COMPANY RESEARCH AND ANALYSIS REPORT

Altech Corporation

4641

Tokyo Stock Exchange Prime Market

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Index

Summary

In FY12/23, sales and operating profit rose to record highs. R&D for next-generation automobiles, semiconductor-related areas, and so forth was brisk. In FY12/24, the Company expects the sales and operating profit uptrend to continue

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 standpoint 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. Upon the 55th anniversary of its foundation in July 2023, it announced the twelfth five-year plan (qualitative targets) as its vision up to 2028. It plans to work on strengthening its foundation for sustainable growth by leveraging cutting-edge technology to take on new domains and grow new revenue streams such as agriculture and nursing care business.

2. FY12/23 consolidated results

In FY12/23 consolidated results the Company recorded increased sales and profit, with net sales of ¥46,216mn, up 5.9% year on year (YoY), and operating profit of ¥4,982mn, up 7.2%, achieving record highs. Although the manufacturing industry is experiencing soaring raw material prices, logistics costs, and personnel expenses, R&D investment is firm, especially in the semiconductor industry, which is performing well, and the automotive industry, where the development of next-generation automobiles is intensifying. Results were led by an increase in mobilized engineers (maintaining a high mobilization rate) and improvements to contract unit prices. Additionally, the Global Business, where demand is growing mainly for the semiconductor industry, continued to maintain strong performance following the previous term. On the earnings front, the cost of sales increased due to improved compensation, but that was offset by a boost to earnings from sales growth, and the operating profit margin remained above 10%. In activities looking to the future, notable results were achieved in new businesses (agriculture- and nursing care-related businesses).

3. Outlook for FY12/24

In its outlook for FY12/24, the Company is forecasting continued growth in sales and profits, with net sales to increase 7.1% YoY to ¥49,500mn and operating profit to increase 4.4% to ¥5,200mn. With brisk customer needs, including expanding demand in semiconductors and medical systems, as well as software development related to advanced technologies, net sales and operating profit are both expected to grow steadily. Also, agriculture-related fields where the acceptance of personnel from abroad has progressed along with the lifting of immigration restrictions are apparently expected to contribute to earnings growth.

4. Medium- to long-term growth strategy

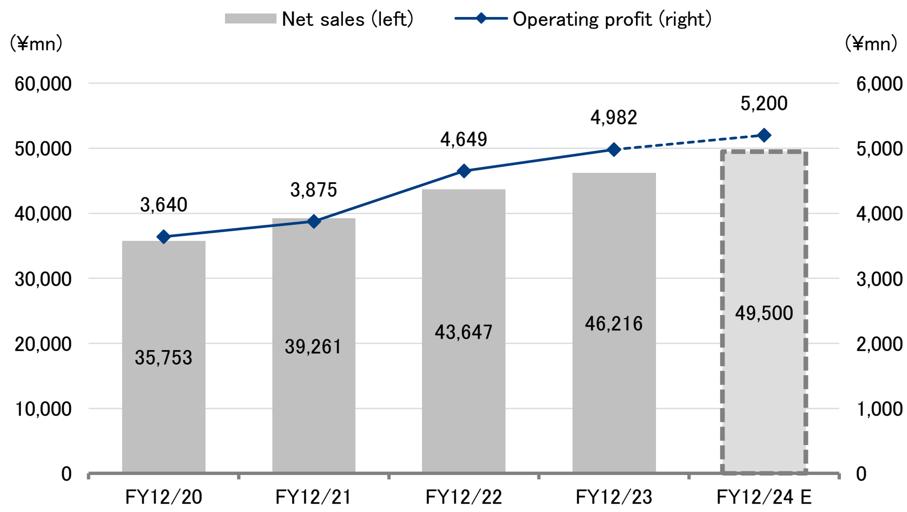
Under the newly released twelfth five-year medium-term plan (qualitative targets), the Company aims to 1) take on new domains of engineering outsourcing business, 2) develop new earnings pillars, 3) help create a sustainable, prosperous society, and 4) employ digitalization to foster an organizational culture where diverse personnel thrive based on the theme "utilizing technology to challenge partners in a co-creative society." Also, in the three-year (rolling) medium-term management plan, it has set FY12/26 targets of net sales of ¥55,500mn, operating profit of ¥5,700mn, and ROE of 20% or above.

