities through a capacity development program dedicated to semiconductor manufacturing equipment (SME) engineers, we will be able to be a one-stop provider of the personnel needed by major manufacturing industries, along with our core manufacturing dispatching business, improving service quality and competitiveness. We plan to develop 890 engineers in FY3/2022 and 3,000 SME engineers in total by FY3/2024.

Q18 Will you tell us about the management policy for 2H FY3/2022?

A When we announced our earnings forecast in May 2021, our initial policy was to heavily allocate hiring expenses and strengthen hiring activities in 1H, when demand was definitely expected to be strong, and to form a strong hiring base aimed at establishing an efficient base from 2H. We have also been pursuing a strategy to quickly increase our share of the market by regularly hiring 1,000 people a month. As a result, in 1H, more than 1,500 people per month were employed, and the status of orders received by the company was very strong, mainly in the automotive-related and semiconductors and electronic components sectors. We are currently receiving a lot of back orders. In order to meet this personnel demand, we have decided to change our initial hiring plan and continue to strengthen hiring activities in 2H, with the aim of maximizing the number of domestic tech employees by the end of FY3/2022. Our target is to have 34,000 domestic tech employees at year-end.

We have set the EBTIDA targets of 20-30 billion yen for FY3/2026 – the final year of the Fourth Medium-term Business Plan announced in May 2020. In order to achieve this, we aim to achieve 15 billion yen in EBITDA in FY3/2023, one year ahead of the initially-planned FY3/2024. This has led us to focus on increasing our technical employees and expanding our share and sales in the current FY3/2022, as these efforts will increase the probability of achieving the plan. The current FY3/2022 is also considered a very important year for the Group to achieve sustained growth over the long term.

Q19 Please explain about your subsidiary reorganization plan that is scheduled for April 2022.

A The reorganization scheduled for April 2022 will divide the UT Group companies into subsidiaries engaged in our competitive personnel services business for major manufacturers and subsidiaries engaged in the area platform business under the Fourth Medium-term Business Plan. It will also integrate each of them in order to promote the acceleration of their growth in keeping with the clear strategy of each subsidiary. In addition, by consolidating subsidiaries that share common business characteristics in the area platform business, we aim to consolidate common indirect functions and management resources, and thereby increase profitability.

Q20 Is the probability of achieving EBITDA of 15 billion yen in FY3/2023 increasing?

A We believe that the growth base of EBITDA of 15 billion yen for FY3/2023 has been established and we plan to raise our top line from the beginning of the year. We expect to generate gross profit of +5.0-8.0 billion yen by improving the gross margin in FY3/2023. In addition, we plan to improve yield in hiring and hiring efficiency, and to reduce SG&A expenses by optimizing staffing and consolidating common indirect functions through the subsidiary reorganization mentioned above. By taking these measures we are committed to achieving EBITDA of 15 billion yen.

Q21 What are your forecasts for next year's orders and hiring activities?

A We believe that orders will continue to be firm, given the status of orders in the semiconductors and electronic components sector, the automotive-related sector, and other areas in 2H FY3/2022. We will continue to implement hiring activities in accordance with the order status. At the same time, we will promote efforts to improve yield and hiring efficiency and reduce hiring expenses, and to secure net increase in employees by raising their retention rate.

As a basic rule, we undertake hiring activities after receiving orders, and if the order status deteriorates for some reason, we can curb hiring activities and adjust the workforce for organic employee turnover that occurs monthly.

Q22 Will you talk about your shareholder return policy?

A Our policy is to “achieve sustainable growth in corporate value, driven by aggressive business development and based on financial stability.” We regard returning profits to shareholders as

an important management issue. We are committed to appropriately returning profit to shareholders, in consideration of the level of UT Group's stock price, business environment, etc., and our base is a total return ratio of 30% or more via dividend payment and acquisition of own shares, which contribute to enhancing capital efficiency. As for the return to shareholders for FY3/2022, we have not decided yet.

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