

Altech Corporation

4641

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FISCO Ltd.

<http://www.fisco.co.jp>

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■ Summary

**On its 50th anniversary, achieved record high results in FY12/18.
Also achieved other major results, such as entering-into new
business fields.**

1. Company profile

Altech Corporation <4641> (hereafter, also “the Company”) is a comprehensive engineering outsourcer that provides high-level technological services to major manufacturing companies in fields such as machinery, electricity and electronics, software, IT, and chemistry. It places great importance on its “Heart to Heart” corporate philosophy and consistently since its foundation, it has focused on human education from the idea of maintaining the highest levels among its employees not only as engineers, but also as members of society, in addition to strengthening their technical abilities. This can be described as its corporate organizational culture that it the source of one of its strengths, of producing talented human resources. The Altech Corporation Group is comprised of the Company and five subsidiaries, and since FY12/16, it has had two business segments, the Outsourcing Business and the Global Business. The Company observed its 50th anniversary and second foundation period in July 2018, and it is undertaking initiatives to create next-generation strength, including strengthening its operational base, as well as entry into new business fields.

2. Entry-into new business fields

Toward realizing its medium- to long-term growth vision, the Company has entered into new business fields through establishing a new company*. In the agriculture-related field, which is considered to have high growth potential, and in the nursing care-related field, where the shortage of workers is conspicuous, it is aiming to create a new model for the worker assignment market. It is said that in these fields, the keys are introducing state-of-the-art technologies, such as AI, IoT, and robots, and utilizing an overseas labor force, and the Company’s strategy seems to be to aim for the first-mover advantage in fields that utilize its advanced technological capabilities and expertise in developing human resources (including the employment of non-Japanese) that it has cultivated up to the present time. It first launched the agriculture-related business, then became the first in Japan receive certification as a “specified organization” for the Project to Accept Foreigners for Agricultural Support in Aichi Prefecture in August 2018. Subsequently, it received successive certifications from other National Strategic Special Zones (Kyoto Prefecture, Niigata City, and Okinawa Prefecture). Alongside this, in October 2018 it recruited a total of 81 agri-tech and agriculture human resources and global engineers from Vietnam, Myanmar, and China. It is considered that a long-term perspective will be necessary for these businesses’ full-fledged contribution to results, but as they have enormous potential, we will need to pay attention to developments in the future.

| * On April 2, 2018, it established Agri & Care Corporation (Sagamihara City, Kanagawa Prefecture). |

Summary

3. FY12/18 consolidated results

In the FY12/18 consolidated results, net sales increased 8.3% year-on-year (YoY) to ¥32,781mn and operating income rose 10.7% to ¥3,586mn, and not only did sales and profits exceed the initial forecasts, profits were also a record high for the fifth consecutive fiscal year. Against the backdrop of the favorable ordering environment (in particular, R&D investment in next-generation vehicles is active in the automotive-related field), sales steadily grew because in the mainstay Outsourcing Business, the high mobilization rate was maintained, the contract unit price rose, and the number of mobilized employees increased. In profits-loss, expenses increased due to the rise in cost prices to improve employee benefits, and also from advertising expenses to improve name awareness and the corporate image, and expenses relating to the 50th anniversary of the Company's foundation. However, this increase was absorbed by the higher sales, and profits rose more than expected. Also, a donation from the founder (¥300mn) to commemorate the 50th anniversary of the foundation was recorded in extraordinary income. The Company is making effective use of this donation to create strengths toward the next generation (strengthening the management foundation), such as to implement measures for new businesses and to improve name awareness.

4. Outlook for FY12/19

For the FY12/19 results, the Company is forecasting higher sales and profits, of net sales to increase 8.2% YoY to ¥35,470mn and operating income to rise 5.4% to ¥3,780mn, and the outlook is once again for record-high results. Requests for worker assignments from major manufacturing companies, which are the Company Group's main customers, are strong, and this trend is expected to continue. It is expected that some time will be required before the new business (the agriculture-related business) contributes fully to results, but the policy is to work to strengthen sales for agri-tech and agriculture human resources assuming the establishment of a new residency status.

5. Medium- to long-term growth strategy

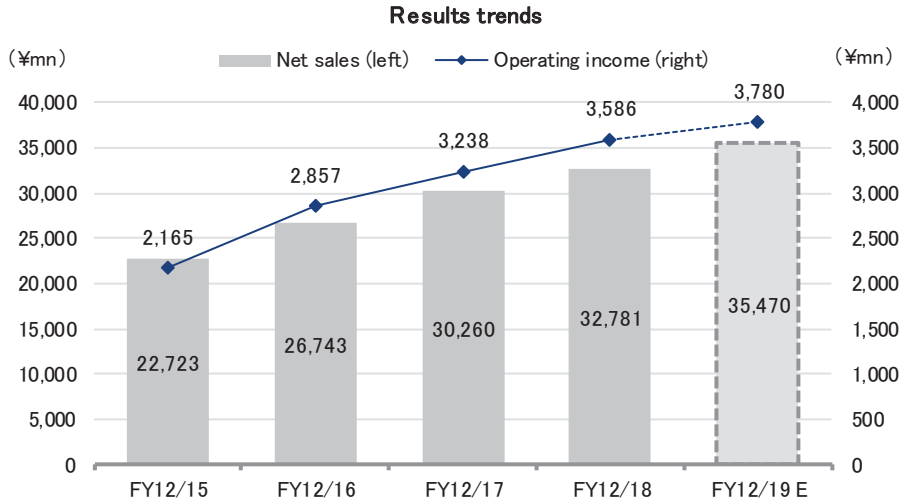
As its medium- to long-term growth vision, the Company has set out a strategy on four axes, of 1) strengthening existing businesses, 2) responding to state-of-the-art technologies, 3) developing globally, and 4) taking on the challenge of new businesses. In particular, in the eleventh five-year plan (qualitative targets), its policy is to promote the Reinvestment of Management Resources toward the New Industrial Revolution. Also, in the three-year (rolling) medium-term management plan, it has set the targets for FY12/21 of net sales of ¥41,370mn, operating income of ¥4,100mn, and ROE of 20% or above (however, it seems that the contribution to results of the new company is being viewed conservatively).

In the situation of the declining Japanese population and economic globalization, at FISCO, we evaluate that the direction that the Company is taking for its business development is a rational strategy that anticipates future changes in the industrial structure. It is aiming to respond to new technological fields in which demand is growing, including by progressing the new businesses (in the nursing care and agriculture fields), and it would seem that the point to focus on going forward will be how it will connect this to sustainable growth. We will also need to continue to pay attention to M&A that utilizes its solid financial foundation.

