

Bridge Report Altech Corporation (4641)

 Atsushi Imamura, President	Company	Altech Corporation	 The Human Makes Future—Next Technology Frontier
	Code No.	4641	
	Exchange	First Section, TSE	
	Industry	Service	
	President	Atsushi Imamura	
	HQ Address	Queen's Tower C 18F, 2-3-5 Minatomirai, Nishi-ku, Yokohama, Kanagawa, 220-6218, Japan	
	Business Description	Altech Corporation conducts technical expert, engineer assignment, and boasts of particular strengths in upstream processes of development and design for product development in the machine, electronics, software, information technology and other industries. Subsidiaries provide job placement support and other comprehensive human resources services within Japan, and engineering services in Taiwan and Shanghai, China.	
	Year-end	December	
	Homepage	http://www.alpsgiken.co.jp/english/index.html	

— Stock Information —

Share Price	Shares Outstanding		Market Cap.	ROE (actual)	Trading Unit
¥2,126	10,219,634 shares		¥21.727 billion	15.5%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥76.00	3.6%	¥152.65	13.9x	¥941.21	2.3x

* Stock price as of closing on February 23, 2016. Number of shares issued at the end of the most recent quarter excluding treasury shares. ROE and BPS are from the end of last fiscal year.

— Consolidated Earnings Trends —

(Unit: Million Yen)

Year End	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
December 2012	17,460	1,162	1,223	603	55.26	28.00
December 2013	18,097	1,070	1,089	651	60.63	45.00
December 2014	20,169	1,626	1,617	1,260	119.81	60.00
December 2015	22,723	2,165	2,223	1,446	141.59	71.00
December 2016 Est.	24,900	2,350	2,400	1,560	152.65	76.00

* Estimates are those of the Company. From the current fiscal year, the definition for net income has been changed to net income attributable to parent company shareholders (Abbreviated as parent net income).

We present this Bridge Report reviewing Altech Corporation and details of its fiscal year December 2015 earnings.

1. Company Overview
2. Dispatched Worker Market Trends, Altech's Strengths and Characteristics
3. Fiscal Year December 2015 Earnings Results
4. Fiscal Year December 2016 Earnings Estimates
5. Medium Term Business Plan
6. Conclusions

Key Points

- Sales and ordinary income both achieved new record highs by rising 12.7% and 37.5% year-on-year respectively during fiscal year December 2015. Sales of technical expert assignment primarily to the automobile industry rose on the back of efforts to improve profitability. Sales of the global business also rose on the back of various efforts in the realms of environment, energy and maintenance. Dividend payment is expected to be raised by ¥11 from the previous term to ¥71 per share.
- Altech Corporation's earnings estimates for fiscal year December 2016 call for sales and ordinary income to rise by 9.6% and 8.0% year-on-year respectively. Sales to the automobile industry are expected to continue to trend strongly, with recoveries in sales to the electronics and semiconductor industries also anticipated. Strong contributions from nonconsolidated accounts, which comprise the bulk of consolidated accounts, including 8.3% and 5.4% year-on-year increases in sales and ordinary income respectively are also expected, along with strong trends in contract pricing. At the same time, growth in earnings of overseas subsidiaries are expected to contribute to positively to consolidated earnings. Dividend payment is expected to be raised by ¥5 per share year-on-year to ¥76 (Dividend payments of ¥38 at the end of both the first half and full year expected).
- The introduction of teams of workers has contributed to a dramatic improvement in worker retention during recent years, with the number of workers quitting falling to half of their levels several years ago. In addition to success in growing the number of new graduate and mid-career hires, Altech has also succeeded in its efforts to improve the quality of its employees. During fiscal year December 2016, Altech (Nonconsolidated) will promote "aggressive measures in the realms of hiring, training and marketing" and the basis for implementing these measures is ready. Therefore, attention should be paid to the results of Altech's various measures and the potential for upside surprises in earnings.

1. Company Overview

Altech Corporation is one of the industry's leading technical expert and engineer assignment companies, with particular strengths in assignment of "Alps Engineer" brand technical experts, who are retained as regular full-time employees of Altech, and a client list of about 400 major manufacturing companies operating in the automobile and automobile parts, electronics, semiconductor and other industries. The Company provides high value added services focused upon the upstream manufacturing cycle processes of "research, planning and design" that require high levels of technological skills. Altech Corporation has implemented human character and technology skills training since its founding as a means of cultivating technical experts who have high levels of technological skills and human skills necessary to make contributions to society.

【Corporate Philosophy】

The Human Makes Future—Next Technology Frontier

The logo for Alps Altech Corporation, featuring a stylized 'A' made of three curved lines to the left of the text 'Alps Altech Corporation'.

(Source: Altech website)

"Heart to Heart"

Altech Corporation values the heart-to-heart relationship between human beings, and recognizes the principle that "human relationship is the foundation for the development of everything from society to companies and individuals." The Company also identifies kindness, care, and truth as important characteristics in relationships. It is important to remain stoic and disciplined in the process of pursuing the research of human beings. As a member of corporation, it is also vital to be passionate about technologies and products of the corporation put forth into society.

At the time of the Company's founding, it was deemed that "proper and superior management philosophy was the most important factor in pursuing growth and development of the company." Based upon this belief, the corporate philosophy of "Heart to Heart" was adopted. It is also deemed important for engineers and technical experts to maintain the essence of this corporate philosophy of "a strict attitude towards employees is warranted if it is designed to contribute to a better future for that individual in the process of developing human relationships." Altech also values the belief that "a company is only as good as its people," and it focuses upon cultivating human resources with the goal of developing human relationships that contribute to corporate growth and development. Altech has historically maintained a focus upon employee training based upon the concepts of "cultivation of human resources as the backbone of management for small to medium sized corporations" and "companies being a stage for people to realize their potential."