Amid a declining Japanese population and economic globalization, we at FISCO consider that the direction that the Company is taking for its business development is a rational strategy that anticipates future changes in the industrial structure. Looking ahead, the key points to focus on will be how many new growth pillars can be set on track, including new businesses such as agriculture and nursing care and manufacturing business, and whether these will lead to sustainable growth.

Key Points

- Achieved increased sales and profit in FY12/23, setting new record highs. This was accomplished through an increase in mobilized engineers (maintaining a high mobilization rate) and improvements to contract unit prices.
- R&D for next-generation automobiles, semiconductor-related areas where demand is growing, and so forth was brisk.
- In FY12/24, the Company expects the sales and profit uptrend to continue.
- Under the twelfth five-year plan (qualitative targets), it plans to work on growing new earnings pillars focusing on agriculture- and nursing care-related areas, take on new domains by utilizing cutting-edge technology, and so on based on the theme of "utilizing technology to challenge partners in a co-creative society."

Business performance



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, it 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 2008 financial crisis, it has not dismissed employees.

Based on its “Heart to Heart” corporate philosophy, consistently since its foundation, the Company has focused on human education from the standpoint 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 its corporate organizational culture which 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.

* The Company has established an education and training system, broadly divided into the abilities development education system and career development support, 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, the employment period is indefinite (permanent employees), which enables long-term education and training plans.

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 due to 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. Although the Company was affected by immigration restrictions from FY12/20 onward due to COVID-19 pandemic, it has recently made full-scale efforts to employ global human resources along with the lifting of the restrictions. In addition, equal pay for equal work regulations, which were enacted in April 2020, will not have a negative impact on the areas of development and design, since these areas traditionally achieve high unit prices.

At the end of December 2023, the Company had 4,516 engineers, among which 4,397 were mobilized. Over the past few years, the Company has maintained an overall high mobilization rate despite a certain level of impact of COVID-19 pandemic.

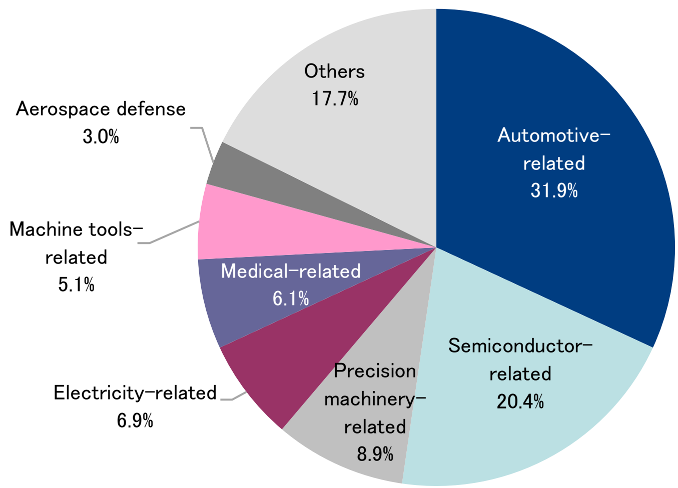
The Company has two business segments, the Outsourcing Business, which is mainly an assignment and outsourcing business in Japan, and the Global Business, which supports Japanese companies' operations overseas. The Outsourcing Business generates the majority of net sales, but the policy* going forward is to expand the Global Business, for which there is strong demand primarily from Japanese companies located in East Asia, as well as new businesses (agriculture and nursing care, etc.), which are considered to have high growth potential, and the manufacturing business, in which the Company can develop strengths for the next generation.

