The Human Makes Future—Next Technology Frontier

Alps Altech Corporation

Earnings Results for the Fiscal Year Ended December 31, 2019

Altech Corporation

—4641 Tokyo Stock Exchange First Section—

A Group of High-level Engineers

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・Higher R&D investment leads to more output in various fields to create next-generation strengths.
・We continue to pay attention to trade policy issues.

Manufacturing Business

Export Movement

- Weakened
- We need to watch US-China trade war.

Industry Trend

- R&D investment in next-generation vehicles and 5G-related field is active.

H&R Business

Clients' Needs

- Maintaining a high mobilization rate.
- Stringent Market

Win the War for Talent

- Various recruiting methods
- Increasingly competitive environment

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■ Results for the Fiscal Year Ended December 31, 2019

- [Consolidated] Results in the Global Business grew significantly, including due to the acceptance of large-scale projects.
- [Non-consolidated] The main factor for the increase in net sales was the increase in the number of engineers assigned to the clients and increase in average contract rate.

(¥mn)

【Consolidated】	FY2018	FY2019	YonY
Net sales	32,781	**36,371**	11.0%
Operating income	3,586	**4,014**	11.9%
Ordinary income	3,605	**4,098**	13.7%
Profit attributable to owners of parent	2,667	**2,908**	9.0%

【Non-consolidated】	FY2018	FY2019	YonY
Net sales	27,480	**29,684**	8.0%
Operating income	3,156	**3,579**	13.4%
Ordinary income	3,361	**3,755**	11.7%
Profit	2,541	**2,715**	6.9%

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- Operating margin ratio was 11.04%.
- We have steadily grown alongside the increase in the number of engineer employees.

(¥mn)

【Consolidated】	FY2018	FY2019	YonY
Net sales	32,781	**36,371**	11.0%
Cost of sales	24,406	**27,173**	11.3%
Gross operating income	8,374	**9,197**	9.8%
SG&A expenses	4,788	**5,183**	8.3%
○SG&A ratio	14.60%	**14.25%**	-0.35%
Operating income	3,586	**4,014**	11.9%
○Operating margin ratio	10.94%	**11.04%**	0.10%
non-operating income	114	**148**	29.8%
non-operating expense	95	**64**	-32.0%
Ordinary income	3,605	**4,098**	13.7%
Extraordinary income	300	**200**	-33.4%
Extraordinary expense	81	**0**	-99.1%
Profit before income taxes	3,824	**4,297**	12.4%
Profit attributable to owners of parent	2,667	**2,908**	9.0%
○Net profit ratio	8.13%	**7.99%**	-0.14%

Main factor in sales and profit

①The high mobilization rate was maintained.
②The increase in average contract rate
③The increase number of mobilized engineers

Main factor in the increase of cost

<Continuously : Individual>
①Expenses increased due to the rise in the number of employee.

<Continuously : Group>
②We realized an increase in operating profit by absorbing the growth in sales despite the burdens of an increase in costs accompanied by active recruitment that prioritized quality and strengthening of Group recruitment.

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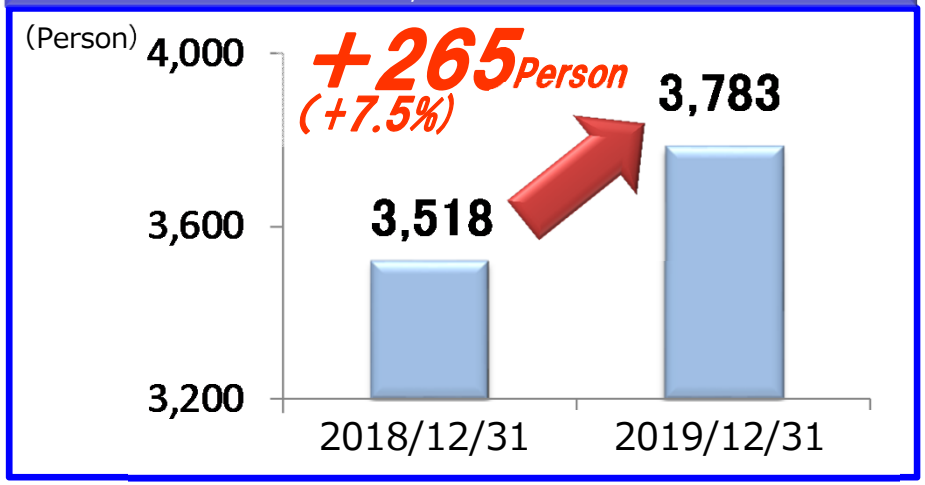
The reason for the decrease in the average number of hours is to do to the impact of “the reforms to ways of working”. /We’ve been realizing a continuous increase in the contract unit price (exceeded ¥4,000).