【Business Description】

The “outsourcing service business” that assigns “Alps Engineer” technical experts to some 400 client companies (major manufacturing companies) comprised 95% of Altech’s total sales during fiscal year December 2015. Technical experts assigned to client companies on a long-term contract basis are full time employees of Altech. As of the end December 2015, the total number of technical experts stood at 2596, and the number of sales offices and technical craftsmanship centers (Monozukuri Center) stood at 20 and 2 respectively.

The group company Alps Business Service Corporation contributes earnings to the “outsourcing services business” by assigning human resources services for personnel in administrative functions, including technical expert assignment to manufacturing companies who can perform a wide range of functions including design, experiments, evaluation, and manufacturing supervision. In addition, Alps Career Designing Corporation, which provides job introduction and career change support services in the “job placement business”, accounted for 0.2% of sales. Furthermore, the “global business”, where machinery equipment facilitation and human resources services are provided to Japanese companies operating in Taiwan and Shanghai, China, accounted for 5.2% of sales. In addition, a branch office was opened in Myanmar.

(1) Outsourcing Service Business Model

While competition among companies is intensifying, companies are implementing proactive efforts to optimize various areas of their business. With regards to the product development process of manufacturers, while there is the definite need for companies to strengthen and improve their competitive standing through “shortening the development cycle,” “strengthening fields of specialization” and “implementing cutting edge technologies,” it is not realistic for any company to train and cultivate newly hired employees in the point of view of required time and cost. Consequently, the assignment of highly skilled “Alps engineers” technical experts, consignment of projects, and other forms of technological support are practical responses to customers’ needs and support their research and development and product development processes.

Assignment

“Alps Engineer” technical experts assigned to client companies are employees hired by Altech, and therefore, they are capable of providing consistent and reliable technological support on any given day. The use of Alps Engineer technical experts allows client companies to reduce the time and cost required to hire and train their own engineers and technical experts. In addition, Altech maintains a database full of information on the skills, number of years of experiences in specific fields, and fields of specialty of each Alps Engineer technical expert, which enables it to send the most appropriate technical experts to best match the clients’ needs. Cases of Altech assigning teams of technical experts in addition to individual technical experts are on the rise.

The advantage of taking on a team of assigned technical experts includes the ability to have the team leader manage the members of the team, thereby reducing the burden of instruction and guidance of client staff. Altech also benefits by being able to have on the job training by assigning new graduate engineer hires along with more senior technical experts, and thereby raising utilization rates.

Contract Work, Consigned Development

Altech operates two plants including the “Utsunomiya Techno Park” and the “Tateshina Techno Park.” The maintenance of its own plants allows Altech to take on consigned project work that covers the development, design, and manufacture processes.

* Indefinite period employment dispatch and definite period employment (Registered type) dispatch

There are two types of “dispatched” worker categories including employees of Altech who are assigned for definite and indefinite periods of time. With regards to the dispatched workers on an indefinite period basis, workers are dispatched to client companies with which indefinite period contracts are formed. With regards to the dispatched workers on a definite period basis, workers are dispatched to client companies with which definite period contracts are formed. Because of the high skill levels required, the majority of dispatched technical experts choose to be sent for an indefinite period of time to be able to develop their skills and career. At the same time, general office workers dispatched to positions in general administrative or manufacturing functions tend to work on a definite period (Registered type) contract basis.



Altech Group Service Realms

Manufacturing Process	Fundamental Research	Product Planning	Concept Design	Detailed Design, Mass Design	Trial, Experiment, Evaluation, Analysis	Manufacturing, Production Control	Logistics, Sales
Altech Group	Assignment	Altech: Upstream Process (Development, Design)				Alps Business Service: Downstream Process	
	Placement	Alps Career Designing Corporation					

Client Composition (About 700 companies total)

FY12/13	FY12/14	FY12/15
Denso Techno	Denso Techno	Denso Techno
Canon	Canon	Toshiba
Toshiba	Toshiba	Canon
Nissan Motor	Hitachi Automotive Systems	Mitsubishi Electric
Hitachi Automotive Systems	Hino Motors	Hino Motors
Hino Motors	Mitsubishi Electric	Sony Semiconductor
Panasonic	Nissan Motor	Sony LSI Design
Keihin Corporation	Aisin Seiki	Hitachi Automotive Systems
Mitsubishi Heavy Industries	Hitachi Appliance	Hitachi Appliance
Aisin Seiki	Mitsubishi Heavy Industries	Aisin Seiki
Top 10 share: 26.4%	Top 10 share: 25.0%	Top 10 share: 23.4%

* By industry, the automobile, precision instruments, semiconductor, electronics, and others (Machine tools, software development, solar power, medical, aeronautics, etc.) industries accounted for 39.2%, 16.6%, 13.4%, 4.9% and 25.9% respectively of fiscal year December 2015 sales (The figures for FY12/14 were 37.7%, 20.1%, 10.0%, 8.4% and 23.8% respectively).

【Corporate History】

Chairman Toshio Matsui originally founded Altech Corporation as Matsui Design Office in 1968. At the time, various problems arose from the fact that electrical and mechanical design processes were conducted separately. Toshio Matsui came up with a unique solution called “integrated electrical and mechanical design” to overcome this problem. While he and his Company encountered numerous difficulties in the face of the oil crisis and other critical moments, the tireless efforts of Toshio Matsui and his company staff and their ability to “provide technologies that meet the clients’ needs” as a venture company quickly won the support of its clients.