* New businesses (agriculture and nursing care) and the manufacturing business, centered on consolidated subsidiaries DONKEY Corporation and Digital Spice Corporation are currently included in the Outsourcing Business.

In net sales by industry, 31.9% is provided by automotive-related*, in which R&D investment is active, and a total of 36.2% by semiconductor, precision equipment and electrical machinery-related. Therefore, its customer industries are diverse and structured so that the Company is not easily affected by economic fluctuations. Also, recently its market shares of strongly performing fields such as semiconductors development have been trending upward. 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 Tokyo Electron Technology Solutions Ltd., Mitsubishi Electric Corporation <6503>, and Sony Semiconductor Manufacturing Corporation) is 21.8%, so it avoids relying on a single company (FY12/23 results).

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

Composition of net sales by industry (FY12/23 results)



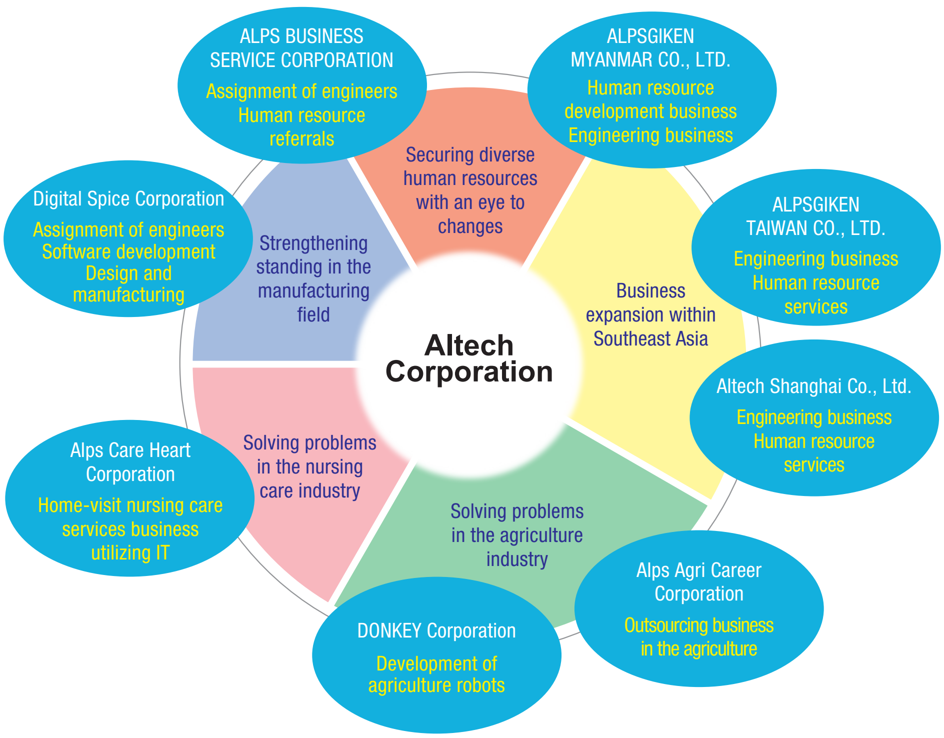
Source: Prepared by FISCO from the Company's briefing materials

2. Group structure (and bases)

In total, there are seven consolidated subsidiaries (as of the end of FY12/23)*1: ALPS BUSINESS SERVICE CORPORATION, a provider of total staffing services, ALPSGIKEN TAIWAN CO., LTD. (Taiwan) and Altech Shanghai Co., Ltd. (China), which conduct the Global Business; as new businesses, Alps Agri Career Corporation, which operates in the agriculture-related field and Alps Care Heart Corporation, which operates in the nursing care-related field; Digital Spice Corporation*2, which joined the Group in July 2020, and DONKEY Corporation*3, which became a consolidated subsidiary in February 2022. The Group also includes the non-equity-method affiliate ALPSGIKEN MYANMAR CO., LTD., which was established in October 2020. The Group has approximately 6,000 employees, among which less than 10% are global human resources. In addition to the Head Office (Yokohama City), Altech Corporation Building No. 1 (Sagamihara City, formerly the back office and training center), and Altech Corporation Building No. 2 (Sagamihara City), the Company also has 2 techno parks for manufacturing, 23 sales offices in Japan, and 1 overseas branch (Myanmar).