Key Points

- On the 50th anniversary of its foundation, achieved record high results (and dividend) in FY12/18, and also achieved major results for the strengthening of the management foundation
- In particular, it entered into new business fields with growth potential (agriculture- and nursing care-related markets) through establishing a new company
- The outlook for the FY12/19 results is once again for record-high results
- In the eleventh five-year plan (qualitative targets), is promoting the Reinvestment of Management Resources toward the New Industrial Revolution

Summary



Source: Prepared by FISCO from the Company's financial results

Company profile

From its predecessor of a design office, it has become a group of high-level engineers that provides technologies according to customer requests

1. Company profile

The Company is a comprehensive engineering outsourcing company that provides advanced technological services to major manufacturing companies in fields such as machinery, electricity and electronics, software, IT, and chemistry. Its features include that unlike fixed-term employment based employment agencies, the Company only employs full-time engineers,* and it is a group of highly skilled engineers specializing in upstream processes, such as development and design.

* For example, even during recession periods such as the bankruptcy of Lehman Brothers, it has not dismissed a single employee.

Company profile

Based on its “Heart to Heart” corporate philosophy, consistently since its foundation the Company has focused on human education from the idea of maintaining the highest levels among its employees not only as engineers, but also as members of society, in addition to strengthening their technical abilities. In particular, its strengths include that it has a corporate organizational culture that produces high-quality human resources and an original education and training system*, and its results are steadily growing, supported by its excellent reputation among its customers and the favorable ordering environment.

* Broadly divided into the abilities development education system and career development support, the Company has established an education and training system to develop human resources to have advanced technical skills and expertise, including education according to level and needs, and follow-up from career supporters (senior engineers). Moreover, long-term education and training plans become possible when the employment period is indefinite (full-time employees).

In accordance with the Revised Worker Dispatching Act (enforced on September 30, 2015), the employment-period limitation was ended for indefinite-term employment, while incidental work was also ended on the abolition of specialized work classifications. Also, the acceptance of foreign workers (the establishment of a new residency status) is to be expanded following the revision to the Immigration Control and Refugee Recognition Act (enforced on April 1, 2019), and these and other revisions have been positive developments for the Company.

At the end of December 2018, the Company had 3,518 engineers, and of these, 3,391 were mobilized (working at customers), and it is maintaining a high mobilization rate. Also, looking at the percentages of engineers it assigns according to the fields of customer companies, machinery-related accounts for around 40%, while electricity and electronics-related and software/IT related are both approximately 30%. So, it is maintaining a good balance, centered on these three fields.

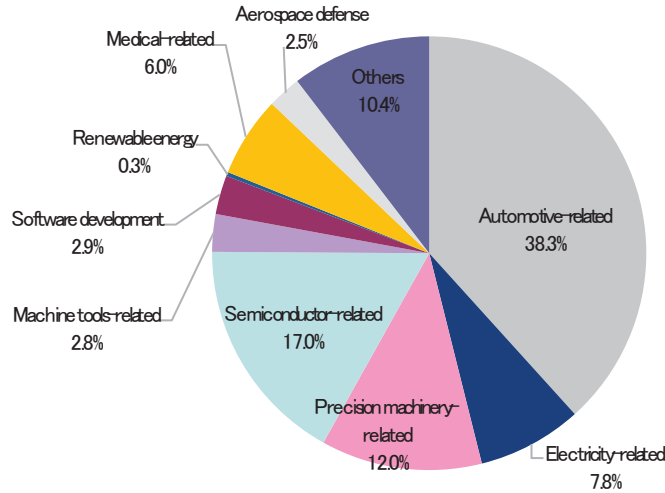
The Company has two business segments, the Outsourcing Business, which is mainly an assignment and outsourcing business in Japan, and the Global Business, which supports Japanese companies’ operations overseas. The Outsourcing Business contributes 96% of net sales, but the policy going forward is to grow the Global Business, for which there is strong demand primarily from Japanese companies located in East Asia.

In net sales by industry, 38.3% is provided by automotive-related*, in which R&D investment is active, and a total of 36.8% by electrical machinery, precision equipment, and semiconductor-related. So, its customer industries are diverse and structured so that the Company is not easily affected by economic fluctuations. It also has around 700 customer companies, and the extent of its reliance on the top 10 customers for sales (mainly major manufacturers, such as Mitsubishi Electric <6503>, Toshiba Memory, and Canon <7751> is 20.0%, without relying on a single company. (FY12/18 result).

* 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.”

Company profile

Percentages of net sales by industry (FY12/18 result)



Source: Prepared by FISCO from the Company's results briefing materials

In total, there are five consolidated subsidiaries, of ALPS BUSINESS SERVICE CORPORATION, which is a provider of total staffing services; PANA R&D CO., LTD., which joined the Group in September 2016 and carries out the assignment of technical experts, and the two subsidiaries that conduct the Global Business, of ALPSGIKEN TAIWAN CO., LTD. (Taiwan) and Altech Shanghai CO., LTD. (China). In addition, in April 2018 with the aim of entering-into new business fields, the Company established Agri & Care Corporation (its business includes human-resources services in the agriculture- and nursing care-related fields). In addition to the Head Office (Yokohama City), the Altech Corporation Building No. 1 (Sagamihara City, formerly the back office and training center), and the Altech Corporation Building No. 2 (Sagamihara City, completed in the end of September 2018), it also has two techno parks for manufacturing and 23 sales office in Japan (the Shizuoka sales office was newly opened on September 1, 2018), and one overseas branch (Myanmar).

Specializes in the development and design fields and is compliant with high-level and advanced technologies

2. Business overview

(1) The Outsourcing Business

This is the Company's core business. It specializes in the development and design fields, which are manufacturing upstream processes, and it positions the provision of high-level technological services by design and development engineers as the center of its business model.

Company profile

The Company provides services in the form of assignment engineers and outsourcing, and its engineers demonstrate high-level performance when responding to the wide variety of customer needs with applicable form. Assignment services take the form of spot assignments (assignment of a single engineer) and team assignments (assignment of a team of engineers whose members have various high-level skills and who conduct product design and development work). The outsourcing services take the form of on-site (the engineer is stationed at the customer's site) and off-site (the engineer returns to the Company's techno park or other site) for project outsourcing (outsourcing of design, prototyping, manufacturing, and evaluation, either on a single or collective contract basis).

Since it was founded as a design office, the Company has met the technical needs of its customers in the field of mechatronics through its concept of "machinery and electrical integrated design." In particular, it utilizes its strength of having a unique business form with its own manufacturing bases (own factories), and the Group as a whole has in place a structure able to handle all of the manufacturing processes, from development, prototyping, manufacturing to evaluation. Even within this structure, the Company's main area of technological expertise is upstream processes, where it possesses competitive advantages in the processes requiring high-level technological capabilities, including basic research, product planning, concept design, detailed and mass production design, prototypes and experiments, and evaluation and analysis.

The central areas of the technology field include machinery design, electricity and electronics design, software development, and chemistry. Alongside the transition to high-level network society, the priority items have become the development and design of a variety of advanced technologies such as for IoT and AI, 3D-CAD for which further demand is expected, CAE technologies, aerospace-related, medical-related, and robot-development technologies. Therefore, the Company's customer companies are spread across a wide range of industries, including automotive, semiconductors and LSI, industrial equipment, digital precision equipment, aerospace, space and defense, and medical and welfare equipment.