The Worker Dispatching Act was implemented in July 1986. The provision, introduction and solicitation to corporations of workers had been prohibited by The Employment Security Act, but the implementation of The Worker Dispatching Act in response to diversification of the work environment and changes in demand allowed for “worker assignment” services to be provided. Based upon this change and with the goal of increasing recognition and understanding of the worker assignment industry, the Company listed its shares on the over the counter market in June 1996. The Company moved its listing to the Second Section, and then later to the First Section of the Tokyo Stock Exchange in September 2000 and December 2004 respectively. And while utilization rates of assigned workers declined to 60% in the third quarter of 2009 in the aftermath of the “Lehman Shock,” Altech Corporation developed a reputation for being a company that looks after its employees by avoiding any layoffs or restructurings despite the difficult operating environment (the utilization rates of assigned workers excluding new graduate hires was 97.6% during FY12/15).

Toshio Matsui established the Company name “Alps Giken” in Japanese to reflect the symbolism of the magnificent Alps and because of his love for mountains.



Earnings Trend (Million Yen)



【ROE Analysis】

	FY12/11	FY12/12	FY12/13	FY12/14	FY12/15
ROE	8.43%	7.11%	7.64%	14.38%	15.49%
Net Income to Sales Ratio	4.09%	3.45%	3.60%	6.25%	6.37%
Asset Turnover Ratio (x)	1.50	1.49	1.49	1.58	1.63
Leverage (x)	1.37	1.38	1.42	1.46	1.49

* ROE (return on equity) is “net income to sales ratio (net income rate ÷ sales)” multiplied by “total asset turnover ratio (sales ÷ total assets)” multiplied by “leverage (total assets ÷ own capital, reciprocal number of equity ratio)”. ROE = net income to sales ratio × total asset turnover ratio × leverage

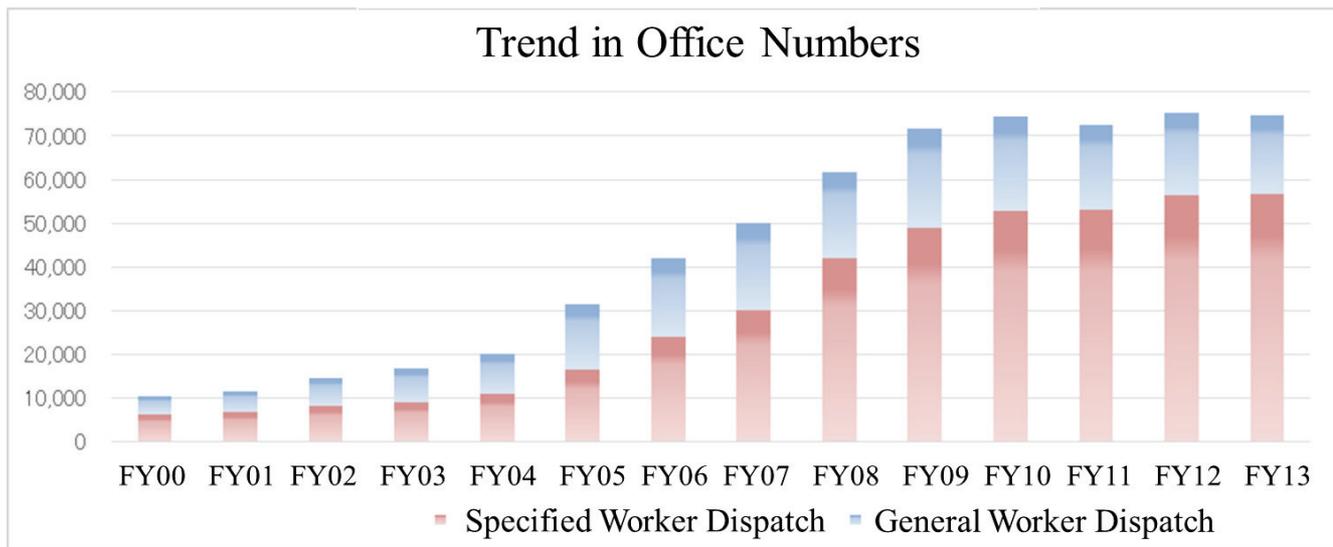
* The data in the table above is based upon figures taken from the official earnings announcement filings, and total assets and capital required to calculate the data above are averages for the term (Using the values at the end of the previous and current terms, and therefore the data listed in the official earnings announcement filings and the data above do not necessarily coincide because they use term end equity ratio).

Improvements in profitability accompanying higher sales allowed return on equity to rise by 1.1% point year-on-year to 15.5% during fiscal year December 2015. Both capacity utilization rates and contract pricing for technical expert assigning rose. Also, promotion of companywide cost reductions contributed to an improvement in net income to sales ratio and to an increase in asset turnover ratio. At the same time, leverage rose by a small margin. And as reflected in the trends during the recent years, Altech has been able to achieve large improvements in return on equity without relying on leverage.

2. Dispatched Worker Market Trends, Altech's Strengths

【Dispatched Worker Market Trends】

According to the Ministry of Health, Labor and Welfare “Dispatched Worker Business Report and Data Analysis”, the total dispatched worker market amounted to about ¥5.2 trillion during fiscal year 2012. After peaking in 2008, the market contracted in the wake of the “Lehman Shock”, with the general dispatched worker segment of the market contracting by a large margin (Dispatched workers on a definite period basis).