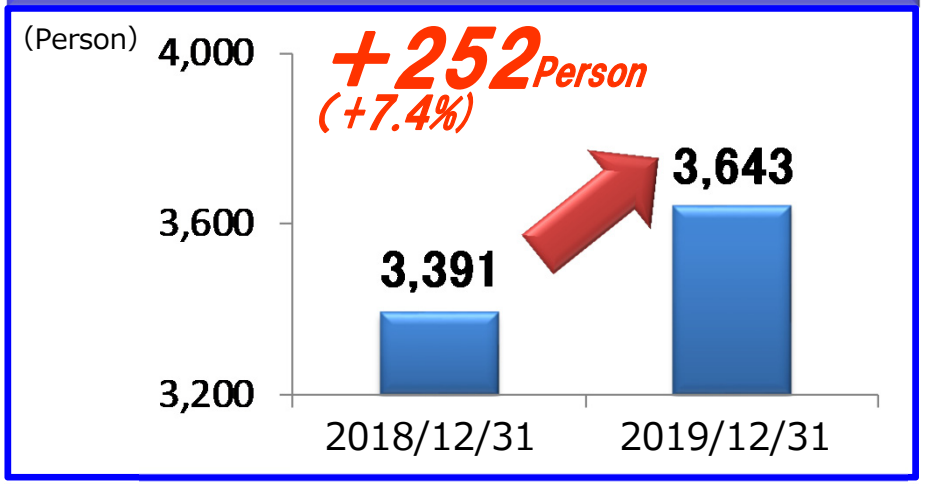
Number of Engineers

※as the end of December, 2019

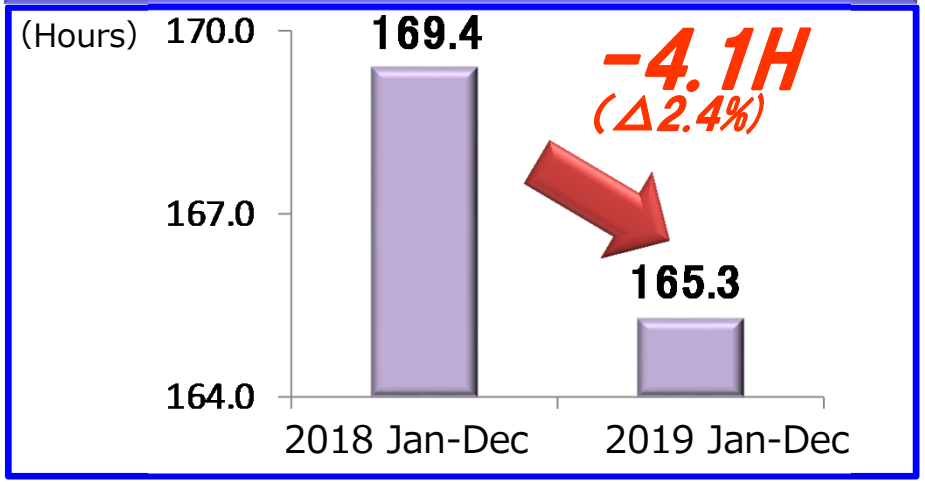


Number of Mobilized Engineers

※as the end of December, 2019

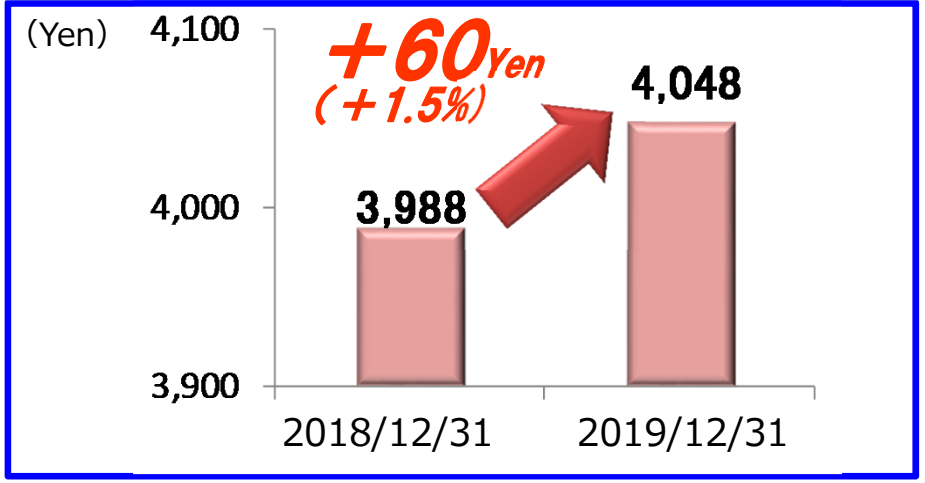


Working Hours ※average of FY2019 (Jan-Dec)



Contract Unit Price

※as the end of December, 2019



※contract unit price・・・hourly rate in the contract base with clients

※working hours ・・・the number of working hours per month, per person

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■ Mobilization Hours Trend and Our Sales

External Environment

- Under the law, employers are obliged to provide a certain number of PTO days to employees, limit to permitted overtime hours.
- Overtime regulations added to certification requirements.

2Q Factor(※)

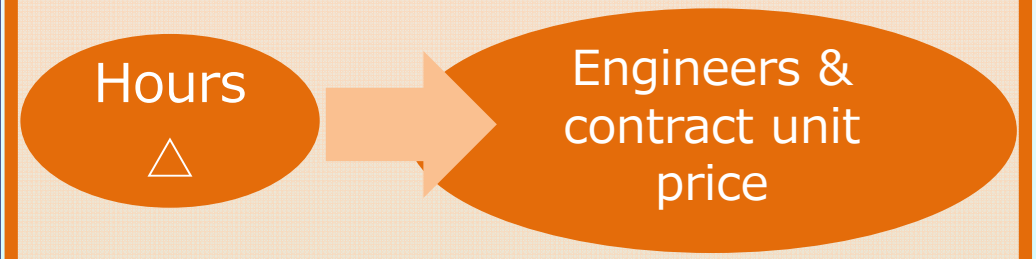
- The number of mobilization hours declined <u>because of the impact of the long period of consecutive holidays in May (a temporary factor)</u>.

Forecast

- In the future, working hours are forecast to decline due to the reforms to ways of working excluding special factors (※).
- But it is considered that the extent of this decline will gradually decrease each year and bottom-out at around 160 hours a month.

The concept of our sales

<u>1. Shift to increase the number of engineers and improve contract unit price</u>



<u>2. Strengthen sales to respond to growth fields</u>

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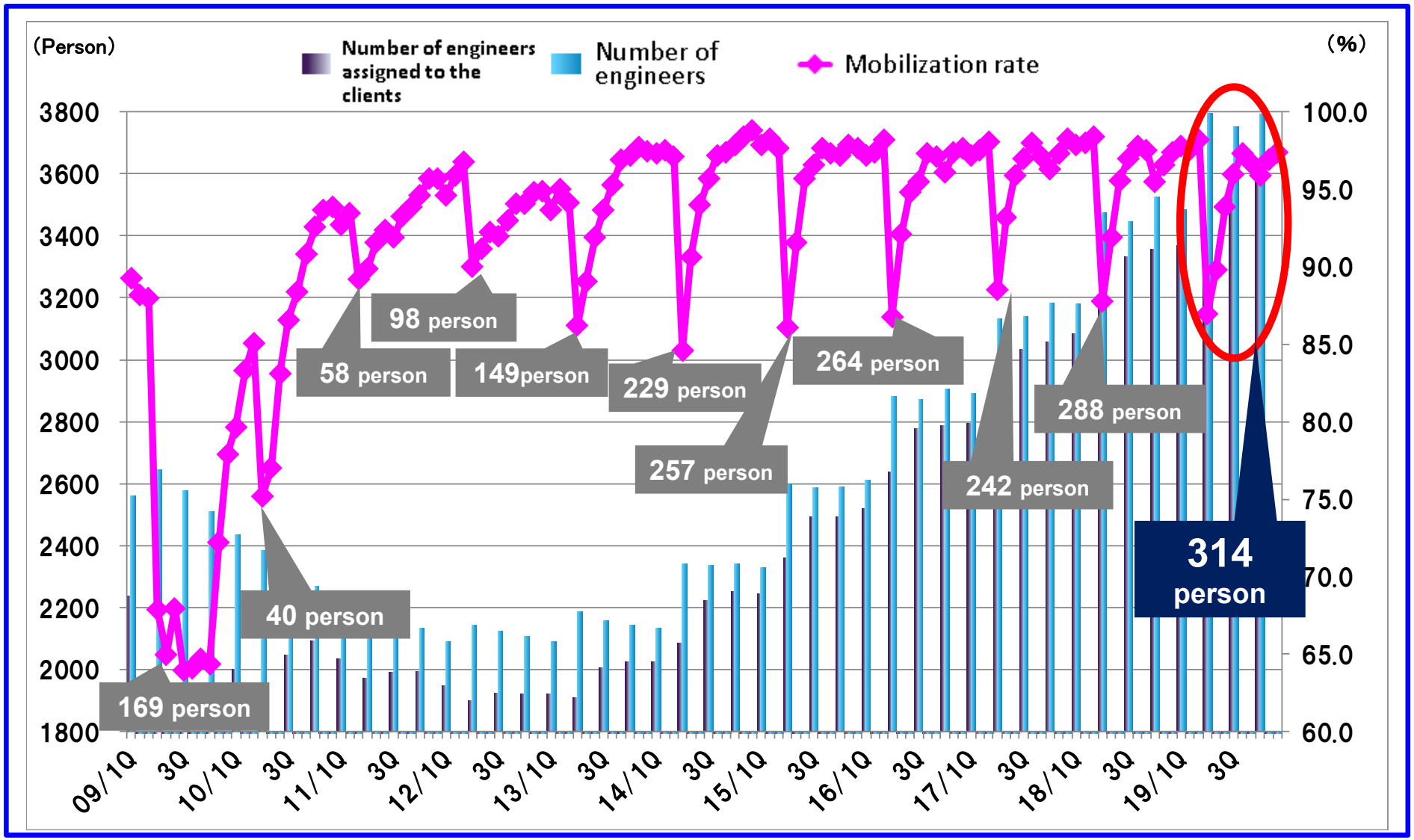
- The high mobilization rate was maintained.
- We were able to recruit over 300 new graduates communicating the appeal of working for it through various recruitment activities.