(2) Global Business

The Company currently has two overseas subsidiaries ALPSGIKEN TAIWAN CO., LTD. in Taiwan and Altech Shanghai CO., LTD. in China. They conduct installation and maintenance work for the production facilities and equipment of Japanese companies overseas, and also provide human resources services ancillary to this work. Within the advance of economic globalization, one strategic axis is expanding the Global Business.

(3) New businesses (agriculture- and nursing care-related fields)

The new company, Agri & Care Corporation, was established in April 2018 with the aim of entering-into new business fields. The goal is to create a new model for the worker assignment markets for the agriculture-related field, which is a growth industry, and the nursing care-related field, where the shortage of human resources is conspicuous. It is said that in these fields, the keys are introducing state-of-the-art technologies, such as AI, IoT, and robots, and utilizing an overseas labor force, and the Company's strategy seems to be to aim for the first-mover advantage in fields that utilize its advanced technological capabilities and expertise in developing human resources (including the employment of non-Japanese) that it has cultivated up to the present time.

Company profile

3. History

The Company's predecessor, the Matsui Design Office, was founded in 1968 based on the concept of "mechanical and electrical integrated design" of its founder, Toshio Matsui. At that time, electrical design and mechanical design were conducted separately, and to solve the various problems that arose from this, he proposed "mechanical and electrical integrated design" to customer companies as a proprietary and innovative method. The Company has encountered various difficulties, including the oil crises, but through constant efforts it has steadily gained an excellent reputation among its customers for being a comprehensive engineering outsourcer "that provides technologies according to customer requests." Further, under the leadership of the current President and Representative Director Atsushi Imamura, it is aiming to improve results and expand its business, including by focusing on training human resources who are specialized in upstream processes, such as development and design, and the early mobilization of new-graduate engineers.

History

Date	Major event
July 1968	Matsui Design Office was founded in Sobudai, Sagamihara City, Kanagawa Prefecture Started the first five-year plan, "Develop the Company"
January 1971	Renamed the Matsui Design Office as Altech Inc., and established it in Sobudai, Sagamihara City, Kanagawa Prefecture
July 1973	Started the second five-year plan, "Increase Business with Prime Customers and Maintain Internal Capital"
July 1978	Started the third five-year plan, "Implement an Institutionalization of the Company and Improve Technical Capabilities"
January 1981	Moved head office to Kyowa, Sagamihara City, Kanagawa Prefecture
March 1981	Reorganized the organization and transferred it to Altech Corporation
July 1983	Started the fourth five-year plan, "To be an International company and Develop Human Resources"
April 1984	Opened the Tohoku business office in Koriyama City, Fukushima Prefecture
April 1985	Opened the Shinshu business office in Shiojiri City, Nagano Prefecture
July 1985	Constructed a building in Nishi-Hashimoto, Sagamihara City, Kanagawa Prefecture and relocation of Head Office to
February 1986	Established Kita Kanto business office in Fukaya City, Saitama Prefecture
April 1986	Established subsidiary Technical Training Center CO., LTD. (currently, ALPS BUSINESS SERVICE CORPORATION) from the technical training department
July 1988	Started the fifth five-year plan, "Restructuring of the Organization and Developing the Company's own Technology."
December 1989	Established Tateshina Techno Park in Chino City, Nagano Prefecture, started production of in-house developed products and the design and production of precision machinery
October 1990	Adopted a divisional organization structure to utilize profit center management and accounting systems. Established six business division below the Tohoku business division
July 1993	Started the sixth five-year plan, "Nurture High-quality Human Resources for High-quality Companies"
June 1996	Altech is listed on the OTC market of the Japan Securities Dealers Association (currently, JASDAQ) Increased capital to ¥832,619,000
July 1997	Increased capital to ¥1,502,219,000
January 1998	The Tokyo Business Division was separated from the Kanto Division, and the West Japan Division divided into the Osaka Division, the Nagoya Division and the Kyushu Division, and the Tateshina Techno Park was newly established from the Chubu Division. In addition to Tohoku Division, the Company became an eight-business division structure
July 1998	Started the seventh five-year plan, "Restructuring our Business Field and our Core Competencies."
September 1998	Completed the new building of Chubu business division as own property in Shiojiri City, Nagano Prefecture
December 1998	Established the Taiwanese subsidiary (currently, ALPSGIKEN TAIWAN CO., LTD.), in Taipei City, Taiwan
October 1999	Utsunomiya Factory (now Utsunomiya Techno Park) opened in Yaita City, Tochigi prefecture
July 2000	Tateshina Techno Park No. 2 factory completed
September 2000	Listed on the second section of the Tokyo Stock Exchange (listing date September 28, 2000)
July 2001	Completed a new building and the Training Center Relocated the Head Office
March 2003	Introduced a business headquarters system from the business division system (four blocks nationwide)
July 2003	Started the eighth five-year plan, "Creation of New Corporate Value"
October 2004	Entered-into a technical alliance with Qingdao University of Science Technology in China, opened the "Machinery Design Education Program"
December 2004	Listed on the Tokyo Stock Exchange First Section. (first section designation date, December 1, 2004)
July 2005	Introduced the central organization structure to upgrade risk management capabilities.
April 2006	Entered-into a technical alliance with China University of Petroleum, established the China University of Petroleum ALPS International Engineer Education Center

We encourage readers to review our complete legal statement on "Disclaimer" page.

Company profile

Date	Major event
July 2006	Issued 1st unsecured convertible bond type bonds with stock acquisition rights of ¥2 billion
January 2007	Opened the Atsugi Sales Office
February 2007	Participated in the establishment of the Nippon Engineering Outsourcing Association
March 2007	Established subsidiary ALTECH QINGDAO CO., LTD.) in Qingdao City, China
July 2007	Opened the ALPS Qingdao Education Development Center (Qingdao City, China)
October, 2007	Opened the Tsukuba Sales Office (currently, the Hitachi Sales Office)
July 2008	Started the ninth five-year plan "Leap to be a Leading Company"
January 2009	Established the subsidiary Altech Forest Corporation.
March 2009	Opened the Takasaki Sales Office
March 2010	Established the subsidiary Altech Shanghai CO., LTD. (CHINA) in Shanghai, China
March 2011	Relocated Head Office to Minato Mirai, Nishi Ward, Yokohama City, Kanagawa Prefecture Opened the Hitachi Sales Office
February 2012	Opened the Kyoto Sales Office
August 2012	Established the subsidiary Alps Career Designing Corporation in Chiyoda Ward, Tokyo
July 2013	Started the tenth five-year plan "Expansion of Enterprise Scale through Innovation" ~ Accelerate growth as we move toward our 50th anniversary ~
December 2014	Subsidiary Altech Forest Corporation removed from the scope of consolidation on the transfer of shares
April 2015	Opened Yangon branch office in Myanmar (Yangon city)
September 2016	Made PANA R&D CO., LTD. a consolidated subsidiary Alps Business Services Corporation merged with Alps Career Designing Cooperation
April 2017	Start of broadcasts of TV commercials
September 2017	Divided the Nagoya Sales Office into the Nagoya Office I and the Nagoya Office II, and opened the Hirmeji Sales Office
April 2018	Established Agri & Care Corporation in order to enter-into new business fields (agriculture- and nursing care-related fields)
July 2018	Started eleventh five-year plan, the Reinvestment of Management Resources toward the New Industrial Revolution
September 2018	Opened the Shizuoka Sales Office, completed the Altech Corporation Building No. 2