*1 PANA R&D CO., LTD., which joined the Group in September 2016 and carries out the assignment of engineers, was removed from the scope of consolidation at the end of FY12/23 because it was absorbed and merged with the Company on April 1, 2023.
*2 Digital Spice is engaged in the assignment of engineers and contracted business in the fields of machinery, electrical and electronics, and software, and has handled a series of design and development work rooted in digital technology. In recent years, it has supported customers' manufacturing as a group of professionals with advanced technological capabilities, including cooperating in the development of the asteroid probe Hayabusa.
*3 DONKEY is the business which arose from the Company's participation in November 2017 in a consortium for the development of next-generation agricultural robots carried out by parties including The Japan Research Institute, Limited and Keio University.

Group structure



Source: The Company's website

3. Business overview

(1) Outsourcing Business

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

The Company provides services in the form of assignment engineers and outsourcing. 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 (its own factories), and the Group overall has established a structure able to handle all 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 a 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, and 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 three overseas subsidiaries, ALPSGIKEN TAIWAN CO., LTD., Altech Shanghai Co., Ltd., and ALPSGIKEN MYANMAR CO., LTD., which was established in October 2020. In addition to work for installing production facilities and other facilities and providing maintenance and ancillary staffing services, ALPSGIKEN MYANMAR CO., LTD. conducts business to develop human resources who can be active in various fields, including the fields of technology, agriculture, and nursing care, through the management of the Altech Higher Vocational Training College. The expansion of Global Business serves as one strategic axis amid the advancement of economic globalization.

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

These businesses are being developed by Alps Agri Career Corporation (agriculture-related field)*, and Alps Care Heart Corporation (nursing care-related field), which was established in July 2021. As they have only just been launched, they are currently included in the Outsourcing Business segment. 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, which is experiencing a noticeable shortage of human resources. 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. It appears that the Company's strategy is to seek first-mover advantages in fields where it can utilize its advanced technological capabilities and expertise in developing human resources (including recruitment of global human resources) that it has cultivated up to now.

* Changed its name from Agri & Care Corporation on July 1, 2021 and made a new start as a company specializing in the agriculture-related field.

4. 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." Furthermore, 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 engineer.

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
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

Date	Major event
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
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 (currently, NEOA (public interest incorporated 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. 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 SERIVCE CORPORATION merged with Alps Career Designing Cooporation
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 Himeji Sales Office
April 2018	Established Agri & Care Corporation in order to enter-into new business fields (agriculture- and nursing care-related fields) (capital: ¥100,000,000)
July 2018	Started eleventh five-year plan, "Reinvestment of Management Resources toward the New Industrial Revolution"
September 2018	Completed the Altech Corporation Building No. 2
May 2020	Conducted a capital increase for DONKEY Corporation and made it an affiliate
July 2020	Made Digital Spice Corporation a consolidated subsidiary (capital: ¥27,500,000)
October 2020	Established the subsidiary ALPSGIKEN MYANMAR CO., LTD. in Myanmar (Yangon City) (capital: USD 200,000, including capital reserve)
July 2021	Subsidiary Agri & Care Corporation changed its name to Alps Agri Career Corporation Established the subsidiary Alps Care Heart Corporation (capital: ¥100,000,000)
February 2022	Made DONKEY Corporation a consolidated subsidiary (capital: ¥250,000,000)
April 2022	Transferred to the Tokyo Stock Exchange Prime Market
April 2023	Conducted an absorption-type split where subsidiary PANA R&D CO., LTD.'s consignment department was succeeded by the subsidiary Digital Spice Corporation, while its other departments were merged into Altech Corporation
July 2023	Started the twelfth five-year plan, "Utilizing Technology to Challenge Partners in a Co-Creative Society"