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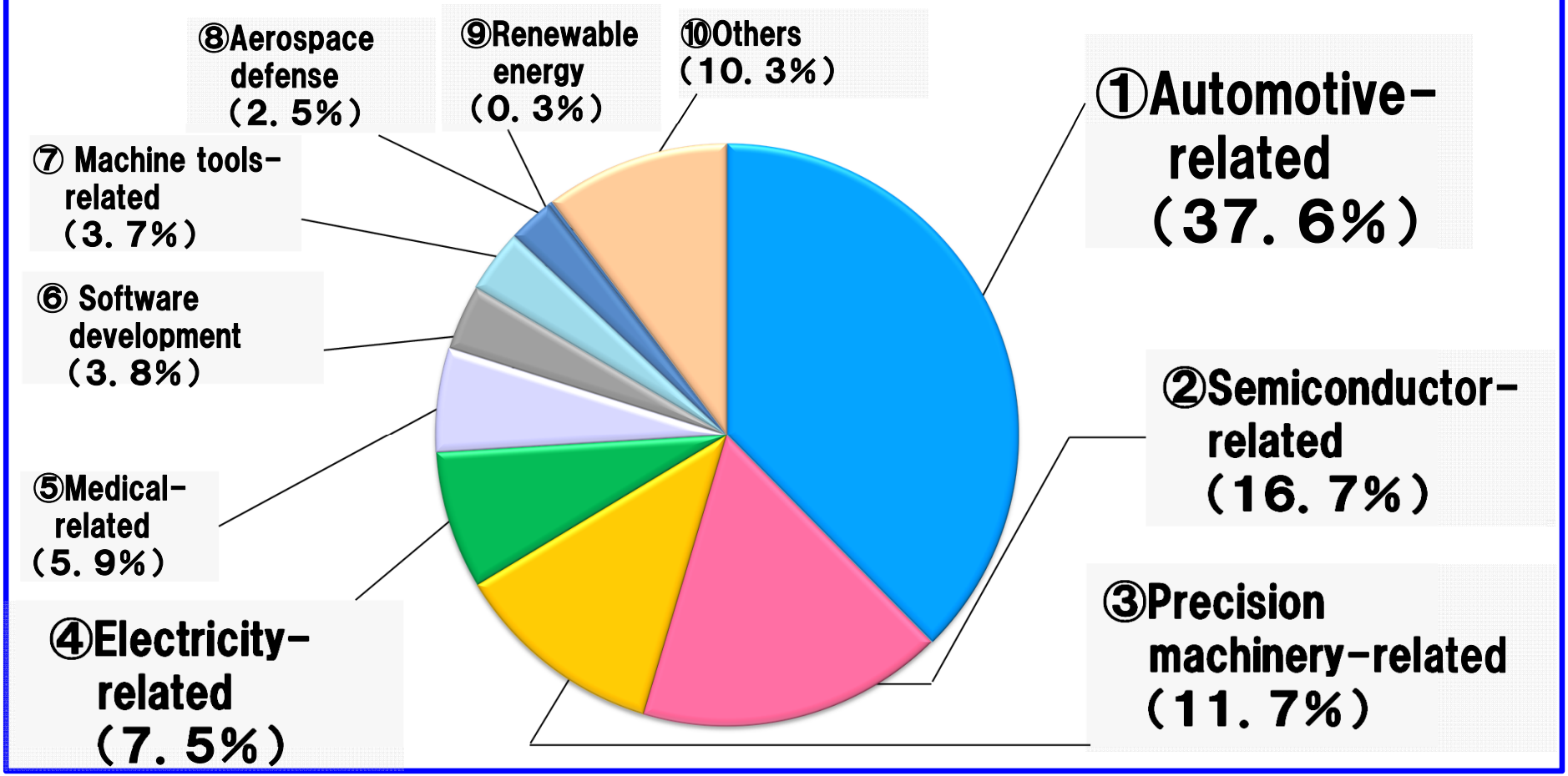
- It is benefitting from the active R&D investment, including in next generation vehicles, 5G, semiconductor and advanced technologies-related.
  - Our customer industries are diverse and structured so that we are not easily affected by economic fluctuations.

Percentage of net sales by industry (FY12/19 results)



※For example, even if the technological field is electrical machinery, if the final product is an EV (electric vehicle), it is classified as "automotive-related".

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Requests for engineer assignments from major companies, which are the Group's main customers, are strong. Automotive-related and semiconductor-related demands are steadily growing.