* Source: Created by Investment Bridge using data from the Ministry of Health, Labor and Welfare “Dispatched Worker Business Report and Data Analysis” published on March 27, 2015

Revision of the Worker Dispatching Act

The Revised Worker Dispatching Act was implemented on September 30, 2015. There are three important changes: 1) integration of the dispatched worker business approval system and establishment of minimum asset requirements, 2) review of the maximum period that workers can be dispatched, and 3) implementation of employment security measures. This revision is viewed to have no negative influence upon Altech's business due to the job security for its technical workers, who are employed on an indefinite period basis.

Points of Revision

① Integration of the Dispatched Worker Business Approval System and Establishment of Minimum Asset Requirement

The distinction between general worker dispatching business (Approval system) and specified worker dispatching business (Notification system) have been eliminated, and now both types of the worker dispatching business are required to receive prior approval of the government. Along with this change, minimum requirements for net assets (Assets minus liabilities) and cash of ¥20.00 and ¥15.00 million have been implemented, and participating companies are now required to provide their dispatched workers with career support systems and programs, and thus to possess scale and quality of certain standards.

② Reviews of Restriction on Period of Worker Dispatching

In addition to the elimination of indefinite period of worker dispatching that had been allowed in 26 job categories, the time limitation rule was changed from a job category basis to an individual basis.

③ Employment Security Measures

Various measures have been implemented to strengthen employment security including opportunities for direct employment at work places, provision of new dispatched work places, and indefinite employment periods at the dispatched worker company. Since the shift from a definite to an indefinite period of employment will increase the burden upon dispatched worker companies, the impact upon registered type worker dispatching companies is expected to be large (Since Altech assigns workers on an indefinite period basis, this change will not affect its business).



M&A and Other Opportunities for Large Operators to Expand their Business

Since this amendment prescribes minimum requirements for the quality and scale of service providers, operating conditions of the small to medium sized operators is expected to become even more severe. In the future, the industry is expected to undergo consolidation through M&A activities conducted by companies backed by strong financial conditions including Altech. At the same time, this change in laws presents an opportunity for larger players like Altech, which belongs to the Nippon Engineering Outsourcing Association (NEOA), to expand the scale of their business.

■ Nippon Engineering Outsourcing Association (NEOA), an Industry Association

The Nippon Engineering Outsourcing Association (NEOA), an industry association for engineer and technical expert outsourcing, has been established to provide a universally recognized standard for the safety and credibility of both the dispatched technical experts and the places they work. NEOA has created its own standards as part of its activities to help realize societal responsibilities of outsourcing companies, and to maintain the health of the industry by gaining the compliance of outsourcing companies to abide by these standards. At the same time, NEOA also works to gain the recognition of the employing companies, which are primarily Japanese manufacturing companies as part of its efforts to support the Japanese art of craftsmanship. Soichi Ushijima, the former President of Altech, is the representative director of NEOA and he is conducting ongoing activities to increase the credibility of the industry.

Strengths and Characteristics

The strengths and characteristics of Altech can be summarized in three points: 1) its ability to provide highly skilled assigned technical experts (Full time employees of Altech assigned for an indefinite period), 2) its focus on valuing “people” throughout the 47 years since its inception, and 3) its specialization in upstream processes with a focus on design and development.

Permanent Employee (Indefinite Period) Technical Expert Dispatching: Providing Employment Stability to Technical Experts, Providing Opportunities to Establish Long Term Careers

As explained earlier, worker dispatching can be divided into two types: indefinite period dispatch and definite period dispatch (Registered type). The issue of “axing dispatched workers,” which was the focus of much media attention in the past, primarily belongs to definite period dispatch and, therefore, the issue has nothing to do with Altech, which solely undertakes assignment of permanent employees for an indefinite period.

A Company Valuing “People” Throughout the 47 Years since Its Inception: Technology + Passionate Training

Based upon the management philosophy of “Heart to Heart,” Altech management believes that “development of the individual, corporation and society is all founded on human relationships” and it values the emotional connection to each other. In addition, the Company will endeavor to not only cultivate technologies by “developing and growing the company by connecting people to each other”, but it will also cultivate human resources by establishing a corporate culture that utilizes study groups and self research based upon the Company’s philosophy that “Companies are made up of people.”



Specialization in Upstream Processes (Design, Development), Versatility in Machinery, Electronics, Software, Chemical Realms → Realize Strong Pricing by Promoting Assignment of Teams

Altech specializes in high value added upstream processes, with the planning, research and development, and development and design tasks, which account for 70% of sales, and evaluation, analysis, and manufacturing technologies, which account for the remaining 30% of sales. At the same time, Altech maintains technological prowess in diverse industries including machinery, electronics, software and chemicals. Moreover, “team assignment” has been promoted as a means of reducing the burden of issuing orders and instructions to the assigned workers by clients and differentiating its services to realize higher pricing.

3. Earnings Results for Fiscal Year December 2015

(1) Consolidated Earnings

(Units: Million Yen)

	FY12/14	Share	FY12/15	Share	YY Change	Initial Est.	Divergence
Sales	20,169	100.0%	22,723	100.0%	+12.7%	22,600	+0.5%
CoS	5,093	25.3%	5,766	25.4%	+13.2%	-	-
SG&A	3,467	17.2%	3,600	15.8%	+3.8%	-	-
Operating Income	1,626	8.1%	2,165	9.5%	+33.2%	1,870	+15.8%
Ordinary Income	1,617	8.0%	2,223	9.8%	+37.5%	1,920	+15.8%
Net Income	1,260	6.2%	1,446	6.4%	+14.8%	1,320	+9.6%

※ Figures include reference figures calculated by Investment Bridge Co., Ltd. Actual results may differ (applies to the rest of this report).