Source: Prepared by FISCO from the Company's website

Business performance

Growth in results driven by increasing the number of mobilized employees by actively recruiting new graduates and mobilizing them at an early stage, as well as improvement in the contract unit price

1. Trends in past results (consolidated)

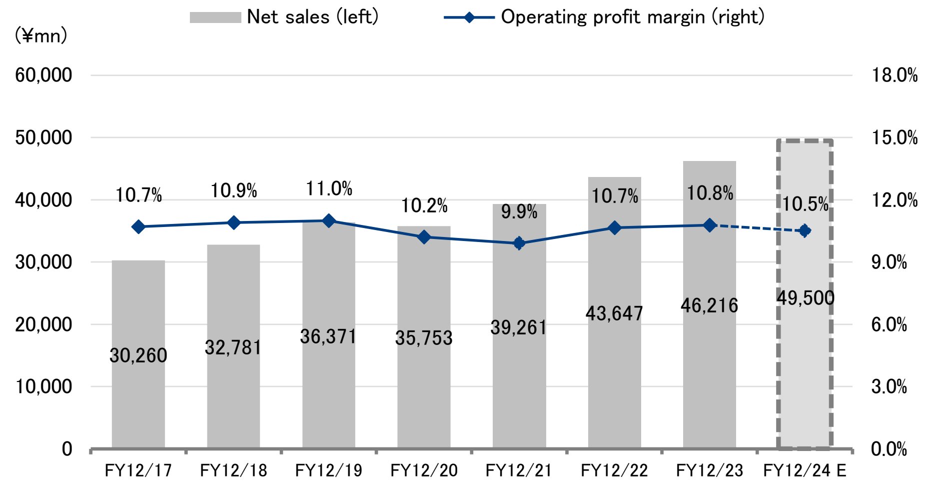
Looking back at business performance up to now, we see that it has steadily grown alongside the increase in the number of engineer employees. Particularly since FY12/14, despite the ongoing severe recruitment environment, the Company has still been able to recruit around 250-300 new graduates per year and achieve early mobilization, which has driven the growth in results. It can be said that recruiting new graduates at a stable level every year and global human resources*1 in fields with high levels of specialty, and completing their training at an early stage by promoting team formation*2 and maintaining a high mobilization rate is a growth model unique to the Company. For the contract unit price*3 as well, a performance indicator just as important as the number of mobilized employees, the market value has been steadily rising every year from the skills development programs and planned rotations based on the career plans of each worker (however, there was a decrease in FY12/20 due to temporary factors caused by COVID-19). Moreover, the collaboration with consolidated subsidiary ALPS BUSINESS SERVICE CORPORATION and PANA R&D CO., LTD.*4, expansion of overseas business, and performance of Alps Agri Career Corporation, which is engaged in new business, contributed to the growth in consolidated results. Even from FY12/20 to FY12/21 when results were impacted by COVID-19, there were no major changes to the trends of the performance indicators that the Company prioritizes, which one could argue confirm the robustness of its businesses.

*1 In FY12/23, 40 engineers were hired (standalone) and just over 100 agriculture-related personnel (Alps Agri Career).
*2 By utilizing team assignments (consisting of multiple people), new employees can work while being guided, educated, and trained by senior engineers, enabling a strategy for their early mobilization. It seems that this framework is also highly evaluated by customers, as it gives them peace of mind.
*3 The unit price per hour based on the contract with the customer. Unlike the actual unit price that constitutes sales, it does not include overtime.
*4 PANA R&D was removed from the scope of consolidation at the end of FY12/23 because it was absorbed and merged with the Company on April 1, 2023.