Source: Prepared by FISCO from the Company's materials

Business performance

The growth in results is being driven by the active recruitment of new graduates and the increase in the number of mobilized employees through their early mobilization

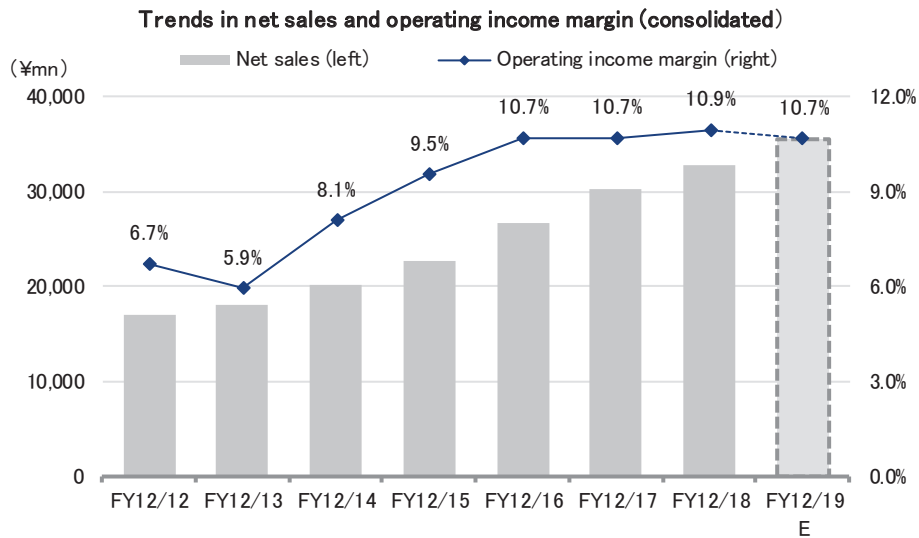
1. Trends in past results (consolidated)

Looking at results up to the present time, we see that they have steadily grown alongside the increase in the number of engineer employees. In particular, since FY12/14, despite the ongoing severe recruitment environment, the Company has still been able to recruit around 250 new graduates a year and realize their early mobilization, and this has driven the growth in results. It can be said that recruiting around 250 new graduates every year and around 80 (FY12/18 result) global engineers in fields with high levels of specialism, and then completing their training at an early stage and maintaining a high mobilization rate, is a growth model that only the Company is capable of. In addition, it is coordinating with its consolidated subsidiary ALPS BUSINESS SERVICE and expanding its overseas business, while PANA R&D, which entered the scope of consolidation in September 2016, is also contributing to the growth in the consolidated results.

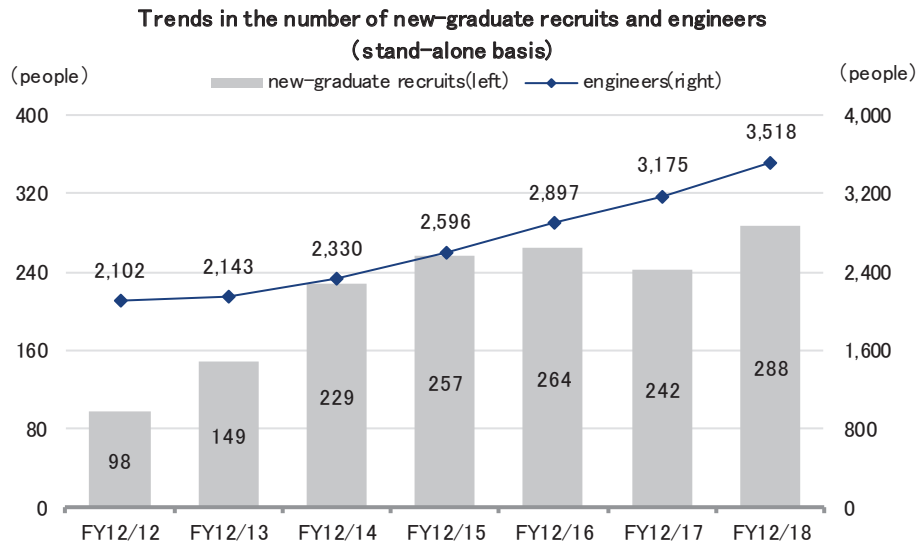
In terms of profit and loss, profits have trended upward alongside the growth in net sales. The operating margin has also improved, and in the last few years it has trended at the high level of above 10%.

Business performance

For the Company's financial condition, total assets grew following the increases in cash and deposits and other items, and while the equity ratio is trending downward slightly, it remains at a level of above 60%. On the other hand, ROE, which indicates capital efficiency, is rising year by year, and in FY12/18 it reached a level of above 20%. Therefore, the Company's financial condition can be evaluated as being extremely good. It also has plentiful liquidity on hand (cash and deposits), which serves as a buffer against unforeseen circumstances and also expands the range of strategies it can adopt for growth, so it will be necessary to pay attention to developments in the future.

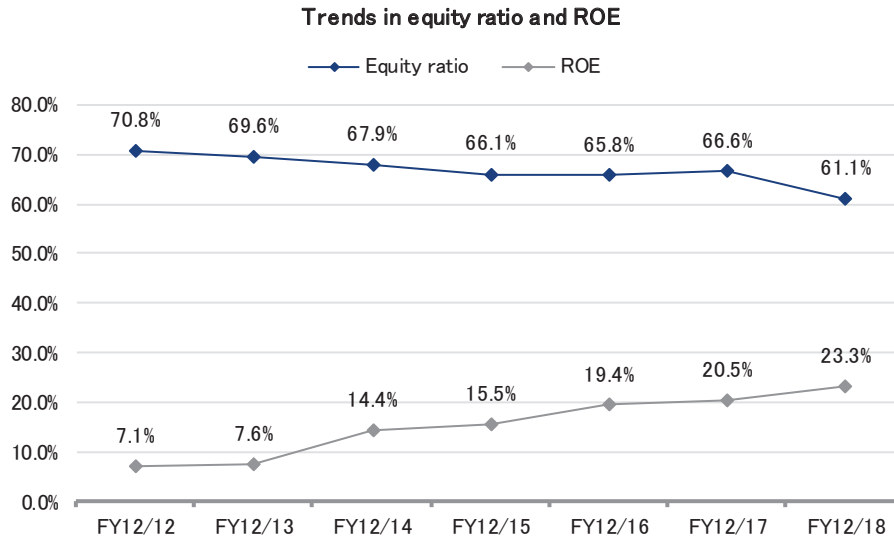


Source: Prepared by FISCO from the Company's financial results



Source: Prepared by FISCO from the Company's results briefing materials

Business performance



Source: Prepared by FISCO from the Company's results briefing materials

Achieved record-high results in FY12/18. The strong R&D investment, including in next-generation vehicles, is proving beneficial.