Sales, Ordinary Income Rise by 12.7%, 37.5% Year-On-Year

Sales rose by 12.7% year-on-year to ¥22.723 billion on the back of a 14.9% year-on-year increase in sales of the outsourcing services business to ¥21.505 billion arising from strong capacity utilization and contract pricing of assigned technical experts. At the same time, sales of the global business, such as installation of transport equipment implemented by subsidiaries in Taiwan and Shanghai for Japanese companies operating overseas, rose by 49.7% year-on-year to ¥1.178 billion, due to increased sales in environment, energy, and maintenance related applications. Furthermore, retreat from the nursing care business, which had recorded ¥606 million in sales in the previous term, and weak growth in job placement services conducted by Alps Career Designing Corporation caused sales to decline from ¥55 million in the previous term to ¥39 million in the current term.

Operating income rose by 33.2% year-on-year to ¥2.165 billion on the back of favorable conditions, as in sales, in the outsourcing services business. In addition to increases in capacity utilization rates and contract pricing, the average capacity utilization rates of assigned technical experts (Excluding new hires) remained at close to a full capacity level of 97.6% (The rate including new graduates was also high at 96.0%). At the same time, net income growth was modest at 14.8% year-on-year, to ¥1.446 billion, due in part to the decline in extraordinary income (Extraordinary income of ¥85 and ¥51 million arose from sale of affiliated company shares and investment securities respectively during the previous term).

Dividends are expected to be raised by ¥11 to ¥71 per share. Initial forecasts had called for a dividend payment of ¥65 per share, but Altech has chosen to raise its forecasts in light of the strong earning performance.

Business Segment Sales, Profits

(Units: Million Yen)

	FY12/14	Share	FY12/15	Share	YY Change
Outsourcing Services	18,720	92.8%	21,505	94.6%	+14.9%
Nursing Care	606	3.0%	-	-	-
Job Placement	55	0.3%	39	0.2%	-28.5%
Global	787	3.9%	1,178	5.2%	+49.7%
Total Sales	20,169	100.0%	22,723	100.0%	+12.7%
Outsourcing Services	1,688	104.0%	2,143	99.1%	+27.0%
Nursing Care	-82	-5.1%	-	-	-
Job Placement	-46	-2.9%	-28	-1.3%	-
Global	63	3.9%	47	2.2%	-24.7%
Adjustments	3	-	2	-	-
Total Operating Income	1,626	-	2,165	-	+33.2%

Superior Financial Position with High Levels of Liquidity, Long Term Stability, Free Cash Flow of ¥2.121 Billion

Total assets rose by ¥1.207 billion from the end of the previous term to ¥14.557 billion at the end of the current term on the back of an expansion in business. Altech's superior financial position remains unchanged, with high levels of liquidity and long term stability as reflected by the current ratio of 235.3%, noncurrent ratio of 37.4% and capital adequacy ratio of 66.1% (Compared with 243.9%, 39.7%, and 67.9% at the end of the previous fiscal year). Return on invested capital (ROIC), which is an indicator of the capital efficiency and

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profitability of the Company, also rose from 10.6% to 14.1% over the same period.

While working capital grew, a net inflow of ¥1.207 billion of operating cash flow was secured in part on the back of strong pretax income. And due in part to an expansion in the net inflow of investing cash flow from recovery of loans receivables, the net inflow of free cash flow rose from ¥2.052 billion in the previous term to ¥2.121 billion in the current term. Financing cash flow saw a net outflow due primarily to payment of dividend.

Financial Conditions

(Units: Million Yen)

	12/14	12/15		12/14	12/15
Cash, equivalents	5,254	6,556	Short term loans, payables	700	700
Accounts receivables	2,811	3,249	Outstanding payments	690	984
Short term loans, receivable	983	3	Unpaid taxes	1,161	1,042
Current assets	9,748	10,960	Bonus reserves	676	801
Tangible noncurrent assets	2,477	2,360	Retirement reserves, liabilities	270	260
Intangible noncurrent assets	84	78	Liabilities	4,275	4,925
Investments, others	1,039	1,157	Net assets	9,075	9,632
Noncurrent assets	3,601	3,596	Total liabilities, net assets	13,350	14,557

Cash Flow Statement Summary

(Units: Million Yen)

	FY12/14	FY12/15	YY Change	
Operating Cash Flow (A)	1,772	1,207	-564	-31.8%
Investing Cash Flow (B)	279	914	+634	+226.6%
Free Cash Flow (A + B)	2,052	2,121	+69	+3.4%
Financing Cash Flow	-693	-808	-115	-
Cash and Equivalents at Term End	5,259	6,562	+1,302	+24.8%

(2) Nonconsolidated Earnings

(Units: Million Yen)

	FY12/14	Share	FY12/15	Share	YY Change	Initial Est.	Divergence
Sales	17,503	100.0%	20,076	100.0%	+14.7%	20,050	+0.1%
CoS	4,672	26.7%	5,288	26.3%	+13.2%	-	-
SG&A	3,095	17.7%	3,294	16.4%	+6.4%	-	-
Operating Income	1,576	9.0%	1,993	9.9%	+26.4%	1,680	+18.7%
Ordinary Income	1,647	9.4%	2,087	10.4%	+26.7%	1,730	+20.6%
Net Income	1,034	5.9%	1,355	6.7%	+31.0%	1,210	+12.0%