Top 10 Clients by Sales

FY2017	FY2018	FY2019
Mitsubishi Electric	Mitsubishi Electric	Mitsubishi Electric
Toshiba Memory Corporation	Toshiba Memory Corporation	Kioxia Corporation (former name: Toshiba Memory Corporation)
Canon	Tokyo Electron Technology Solutions Ltd.	Tokyo Electron Technology Solutions Ltd.
Tokyo Electron Technology Solutions Ltd.	AISIN AW CO., LTD.	AISIN AW CO., LTD.
Sony Semiconductor Solutions Corporation	Sony Semiconductor Solutions Corporation	Hitachi Automotive Systems Ltd.
AISIN AW CO., LTD.	Canon	Sony Semiconductor Solutions Corporation
Hino Motors, Ltd.	Tokyo Electron Miyagi Ltd.	Tokyo Electron Miyagi Ltd.
Mitsubishi Heavy Industries, Ltd.	Autoliv	Canon
Sony LSI Design Incorporated	Hino Motors, Ltd.	Honda R&D Co., Ltd.
DENSO TEN	Hitachi Automotive Systems Ltd.	DENSO TEN
Top 10 total 19.4%	Top 10 total 20.0%	Top 10 total 19.6%

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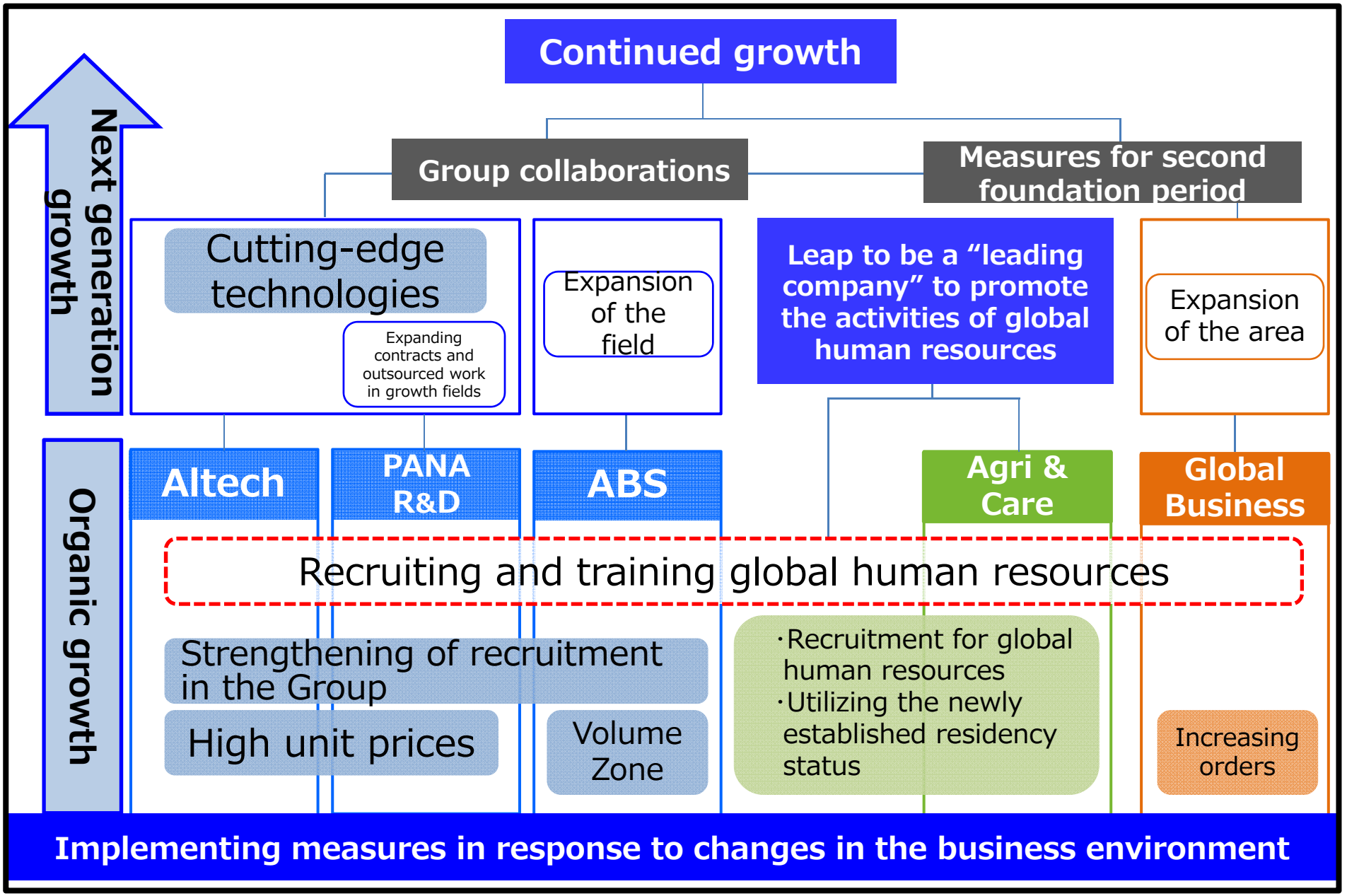
■ Measures to Create the Next-generation Strengths



※ABS…Alps Business Service Corporation

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■ FY2020 Actively Working on Measures to Create Next-generation Strengths (individual)

Three Main Pillars (Recruitment, Education, and Sales)

1. *Recruitment*

① Strengthening recruitment at an early stage while ascertaining environmental changes
② Strengthening referral recruitment and speeding-up selections that prioritize quality
③ Securing human resources with an abundance of diversity.

Target

- 280 new graduates in 2021
- 130 mid-career hires in 2020

2. *Education*

① Building an organization to strengthen and develop middle-ranking human resources
② Educating and training high-level HR for cutting-edge technologies and growth fields
③ Firmly establishing a system to educate global human resources.

With the aim of building an organization toward developing the next generation of human resources and expanding businesses

3. *Sales*

① Increase transactions with growth companies and fields
② Strengthen the ability of new employees to be deployed for work immediately
③Realize high unit prices through creating high value-added.

- Realizing high unit prices
- Aiming to improve the levels of CS

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■ FY2020 Measures for the Group

The measures include predicting changes before they occur and further strengthening collaboration in the Group with a sense of speed.

Domestic business

ABS

Realizing the expansion of HR services and the improvement of new business unit prices (volume zone)

PANA R&D

Aiming to utilize its advanced technological capabilities to expand contracts and outsourced work in growth fields, such as CASE.

Overseas business

Taiwan, Shanghai, Myanmar

Further expanding the Global Business through collaborations in the Group, the fully fledged operations of the new businesses

Global engineers

The policy is to work to strengthen year-round recruitment toward acquiring excellent human resources and to expand the registration support business

Agri&Care Corporation

It is continuing to work to steadily acquire new customers (strengthen sales) nationwide for assignments for agri-tech and agriculture human resources. Also, its policy is to bring together the expertise in developing global human resources in the Group as a whole and to recruit and train them widely from Southeast Asia.