In terms of profit and loss, profits have trended upward alongside the growth in net sales and the operating profit margin has also improved, trending at a high level above 10% for the past few years. The Company retained an operating profit margin of around 10% between FY12/20 and FY12/21, when it was impacted by COVID-19 pandemic, and recovered up to the level of 10.7% in FY12/22 and 10.8% in FY12/23.

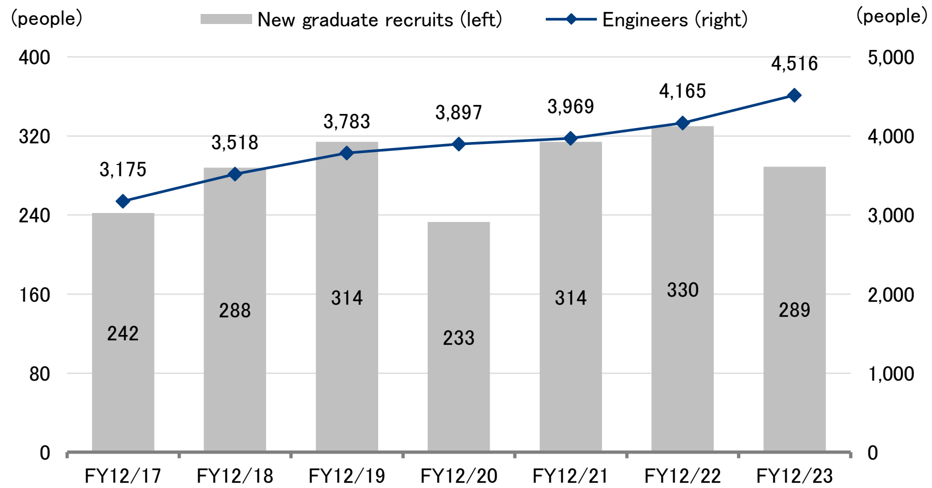
For the Company's financial condition, the equity ratio remained at a level above 60% while total assets grew following the increases in cash and deposits and other items. On the other hand, ROE, which indicates capital efficiency, is rising year by year, and since FY12/17, it has consistently exceeded 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 expands the range of strategies it can adopt for growth, so it will be necessary to pay attention to M&A and other developments in the future.

Trends in net sales and operating profit margin (consolidated)



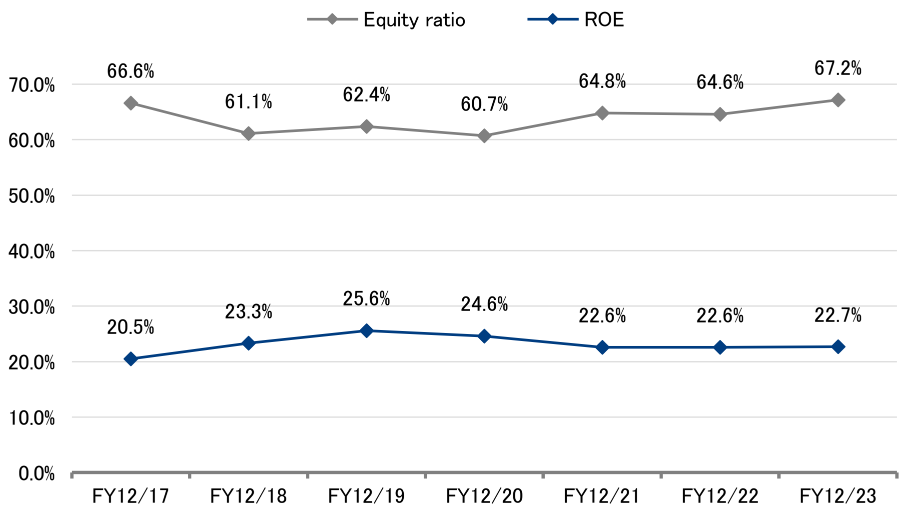
Source: Prepared by FISCO from the Company's financial results

Trends in the number of new graduate recruits and engineers (standalone)



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

Trends in equity ratio and ROE (consolidated)



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

2. Overview of FY12/23 results

In FY12/23, the Company posted increase in sales and profits, achieving a new record high. Net sales were ¥46,216mn, up 5.9% YoY, operating profit was ¥4,982mn, up 7.2%, ordinary profit was ¥5,053mn, up 10.8%, and profit attributable to owners of parent (final profit) was ¥3,696mn, up 8.2%.