Continued Strong Automobile Related Demand, Recovery in Semiconductor Demand, Cultivation of New Applications in Environment and Medical Equipment Realms

The current strong demand for human resources allowed sales of automobile related applications to rise by just under 20% year-on-year and boosted its share of total sales from 37.7% to 39.2%. At the same time, a recovery in semiconductor related demand contributed to a rise of slightly less than 60% year-on-year and raised its share of total sales by 3.4% points from the previous term to 13.4%. Cultivation of new client applications in environment and medical equipment realms allowed the others category (Machine tools, software development, solar power, medical, aeronautics, etc.) of sales to rise from 23.8% of total sales in the previous term to 25.9% in the current term. At the same time, the share of electronics and precision instruments of total sales fell from 8.4% and 20.1% in the previous term to 5.1% and 17.6% in the current term respectively. The decline is attributable in part to the adoption of a strategy of selection and concentration. There were, however, other cases, for example, where demand increased for automobile related staff at an electronics manufacturer, and medical equipment staff at a precision instrument manufacturer that also happens to produce medical devices.

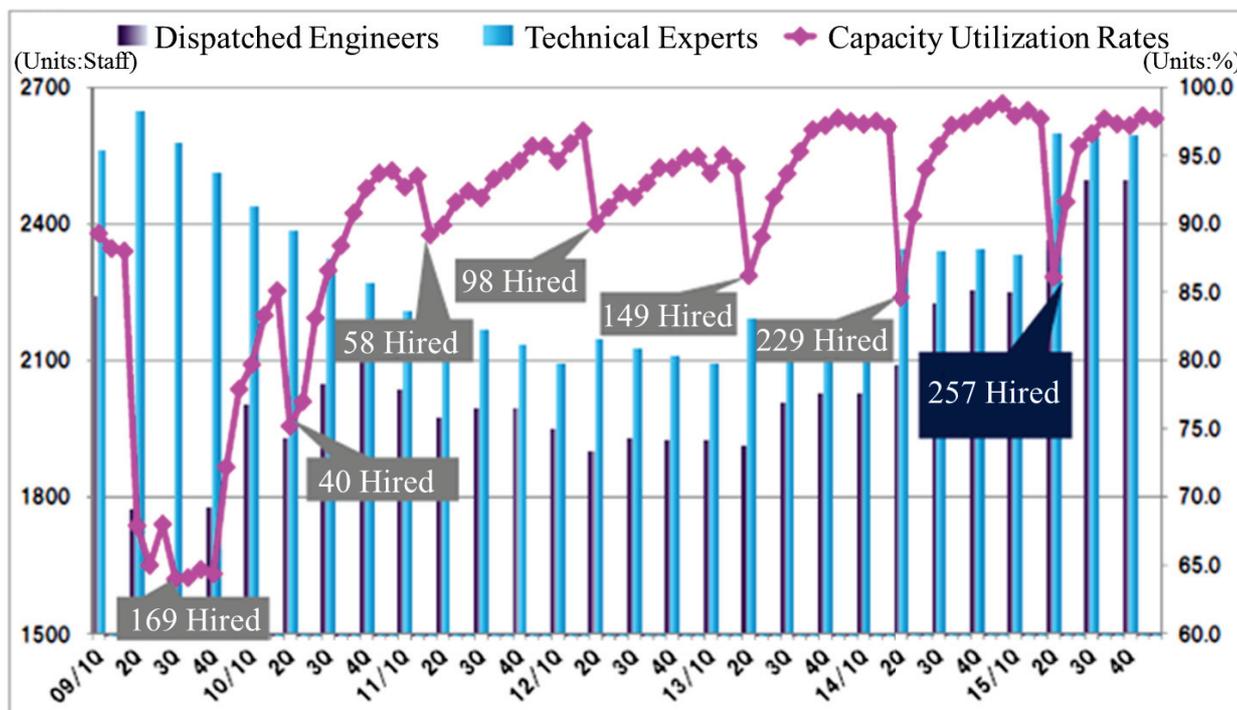
The largest companies in terms of sales were Denso Techno, Toshiba, Canon, Mitsubishi Electric, and Nissan Motor (See page 4), and the top ten customer companies accounted for 23.4% of total sales (25.0% in FY12/15). Strengthened marketing efforts targeting customer



companies that are seeing strong business conditions have been successful, which is reflected by the entry of Sony Semiconductor and Sony LSI Design into the list of the top ten clients. Another characteristic of Altech’s strategy is its efforts to reduce the risk of over reliance upon specific customers by implementing measures to achieve disperse transactions with a wide range of customers to maintain the share of the top ten customer companies to below 25% over the long term.

Improve Major Indicators

The total number of technical expert employees rose by 266 from 2,330 at the end of the previous term to 2,596 at the end of the current term. In addition to the hiring of 257 newly graduated engineers, the transfer of the hiring authority from the headquarters to the workplace contributed to steady progress in mid-career hiring. The number of technical experts assigned to workplaces rose by 251 from 2,251 at the end of the previous term to 2,502 at the end of the current term, and the contract price rose by ¥121 from ¥3,683 to ¥3,804 over the same period (approximately ¥3,900 after overtime pay is included). Successful efforts to turn new graduate hires into productive assets allowed the average capacity utilization rates to rise from 95.5% to 96.0% over the same period (Utilization rates excluding new graduates rose from 97.4% to 97.6%).