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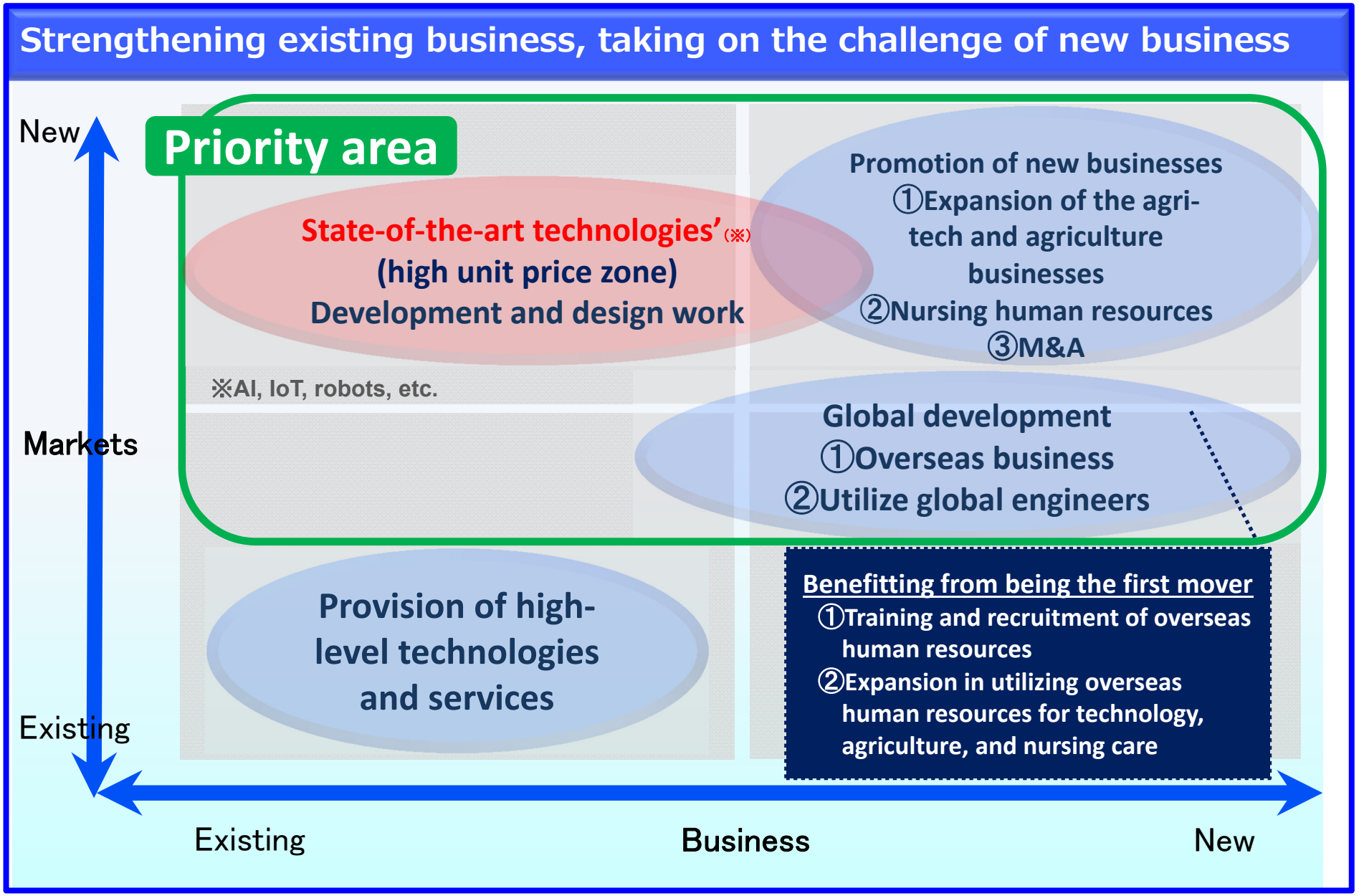
■ The Medium- to Long-term Growth Vision



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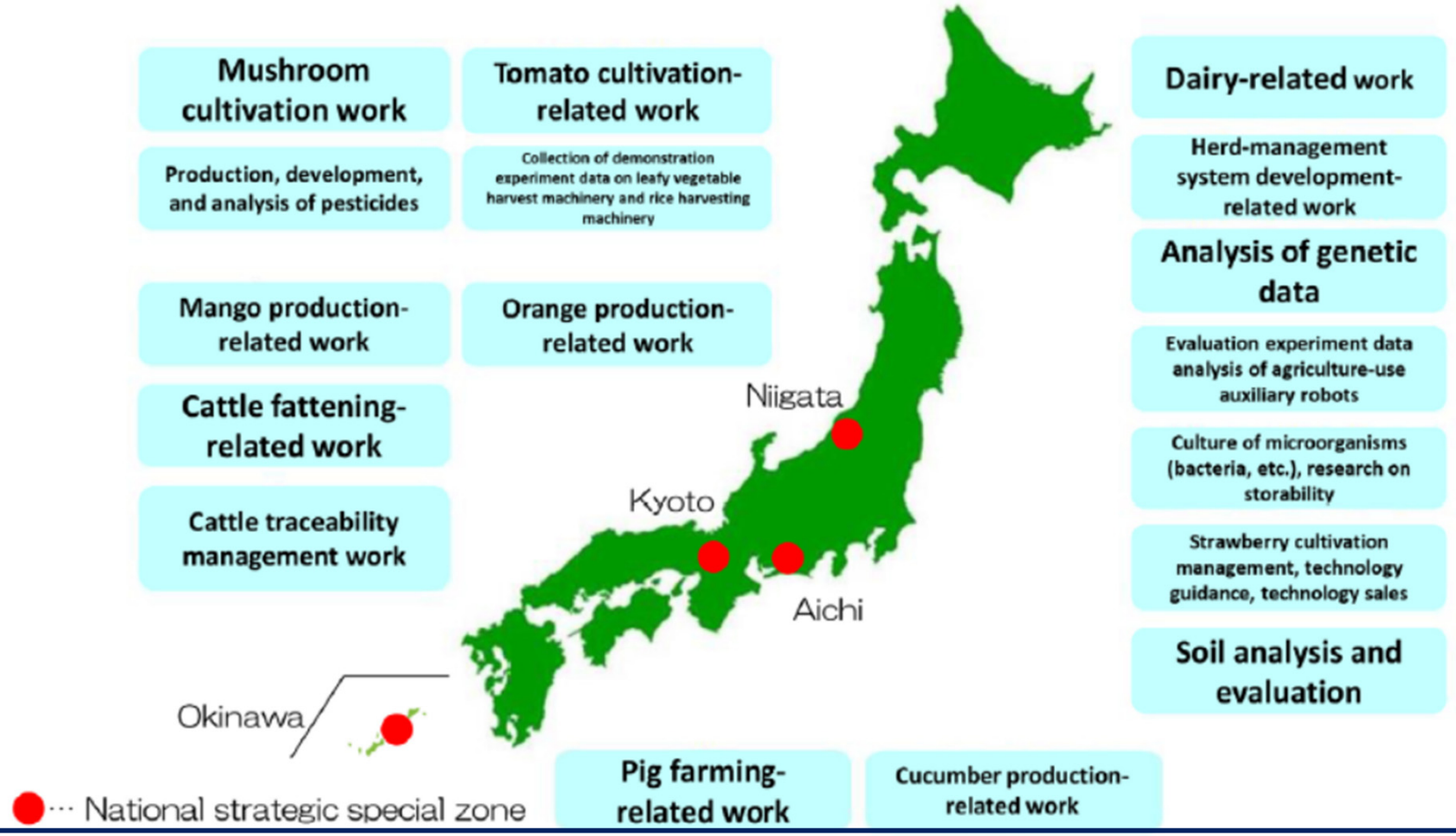
■ It is continuing to work to steadily acquire new customers (strengthen sales) nationwide for assignments for agri-tech and agriculture human resources.