2. Overview of the FY12/18 consolidated results

For FY12/18 consolidated results, the Company exceeded its initial forecasts in sales and profits, and also achieved a record high for the fifth consecutive fiscal year. Net sales were ¥32,781mn, up 8.3% YoY, operating income was ¥3,586mn, up 10.7%, ordinary income was ¥3,605mn, up 10.1%, and profit attributable to the owners of parent was ¥2,667mn, up 12.7%.

Against the backdrop of the favorable ordering environment (in particular, R&D investment in next-generation vehicles is active in the automotive-related field), sales steadily grew in the mainstay Outsourcing Business, because the high mobilization rate was maintained, the contract unit price rose, and the number of mobilized employees increased. On other hand, sales declined in the Global Business, even though demand from Japanese companies grew, mainly due to the fall in orders for large projects.

In profits-loss, expenses increased due to the rise in cost prices to improve employee benefits*1, and also from advertising expenses to improve name awareness and the corporate image, and expenses relating to the 50th anniversary of the Company's foundation. However, this increase was absorbed by the higher sales, and profits rose more than expected. The operating margin also improved to 10.9% (10.7% in the previous fiscal year). The reason for the significant growth in final profit (net income) was the donation from the founder to commemorate the 50th anniversary of the foundation (extraordinary income of ¥300mn)*2.

*1 As a result, the employee retention rate improved and the number of Company engineers (the number of mobilized employees) increased.

*2 The Company is making effective use of this donation to create strengths toward the next generation (strengthening the management foundation), such as to implement measures for new businesses and to improve name awareness (for advertising expenses, etc.)

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Business performance

In finances, total assets were down 5.9% on the end of the previous fiscal year to ¥17,341mn, while shareholders' equity also dropped sharply, by 13.7% to ¥10,594mn, due to the acquisition of treasury shares*. Therefore, the equity ratio fell to 61.1% (66.6% at the end of the previous fiscal year). However, financial stability is being sufficiently secured and the Company can be positively evaluated for its measures to improve capital efficiency. For the decline in total assets, although non-current assets increased due to the construction of the Altech Corporation Building No. 2, the impact of the decline in "cash and deposits" from the acquisition of treasury shares was significant.

* The Company was informed by its leading shareholder (the founder's asset management company) of its intention to sell some of its holding of Company shares. The Company decided to acquire these shares after considering factors such as improving capital efficiency, returning profits to shareholders, and the impact on the stock market. Also, it adopted the tender offer method as the specific acquisition method from the viewpoints of equality for shareholders and transaction transparency. In this transaction, it will purchase 1,603,300 shares (percentage of the total number of issued shares, 7.13%) for a purchase price of ¥3,174,534,000.

Overview of FY12/18 results

	FY12/17		FY12/18		YoY		(¥mn)		
	results	% of sales	results	% of sales	%	FY12/18		Achievement rate	
						Initial forecast	% of sales		
Net sales	30,260		32,781		2,521	8.3%	32,400		101.2%
Outsourcing Business	28,745	95.0%	31,397	95.8%	2,652	9.2%	-	-	-
Global Business	1,515	5.0%	1,383	4.2%	-131	-8.7%	-	-	-
Cost of sales	22,737	75.1%	24,406	74.5%	1,668	7.3%	-	-	-
SG&A expenses	4,283	14.2%	4,788	14.6%	504	11.8%	-	-	-
Operating income	3,238	10.7%	3,586	10.9%	347	10.7%	3,430	10.6%	104.5%
Outsourcing Business	3,191	10.5%	3,460	10.6%	269	8.4%	-	-	-
Global Business	43	0.1%	123	0.4%	79	181.6%	-	-	-
Ordinary income	3,275	10.8%	3,605	11.0%	330	10.1%	3,510	10.8%	102.7%
Profit attributable to owners of parent	2,367	7.8%	2,667	8.1%	300	12.7%	2,370	7.3%	112.5%
Number of engineers	3,175		3,518		343	10.8%			
Number of mobilized employees	3,088		3,391		303	9.8%			
Mobilization hours	171.8		169.4		-2	-1.4%			
Contract unit price	3,903		3,988		85	2.2%			

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Business performance

FY12/18 financial condition

	FY12/17	FY12/18	Change	
				(¥mn)
Current assets	13,760	11,808	-1,951	-14.2%
(cash and deposits)	8,370	5,902	-2,467	-29.5%
(notes and accounts receivable - trade)	4,357	4,630	273	6.3%
Non-current assets	4,675	5,532	857	18.3%
(goodwill)	394	335	-58	-14.8%
Total assets	18,435	17,341	-1,094	-5.9%
Current liabilities	5,722	6,420	697	12.2%
(accounts payable - trade)	1,265	1,576	311	24.6%
(short-term loans payable)	700	700	-	-
Non-current liabilities	417	307	-109	-26.3%
Total liabilities	6,139	6,727	587	9.6%
Net assets	12,295	10,613	-1,682	-13.7%
Shareholders' equity	12,276	10,594	-1,682	-13.7%
Current ratio	240.5%	183.9%	-56.6pt	-
Equity ratio	66.6%	61.1%	-5.5pt	-
Interest-bearing debt ratio	5.7%	6.6%	0.9pt	-

Source: Prepared by FISCO from the Company's financial results

Overview of each segment is outlined below.

(1) The Outsourcing Business

In the Outsourcing Business, net sales increased 9.2% YoY to ¥31,397mn and segment income rose 8.4% to ¥3,460mn, for higher sales and profits. In a situation in which the ordering environment continues to be favorable, the increase in the number of mobilized employees and the improvement in the contract unit price from the success of a series of measures for recruitment, education, and sales, contributed to the results' growth. Each of the priority results indicators steadily increased, as the number of engineer employees was 3,518 people (up 343 people on the end of the previous fiscal year), the number of mobilized employees was 3,391 people (up 303 people), and the contract unit price*1 was ¥3,988 (up ¥85). In addition, the Company was able to maintain the average annual mobilization rate at the high level of 96.0% (96.2% in previous fiscal year) even while recruiting more new graduates and overseas human resources than in the previous fiscal year. However, the reason for the decrease in the average number of hours worked per employee*2 to 169.4 hours (down 2.4 hours YoY) was the impact of the reforms to ways of working, particularly at major companies. The Company is forecasting that going forward also, this decline in working hours will continue until it reaches a certain level, and its policy is to cover for this mainly through increasing the number of mobilized employees and improving the contract unit price. It also intends to identify changes in demand through an analysis of working hours at each customer and to acquire projects in growth fields and areas.