- ① Dispatched Engineers : the number of dispatched Engineers on a quarterly basis.
- ② Technical Experts : the number of Technical Experts on a quarterly basis.
- ③ Capacity Utilization Rates : total capacity utilization including new graduates on a monthly basis.

4. Fiscal Year December 2016 Earnings Estimates

(1) Consolidated Earnings

(Units: Million Yen)

	FY12/15	Share	FY12/16 Est.	Share	YY Change
Sales	22,723	100.0%	24,900	100.0%	+9.6%
Operating Income	2,165	9.5%	2,350	9.4%	+8.5%
Ordinary Income	2,223	9.8%	2,400	9.6%	+8.0%
Net Income	1,446	6.4%	1,560	6.3%	+7.9%

Sales, Ordinary Income Expected to Rise by 9.6%, 8.0% Year-On-Year

Demand from automobile related applications is expected to remain strong, along with a continuation of recoveries in electronics and semiconductor applications. Based upon this outlook for strong demand for technical experts, contract pricing is expected to trend strongly

and to allow nonconsolidated sales and ordinary income to rise by 8.3% and 5.4% year-on-year to ¥21.750 and ¥2.2 billion respectively. Furthermore, an improvement in profitability of the subsidiary Alps Career Designing Corporation and an expansion in the businesses of Japanese and overseas subsidiaries is expected to contribute to consolidated earnings.

Non-Consolidated Earnings

(Units: Million Yen)

	FY12/15	Share	FY12/16 Est.	Share	YY Change
Sales	20,076	100.0%	21,750	100.0%	+8.3%
Operating Income	1,993	9.9%	2,150	9.9%	+7.9%
Ordinary Income	2,087	10.4%	2,200	10.1%	+5.4%
Net Income	1,355	6.7%	1,430	6.6%	+5.5%

(2) Measures in Fiscal Year December 2016**Vision**

Based upon the management philosophy of “Heart to Heart”, Altech will endeavor to firmly establish the “Alps Brand” by constructing a solid earnings foundation for the entire Group, which entails an operating structure of 3,000 technical experts, marketing staff, training staff, and hiring staff.

Altech Brand

- Capable of responding to all human resources needs of clients in the manufacturing industry
- Provide human resources with superior skills to achieve secure results
- “Become the technical worker assignment company of choice” through results and credibility
- Provide solutions that yield new value addition

Altech (Nonconsolidated)’s Endeavors: Promote an Aggressive Strategy in Hiring, Training, Marketing

Altech maintains a goal of hiring 250 new graduates in 2017, and 120 mid-career workers in 2016, and the entire Group will cooperate to implement an aggressive hiring strategy for global engineers and mid-career hires through various channels and to ensure that these numbers can be achieved. With regards to global engineer hiring, an affiliate company of Altech provides education in cooperation with local universities in Qingdao, Shandong Province, China, along with similar efforts to hire global engineers in Vietnam as well. In addition, Altech provides Japanese language and cultural education and training at a facility established in Myanmar in 2015. Human resources who have been trained locally will work as assigned technical experts in their respective local markets as well as in Japan, and are expected to contribute to growth in Altech’s business.

The Company’s “aggressive training” programs, which include cultivation of team leaders, increasing the passage rates of workers sitting for certification tests, and establishing career paths for technical experts in line with the technology trends, will be implemented gradually and systematically as support for employees seeking to acquire certification and to develop management skills. In addition, data analysis relating to human resources cultivation will be leveraged in these training programs.

“Aggressive marketing” will be implemented with the goals of achieving full capacity utilization of engineers, increasing the number of superior teams, and raising contract pricing to ¥4,000. At the same time, efforts will be made to convert new graduate hires into productive assets, to offer career target rotation, and to promote teams as part of the strategy of selection and concentration of customers. Teams are managed by team leaders in the workplace, with new graduate hires participating in teams as part of their on-the-job training to quickly turn them into productive assets and to help fill the shortage in worker numbers. Assignment of technical experts in teams and the consequent sense of unity among the employees will also provide mental support to technical experts, who, if assigned individually, are likely to be isolated at the destination workplace. Furthermore, assignment in teams allows for new graduates to quickly become productive and contribute to the workplace, while at the same time reducing the burden upon the client.

Career target rotation is a method aimed at providing support to technical experts in improving their career development path. Altech implements a technical expert training system known as “engineer support system” (ESS) that allows technical experts to improve their skills in specific target technological realms. In addition to allowing marketing staff to secure projects, ESS allows technical experts to acquire skills that they desire to acquire.

Group-wide Efforts

The Altech Group’s business within Japan can be divided into two types: 1) the administrative task function human resources services provided by Alps Business Service Corporation, and 2) the technical expert job placement and career change support services provided by Alps Career Designing Corporation. The need to establish both of these company’s brands and expand their business have been recognized by management. Therefore, Alps Business Service will strengthen its overall organization, and Alps Career Designing will implement measures to firmly achieve profitability. Moreover, the success of Alps Career Designing’s structural reforms implemented last summer have surfaced in the form of profitability achieved during the fourth quarter of fiscal year December 2015.

In the overseas business, efforts have been made to provide human resources services and installation of transport equipment in semiconductor and liquid crystal applications of Japanese corporations operating in Taiwan and Shanghai, and an office was opened by Altech in Myanmar for the purpose of securing and training local staff. In addition, Altech is expanding the employment within Japan of engineers trained in overseas markets. These efforts are undertaken with the goal of accelerating the pace of growth of the Group and to expand as a global company group.