Its policy is to bring together the expertise in developing human resources in the Group

Track record of transactions in the agriculture business



For the new business (agriculture-related field), it was the first worker assignment company in Japan to acquire the "Specified Skilled Worker (i)" new residency status for foreigners, and it continues to steadily accumulate a track record of transactions on a nationwide scale.

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■FY20 Forecast Consolidated

For new record high results

(¥mn)

【Consolidated】	Results					Forecast	
	FY18	FY19				FY20	
	Actual	Forecast (b) (Feb. FY19)	Actual (a)	YonY	Comparison of (a) with (b)	Forecast (Feb. FY20)	YonY
Net sales	32,781	35,470	36,371	11.0%	2.5%	38,320	5.4%
Operating income	3,586	3,780	4,014	11.9%	6.2%	4,270	6.4%
Ordinary income	3,605	3,860	4,098	13.7%	6.2%	4,270	4.2%
Profit attributable to owners of parent	2,667	2,680	2,908	9.0%	8.5%	2,910	0.1%

●The forecasts assume that the favorable results will continue, because demand is strong for assignments from its main customers including for advanced technologies and next-generation vehicles.

●The reasons why the forecasts are for comparatively moderate results growth are a decrease as a reaction to the conservative estimates from concerns of an economic slowdown and the expectation that working hours will tend to be kept down.

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■FY20 Forecast

For new record high results

Non-consolidated

(¥mn)

【Non-consolidated】	Results					Forecast	
	FY18	FY19				FY20	
	Actual	Forecast (b) (Feb. FY19)	Actual (a)	YonY	Comparison of (a) with (b)	Forecast (Feb. FY20)	YonY
Net sales	27,480	29,840	29,684	8.0%	-0.5%	31,630	6.6%
Operating income	3,156	3,210	3,579	13.4%	11.5%	3,710	3.7%
Ordinary income	3,361	3,520	3,755	11.7%	6.7%	3,920	4.4%
Profit	2,541	2,510	2,715	6.9%	8.2%	2,730	0.6%

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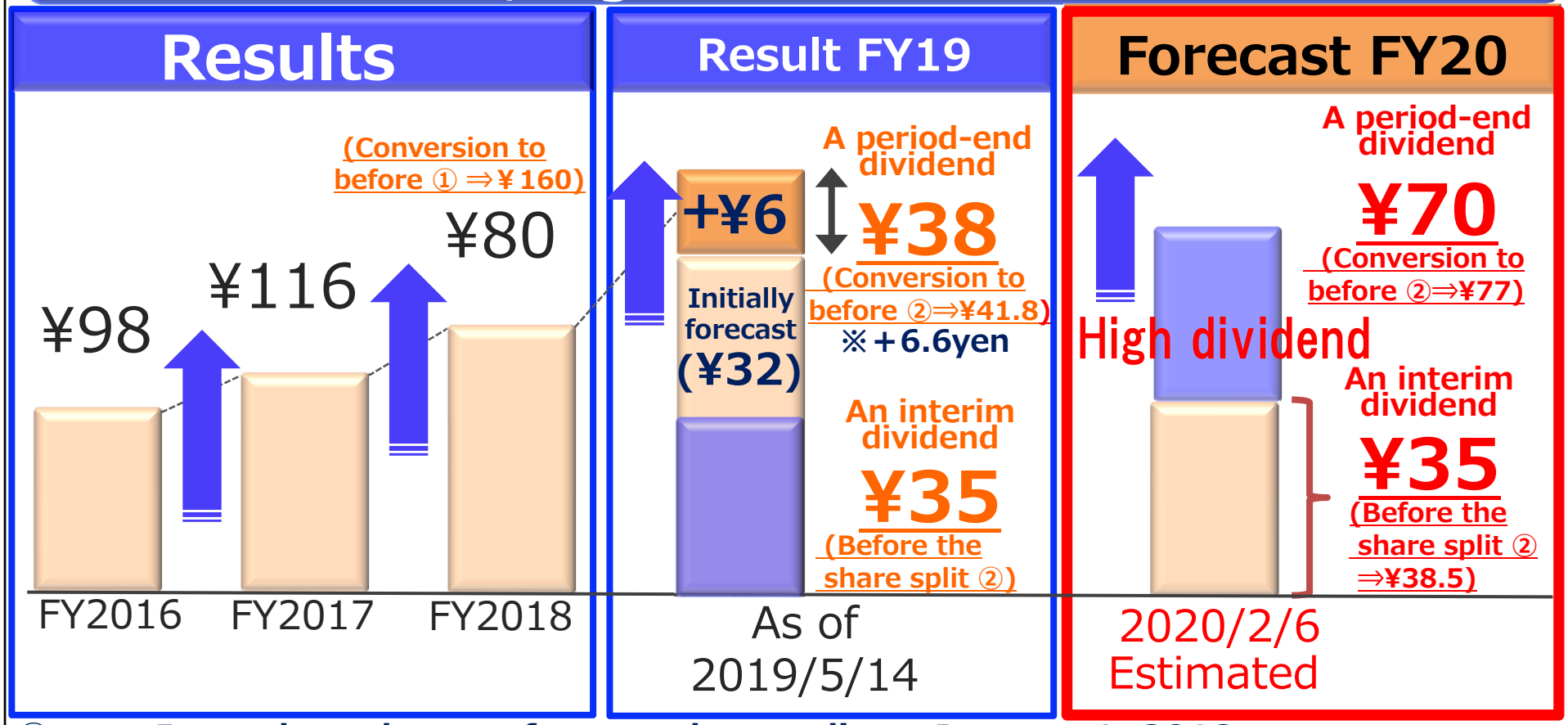
■Shareholder Return Policy (FY12/20)

【Basic dividend policy】
・It aims for a payout ratio on a consolidated basis of 50%, and its basic policy is to pay an annual dividend of ¥10, regardless of results.