*1 The unit price per hour based on the contract with the customer (does not include overtime fees)

*2 Hours worked per month, corresponding to work as an engineer

Business performance

(2) Global Business

In the Global Business (which includes the design, manufacture, installation and maintenance of various plant equipment and plant machinery, and human-resources services), net sales decreased 8.7% YoY to ¥1,383mn and segment income increased 181.6% to ¥123mn, so profits increased substantially even while sales decreased. Despite the growth in demand from Japanese companies, sales declined temporarily, mainly due to a decline in the focus area of sales and order-receiving activities and a decline in orders for large projects. On the other hand, in profits, the cost-of-sales ratio, which had worsened temporarily in the previous fiscal period (due to a special factor) normalized, which led to the major improvement in the profit-loss result.

3. Summary of FY12/18 results

To summarize the FY12/18 results from the above, it can be said that the Company achieved major results not only for the quantitative aspect, of realizing results growth that exceeded the forecasts and setting new record high results (and dividend), but also as described below, for the qualitative aspect as well, of entering-into new businesses with growth potential and strengthening the management foundation. On the 50th anniversary of its foundation, this can be evaluated as a sign that it will make strong progress on the start of its new foundation period.

Major topics

Entered into the agriculture- and nursing care-related fields that have growth potential. On the 50th anniversary of its foundation in 2018, worked to strengthen the management foundation.

1. Recruitment results

For the recruitment of human resources who will drive the Company's growth, in 2018 it recruited 288 new graduates (242 people in the previous fiscal year), 81 overseas human resources (who joined the Company in October), and 150 mid-career recruits (the plan was for 120 people), so the recruitment of each steadily increased. For the recruitment of new graduates in 2019 as well, it plans to exceed the target of 250 people. This can be evaluated as the result of ascertaining the needs of job seekers who are aiming at independent career formation through its success in improving name awareness through advertising activities and communicating its appeal via various recruitment activities. Moreover, its subsidiary, PANA R&D, would also seem to be achieving major results for recruitment through strengthening its collaboration with the Group.

Major topics

2. Made progress for the new businesses (establishing a new company, certification as a specified organization, etc.)

The Company decided to enter-into new fields (the agriculture- and nursing care -related fields) toward realizing its medium- to long-term growth vision (details provided below), so on April 2, 2018, it established a subsidiary, Agri & Care Corporation, for assignments of agriculture- and nursing care-related human resources. It first launched the agriculture-related business, and became the first in Japan to receive certification as a “specified organization” in the Project to Accept Foreigners for Agricultural Support in August 2018 in Aichi Prefecture, which has been promoting the goal of realizing “robust agriculture.” Subsequently, it received successive certifications from other National Strategic Special Zones (Kyoto Prefecture, Niigata City, and Okinawa Prefecture). Alongside this, it recruited agri-tech and agriculture human resources from Vietnam, Myanmar, and China.

* In the Project to Accept Foreigners for Agricultural Support, a specified organization accepts overseas human resources who have the skills to work immediately at agricultural sites in Japan, such as in farm and processing work, based on employment contracts, under an appropriate management system in which participate the relevant local governments and national organizations in the National Strategic Special Zones. At the current time, Niigata City, Aichi Prefecture, Kyoto Prefecture, and Okinawa Prefecture has received approval for zone plans to carry out the project.

For the nursing care-related business also, the Company has already started to train nursing care human resources in Myanmar, and it intends to progress the development of this business in line with Japan’s nursing care-related laws. The Yangon branch in Myanmar is currently conducting preparations to build a scheme to train nursing care-related human resources and send them to Japan.

3. Events to commemorate the 50th anniversary of its foundation

The Company set 2018, in which the 50th anniversary of its foundation was in July, as the first year of the second foundation period, and it is working to create strengths (strengthen the management foundation) toward the next generation, including promoting new businesses, expanding diverse recruitment activities, creating an overseas business, and strengthening advertising. In particular, it constructed the Altech Corporation Building No.2*1, which will be the symbol of the second foundation period, and donated wheelchairs*2, and it is also conducting various other measures aiming at improving employee motivation and the retention rate*3, training human resources for the future*4, and improving name awareness (corporate image).

*1 Completed at the end of September 2018 (located in Nishihashimoto, Midori Ward, Sagami City, Kanagawa Prefecture).

*2 As one part of its CSR activities, it donated approximately 450 heavy-duty wheelchairs, including to local governments and welfare councils around the country with which it has strong relations.

*3 Promoting a movement to make all employees shareholders, holding of employee-exchange events, etc.

*4 Founding of a school to train human resources for the future, etc.

4. Selected as one of the JPX-Nikkei Mid and Small Cap Index constituent issues

On August 7, 2018, the Company’s shares were selected as one of the constituent issues in the JPX-Nikkei Mid and Small Cap Index for FY18 (August 31, 2018, to August 29, 2019). The JPX-Nikkei Mid and Small Cap Index is a stock index that is jointly calculated by the Tokyo Stock Exchange, Inc., and Nikkei Inc. It consists of small and medium-sized issues that use capital efficiently and that conduct management with an awareness of investors.

■ Business outlook

For FY12/19, the outlook is for new record high results

1. Outlook for FY12/19

For the FY12/19 consolidated results, the Company is forecasting higher sales and profits, with net sales to increase 8.2% YoY to ¥35,470mn, operating income to grow 5.4% to ¥3,780mn, ordinary income to increase 7.1% to ¥3,860mn, and profit attributable to owners of parent to increase 0.5% to ¥2,680mn. Moreover, the forecasts continue to experience new record highs.

Requests for worker assignments from major manufacturing companies, which are the Company Group's main customers, are strong, and this trend is expected to continue. The number of recruited new graduates in 2019 is expected to be more than the target of 250 people, and in addition, the plan is to recruit more than 80 overseas human resources and 160 mid-career recruits, while prioritizing quality. It is expected that some time will be required before the new business (the agriculture-related business that was launched first) contributes fully to results, but the policy is to work to strengthen sales for agri-tech and agriculture human resources assuming the establishment of a new residency status*.

* A new "specific skills" residency status will be established in two levels as a result of the amendment to the Immigration Control and Refugee Recognition Act (enforced on April 1, 2019) to expand the acceptance of overseas workers. In addition to the recruitment of global engineers conducted up to the present time, the Company plans to utilize this newly established residency status when conducting the agriculture- and nursing care-related businesses.

In profit-loss, the outlook is that although expenses will increase, including for upfront investment in the new businesses, an increase in profits will be secured from the higher sales.