(3) Distribution of Profits

Altech maintains a dividend payout ratio target of 50% on a consolidated basis, along with a minimum longer-term stable dividend target of ¥20 per share regardless of earnings performance. Also, the Company is expected to pay a dividend equal to its 50% payout ratio target at the end of the first half. During fiscal year December 2016, Altech is expected to increase its dividend payment by ¥5 per share compared to the previous term to ¥76 (Dividend payments of ¥38 each at the end of the first half and full year).

5. Medium Term Business Plan

The Altech Group has created a Medium Term Business Plan (Updated on a rolling basis) as outlined below that covers the three-year period from fiscal years December 2016 to 2018. Since its inception, Altech has been creating five-year business plans, a sort of qualitative targets. Five-year business plans, together with rolling plans, which are three-year quantitative targets planned on a rolling basis and updated every year in consideration of achievements and remaining issues, have been regarded as Altech’s Medium Term Business Plans, and the Company has been making efforts to achieve them. The Company has refrained from disclosing such quantitative targets until now, but has found it necessary to disclose its midterm targets as part of its active communications with investors.

Consolidated Management Targets

(Units: Million Yen)

	FY12/15 Act.	FY12/16 Est.	YY Change	FY12/17 Est.	YY Change	FY12/18 Est.	YY Change
Sales	22,723	24,900	+9.6%	27,000	+8.4%	29,300	+8.5%
Operating Income	2,165	2,350	+8.5%	2,600	+10.6%	2,800	+7.7%
Ordinary Income	2,223	2,400	+8.0%	2,650	+10.4%	2,850	+7.5%
Net Income *	1,446	1,560	+7.9%	1,700	+9.0%	1,850	+8.8%
ROE	15.5%	Over 15%	-	Over 15%	-	Over 15%	-

* The numerical targets above are reviewed in consideration of achievements and remaining issues and may be updated every term.

* The definition for net income has been changed to net income attributable to parent company shareholders.

Basic Policy and Priority Measures of the Medium Term Business Plan

Altech will celebrate its 50th year of operations in July 2018. And as fiscal year December 2018 marks the final year of the current Medium Term Business Plan, efforts to “strengthen core businesses”, “expand the Group”, and “deploy businesses globally” will be promoted along with the previous goals of “expanding business scale through innovation and accelerating growth towards the 50th anniversary of operations” carried in its 10th Five-Year Business Plan.

Five-Year Business Plan - "Expanding Business Scale through Innovation and Accelerating Growth towards the upcoming 50th Anniversary of Operations"

(1) Preempting changes in technology and industry, provide highly sophisticated and diverse technological services

1) Reform marketing, hiring and training systems, 2) form teams, promote contracts, 3) improve customer satisfaction, 4) establish a brand reputation as a group capable of providing highly skilled technical experts

(2) Independence and growth of affiliated companies to accelerate the expansion in the overall scale of the Altech Group

1) Demonstrate earnings generating capability, uniqueness of affiliated companies, 2) create new businesses that are in keeping with latest trends, 3) contribute to society through expansion of the Group

(3) Become a global corporate group conducting businesses throughout Asia

1) Strengthen business foundations and expand business realms, 2) leverage network in Southeast Asia, 3) provide global outsourcing services

* Altech Corporation's Nonconsolidated Targets (2017): Operating Income Margin Over 10%, Average Contract Price Over ¥4,000

Altech maintains nonconsolidated targets of "operating income margin of over 10%" and "average contract price of over ¥4,000". During fiscal year December 2014, cost of sales ratio was 73.3% and sales, general and administrative expense ratio was 17.7% for an operating income margin of 9.0%. Ongoing efforts, including effective negotiations with clients to increase contract pricing, and improvements in compensation of employees including higher wages, contributed to an increase in cost of sales margin. However, economies of scale and optimization of administrative functions are expected to allow sales, general and administrative expense margin to decline and operating income margin to rise to 10.0%.

The improvement in compensation of technical expert employees has contributed to improvements in retention rates and hiring of new engineers. At the same time, these efforts have contributed to a strengthening of the "Altech Brand" and strengthening of its earnings generating capability.

6. Conclusions

"Solidity" is yet another characteristic of Altech, and it is reflected in the strong earnings estimates announced for fiscal year December 2016. Demand for technical experts from automobile industry related applications remains strong and point to strong future orders. However, shortages in human resources could become an impediment to sustained growth of earnings. Furthermore, Altech's solidity is also on the same line as its policy that "Altech will not only leverage the favorable business environment to expand its business, it will also endeavor to firmly establish the Altech brand by leveraging its teams in this favorable business environment".

At the same time, successes of the team technical expert strategy are reflected in the improvement in retention rates of workers during the past several years, with the number of staff quitting falling to half of previous levels. In addition, the quantity of employees is rising through favorable hiring of both newly graduating students and mid-career workers, in addition to improvements in the quality of workers through fortified training efforts. While uncertainties including volatility in economies of emerging markets, including China, financial markets and foreign exchange markets continue to cloud the horizon, Altech will continue its efforts to gain even more credibility with its client companies by providing high quality solutions and highly skilled technical experts. Therefore, Altech should be able to keep any negative influence resulting from changes in the operating environment to a minimum. Also, Altech has been able to establish the foundations for its policy of "promoting aggressive hiring, training and marketing", and investors should keep a close watch on the Company's potential to see positive surprises in earnings.

Bridge Report



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