①・・・It conducted a two-for-one share split on January 1, 2018.
②・・・It conducted a one-for-one point one share split on July 1, 2019.

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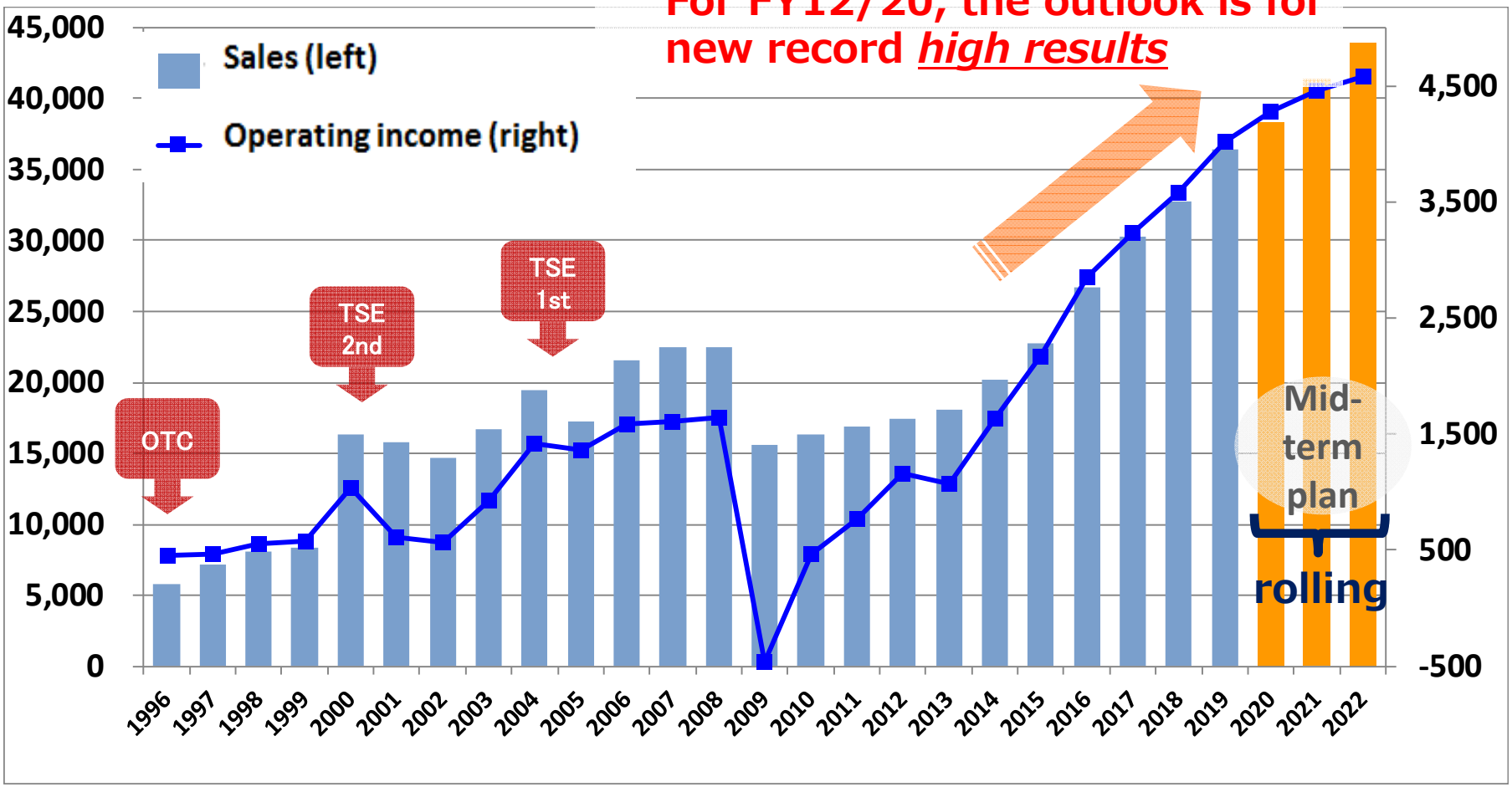
■ Results Trends

The growth in results is being driven by the active recruitment of new graduates.



①From FY1996 to FY1999…Non-consolidated ②After FY2000…Consolidated

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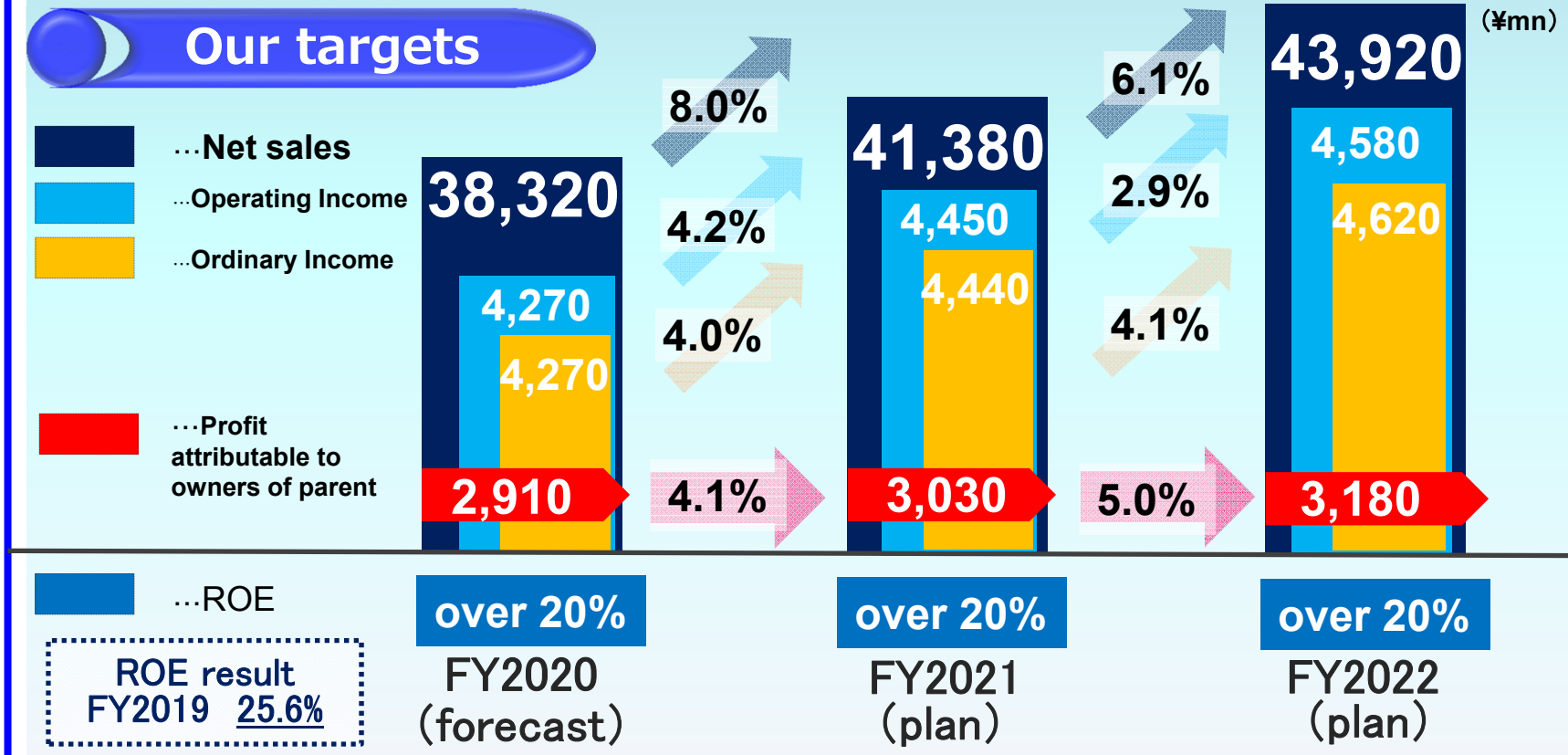
■ The Medium-term Management Plan (Consolidated)