At FISCO, we think it is highly possible that the Company will achieve its results forecasts because demand for skilled engineers will remain high against the backdrop of the strong investment in R&D, and also from the steady progress it is making for recruitment. We will also be focusing on the progress it makes in the new business fields toward accelerating growth from the next fiscal period onwards.

2. Plan for activities

On the fully-fledged start of the second foundation period (building a foundation), continuing on from the previous fiscal period, the Company intends to work on the following measures.

(1) Measures to create the next generation (individual)

The Company will reform the three pillars that support its growth (recruitment, education, and sales) and realize a virtuous circle that produces mutually positive effects. In particular, its policy is to aim to ascertain in advance changes to technologies and industries and to respond to growth fields.

Business outlook

a) Recruitment

The Company is working on measures such as 1) strengthening mutual collaboration with Group companies, 2) responding to the diverse job-search needs of students, and 3) building a recruitment system in China and the ASEAN region. Even in the harsh recruitment environment, it plans to recruit 280 new graduates in 2020 through a quality-oriented recruitment policy (it goes without saying that the quality of the recruited human resources needs to be within the range in which they can be sufficiently educated and developed). Also, as mentioned above, its policy is to proactively recruit overseas human resources and mid-career recruits.

b) Education

The Company is working on measures including 1) rebuilding the education and training system for the Group as a whole (advanced technologies, agri-tech, agriculture, nursing care, etc.) and 2) strengthening the training of executive and middle-ranking human resources. In particular, it will develop human resources with backcasting who will be responsible for the second foundation period.

c) Sales

The Company will work on measures including 1) acquiring excellent customers for the new businesses and the early mobilization of recruits, 2) providing proposals tailored to the changing times, and 3) promoting matching by engineer*. In particular, it intends to promote the expansion of state-of-the-art technologies (high unit price zone), including AI, IoT, and robots, and to establish a CS (customer satisfaction) brand.

* The Company is incorporating a mechanism that enables the engineers themselves to feel their own growth through creating a database of the career plans of each individual engineer, and then matching them to the requests from customers.

(2) Measures for the Group

It is working to further advance cooperation within the Group, to strengthen recruitment and education, and to expand the business domains together with the Group as a whole. In particular, it is striving to create synergies with its domestic subsidiaries and overseas business, and to launch new businesses.

a) Domestic business

For ALPS BUSINESS SERVICE, the aim is to increase the number of employees through Group cooperation and to expand its business (including the provision of one-stop services in its middle and downstream processes assignments, outsourcing, and introduction businesses). It is also working on measures including establishing an education system as the base for the education of Group human resources (such as training for interpersonal skills) and improving benefits. For PANA R&D, it is working to further strengthen the Outsourcing Department and to establish and improve a foundation environment.

b) Overseas business

The Company is further expanding the Global Business (the installation and maintenance of production facilities and related for Japanese companies and others, and human-resources services) through its local subsidiaries in Shanghai and Taiwan. In addition, in the Yangon branch office (Myanmar), it is working to launch new businesses (agriculture and nursing care) through the education and training of human resources. It is also continuing to aim to expand the routes for recruiting global engineers in China and Vietnam.

Business outlook

3. Industry trend and the Company's position

The number of assignment workers nationwide peaked at 2.02 million people in 2008, which was around the time of the bankruptcy of Lehman Brothers, and then trended downward after that and had bottomed out in 2013 falling to 1.29 million people by 2017. Also, the environment surrounding the worker assignment business seems to have reached a major turning point due to factors including the revisions to the Worker Dispatch Act (enforced on September 30, 2015) and the guidelines on equal pay for equal work. It is considered that the situation in this business will change greatly in the future, depending on what assignment companies expect of the assignment employees, such as their technical capabilities and expertise. In short, the need for new human resources with high-level technical capabilities and expertise will remain steady, but it seems there will be major changes in the work in downstream processes, for example due to economic trends.

In the Company, the position of engineers is stable as they are employed indefinitely (full-time employees) and they acquire high-level technical capabilities and expertise from the education and training they receive, and therefore they earn the trust of the customer companies. The results of the Company, which specializes in the assignment of indefinitely employed engineers, are expected to steadily expand in the future. Of course, in order to be assigned upstream processes, the Company will need to strive ceaselessly so that its engineers may utilize their technical capabilities and expertise and meet the needs of customers in industries such as electricity and machinery, automotive, and aerospace and space. Supported by its long-term education for its engineers, it is considered that the Company will be able to continuously expand its business by earnings its customers' trust.

Also, at the present time, due to the effects of "reforms to ways of working," while on the one hand the number of working hours per employee is decreasing, on the other hand the number of engineers being requested is increasing. This is not only to compensate for manufacturers' labor shortages, because a characteristic trend that can be seen is that requests are also increasing in the state-of-the-art technologies field that requires specific skills. Therefore, in this field, which the Company has positioned as a priority area, an increasingly important success factor in the future will be how and whether it can secure (train) excellent engineers.

■ Medium- to long-term growth strategy

Aiming to expand its portfolio by developing new technologies and for new markets

1. Medium- to long-term growth vision

The Company has explained its direction for its next business development in terms of a portfolio with 4 quadrants divided on 2 axes, of markets and businesses / technologies, and also into existing and new areas for each axis.

(1) Provision of high-level technological services (existing markets, existing business / technologies)

These are existing services, such as for machinery design, electricity and electronics design, and development. They are the Company's stable source of earnings and going forward, it is aiming to strengthen the project management structure and other structures for business expansion.

Medium- to long-term growth strategy

(2) State-of-the-art technologies' (high unit price zone) development and design work (new markets, existing business / technologies)

This is development and design work in various advanced-technology areas, including AI and IoT, robots, hybrid and EV vehicles, aerospace-related, and medical-related, and the Company is responding to changes in technologies to meet societal needs to expand into the corresponding markets.

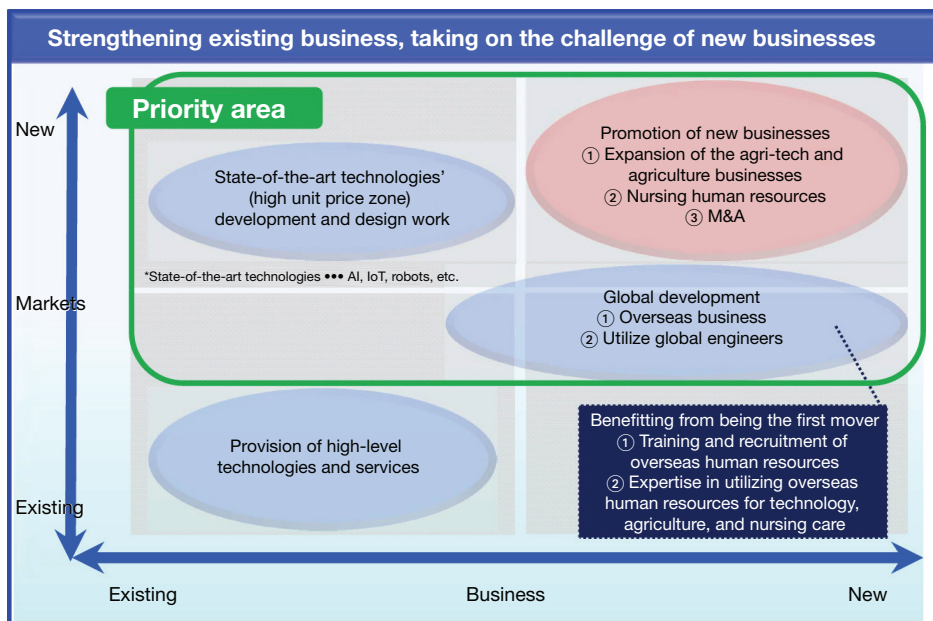
(3) Global development (existing markets, new business / technologies)

Basically, this is the provision of services like the construction and management of production facilities locally alongside the overseas expansion of its customer companies. For the time being, the Company's regional focus is on China and Asia, and it is also aiming to utilize global engineers, such as to act as bridging engineers.

(4) Investigating potential new businesses (new markets, new business / technologies)

The Company intends to advance various measures, including utilizing nursing care human resources, opening-up other fields (including the agri-business), and conducting M&A. As previously mentioned, it has decided to establish a new company for the agriculture-related field and nursing care-related field, and it has begun specific measures toward the development of a new worker assignment business.

The medium- to long-term growth vision



Source: From the Company's results briefing materials

Medium- to long-term growth strategy

2. The medium-term management plan

Since its foundation, the Company has been formulating qualitative targets for every five years and quantitative targets for every three years (rolling targets in the medium-term management plan). On the 50th anniversary of its foundation in July 2018, it announced the next five-year plan (updated the qualitative targets) on the fully-fledged start of the second foundation period. With the Reinvestment of Management Resources toward the New Industrial Revolution as the theme, it intends to implement the three measures described below.

- (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

Also, for the three-year quantitative (rolling) targets, as the results in the previous fiscal year (FY12/18) exceeded the forecasts and investment in R&D continues to be strong, the Company announced that it has raised the targets in the previous plan and also set new quantitative targets for FY12/21. In FY12/21, it is targeting net sales of ¥41,370mn, operating income of ¥4,100mn, and profit attributable to owners of parent of ¥2,820mn, while it also intends to secure ROE of 20% or above (however, it seems to be viewing the contribution to results of the new company, Agri & Care Corporation, conservatively).

At FISCO, within a situation of the declining Japanese population and advancing economic globalization, we evaluate that the Company's direction for business development is a rational strategy that has an eye to the changes to the industrial structure in the future. Up to the present time, it has responded at high levels to the changes to technological needs, and the point to focus on going forward would seem to be how it will respond to new technological fields in which demand is expanding, and how these responses will connect to sustainable growth. Particularly for the new businesses, including in the agriculture-related field (agri-business) and the nursing care-related field, because of their great potential from societal demands, it seems fully possible that the Company will grow these businesses to become its profit drivers in the future, as it will be able to utilize its expertise and networks for developing human resources that it has acquired overseas. Moreover, we will place focus on the specific path the Company should take going forward in terms of initiatives to bolster its structure for development in the high unit price zones of AI and robotics. We must also continue to pay attention to M&A that utilizes its strong financial base.

Shareholder return policy

Paid a record-high dividend in FY12/18, including a commemorative dividend. Plans to maintain it at the same high level in FY12/19 also, on an ordinary-dividend basis.

1. Basic dividend policy

The Company pays dividends as its policy to return profits to shareholders. 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.

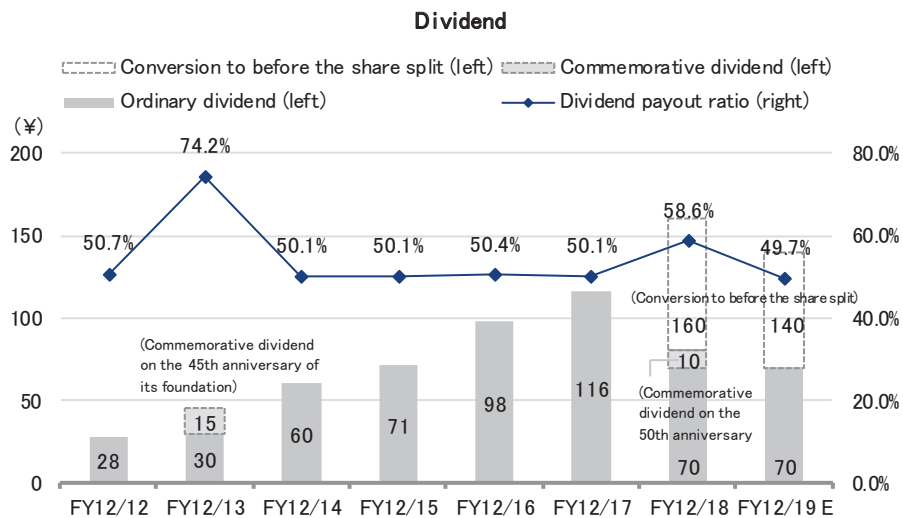
2. Dividend trend and plan

On looking at how dividends have trended in the past, we see that the Company has continued to steadily increase the dividend against the backdrop of the favorable results. It has maintained the dividend payout ratio at around 50%.

In FY12/18, after adjusting for the share split*, the Company increased the dividend ¥22 YoY for an annual dividend of ¥80 (an interim dividend of ¥39 and a period-end dividend of ¥41), which included a commemorative dividend of ¥10 on the 50th anniversary of its foundation, for a new record high dividend (dividend payout ratio, 58.6%). Also, as explained above, in response to the intention of the leading shareholder to sell some of its holding of the Company's shares, the Company acquired its treasury shares (through a tender offer) and it worked to improve capital efficiency (to improve ROE and EPS).

* It conducted a two-for-one share split on January 1, 2018, in order to expand the investor groups and to improve the liquidity of the Company's shares.

For the FY12/19 dividend as well, the Company plans to pay an annual dividend of ¥70, which is the same as in the previous fiscal year on an ordinary-dividend basis (an interim dividend of ¥35 and a period-end dividend of ¥35, for a dividend payout ratio of 49.7%).



Note: Implemented a two-for-one share split on January 1, 2018
 Source: Prepared by FISCO from the Company's financial results

We encourage readers to review our complete legal statement on "Disclaimer" page.

■ Information security

The Company Group works on maintaining information security as a priority, because its engineers work externally at the places to which they are assigned. Specifically, it is constructing a system to thoroughly ensure information security through establishing a personal information protection policy, an information security basic policy, and related regulations, and it is managing these policies and regulations appropriately and educating all employees on them. It also regularly provides thorough guidance on compliance with security rules at the places to which its engineers are assigned.



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