The eleventh five-year plan（for the year2023）

The Reinvestment of Management Resources toward the New Industrial Revolution

For the three-year quantitative (rolling) targets

Our targets



ROE result
FY2019 25.6%

※We anticipate the contribution to results of the new company, “Agri&Care Corporation”.

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■ The Medium-term Management Plan

Qualitative targets

1

Create sustainable competitive advantages in the outsourcing market

2

Accelerate growth and strengthen the earnings foundation by increasing investment

3

Optimize human-resources development and the organization in response to changes in the business environment

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■Sustainability・ESG

ALPS×SDGs

Our efforts for SDGs are posted on the MOFA HP.

https://www.mofa.go.jp/mofaj/gaiko/oda/sdgs/case/org1.html

Diversity

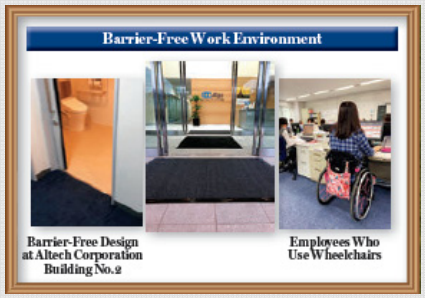
Diversity and inclusion at our Group goes well.

Special cooking class for foreign employees

Global speech contest

Barrier-free

2020 barrier-free project is co-sponsored by us.



Global Risk

- Climate change
- Shortage of labor
- Aging society
- Food problem
- Energy/climate problem
- Resource circulation etc.

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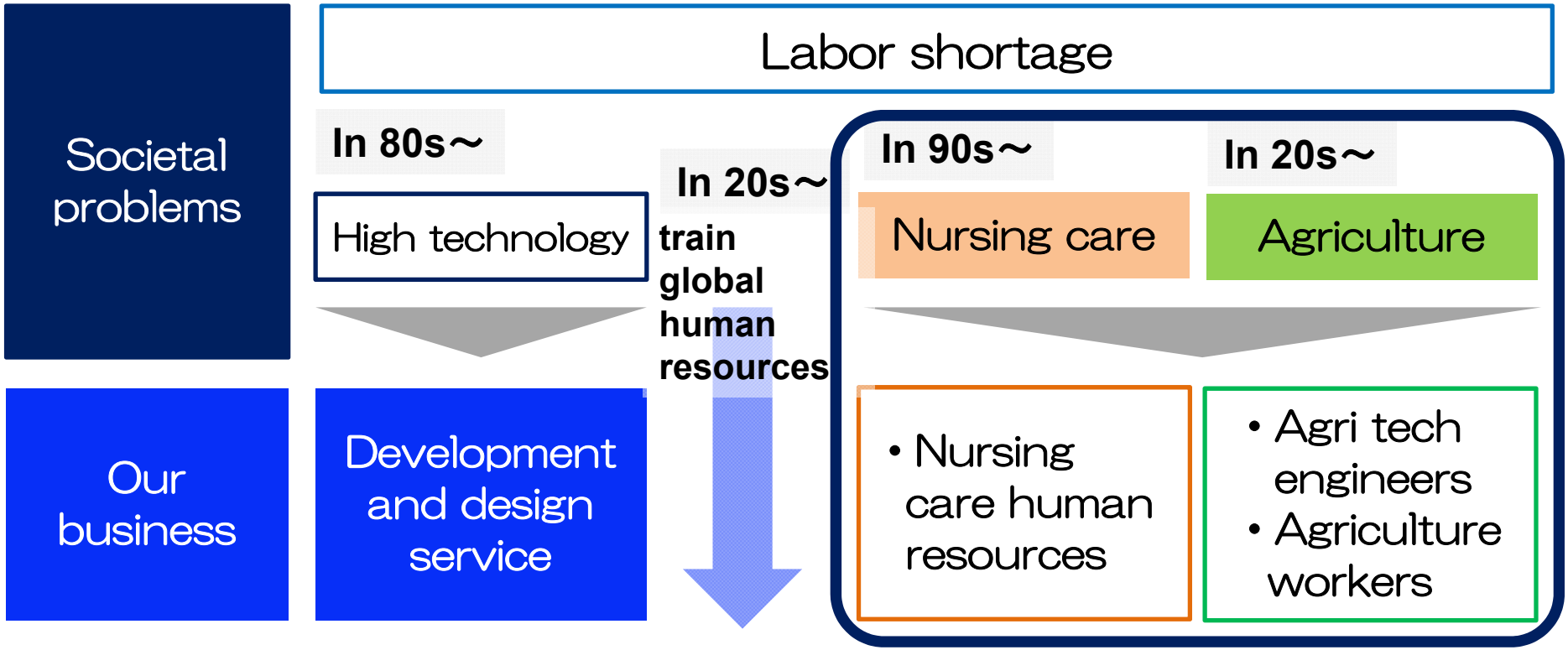
■ ESG: Aiming for Sustainable Growth through Solving Societal Problems

■ Its policy is to actively work toward the societal problems by leading the times to promote the activities of global human resources.



Progressing our business ⇒ Solving societal problems ⇒ Leading to the further improvement of its enterprise value

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We will strive to improve our corporate value and make an appropriate return of profit to shareholders.

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The Human Makes Future―Next Technology Frontier

Alps Altech Corporation

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