Although the manufacturing industry is experiencing soaring raw material prices, logistics costs, and personnel expenses, R&D investment is firm, especially in the semiconductor industry, which is performing well, and the automotive industry, where the development of next-generation automobiles is intensifying. Results were led by an increase in mobilized engineers (maintaining a high mobilization rate) and improvements to contract unit prices. Additionally, the Global Business, where demand is growing mainly for the semiconductor industry, continued to maintain strong performance following the previous term.

On the earnings front, the cost of sales increased due to improved compensation, but that was offset by a boost to earnings from sales growth, and the operating profit margin remained above 10% at 10.8%. Final profit sharply exceeded plan, mainly due to gains on the sale of investment securities held, and the receipt of a tax credit for promoting wage increases.

On the financial front, total assets rose 3.1% from the end of the previous fiscal period to ¥25,025mn, mainly due to an increase in cash and deposits. Also, shareholders' equity rose 7.2% to ¥16,822mn due to the accumulation of internal reserves. Therefore, the equity ratio increased slightly to 67.2% (64.6% at the end of the previous fiscal period).

Overview of FY12/23 results

(¥mn)

	FY12/22		FY12/23		YoY		FY12/23		Vs. forecast	
	Results	% of sales	Results	% of sales	Change	Rate of change	Forecast	% of sales	Change	Achievement rate
Net sales	43,647		46,216		2,568	5.9%	46,600		-383	99.2%
Outsourcing Business	40,141	92.0%	42,688	92.4%	2,546	6.3%	-	-	-	-
Global Business	3,505	8.0%	3,527	7.6%	21	0.6%	-	-	-	-
Cost of sales	33,159	76.0%	35,263	76.3%	2,104	6.3%	-	-	-	-
SG&A expenses	5,839	13.4%	5,970	12.9%	130	2.2%	-	-	-	-
Operating profit	4,649	10.7%	4,982	10.8%	333	7.2%	5,000	10.7%	-17	99.6%
Outsourcing Business	4,430	11.0%	4,548	10.7%	118	2.7%	-	-	-	-
Global Business	216	6.2%	431	12.2%	215	99.4%	-	-	-	-
Ordinary profit	4,560	10.4%	5,053	10.9%	492	10.8%	5,060	10.9%	-6	99.9%
Profit attributable to owners of parent	3,416	7.8%	3,696	8.0%	279	8.2%	3,420	7.3%	276	108.1%
Number of engineers	4,165		4,516		351					
Number of mobilized employees	4,056		4,397		341					
Mobilization hours*1	163.9		162.5		-1.4					
Contract unit price*2 (¥)	4,084		4,183		99					

*1 Hours worked per month, corresponding to work as an engineer
*2 This refers to the unit price per hour based on the contract with the customer. Unlike the actual unit price that constitutes sales, it does not include overtime.
Note: Percentages related to operating profit represent the ratio of operating profit to net sales for each segment
Source: Prepared by FISCO from the Company's financial results and briefing materials

FY12/23 financial condition

(¥mn)

	End-FY12/22	End-FY12/23	Change	Rate of change
Current assets	18,151	19,263	1,111	6.1%
Cash and deposits	10,696	11,430	734	6.9%
Note and accounts receivable – trade, other	6,622	6,547	-75	-1.1%
Work in process	238	484	246	103.5%
Non-current assets	6,122	5,762	-360	-5.9%
Goodwill	243	159	-84	-34.6%
Total assets	24,274	25,025	751	3.1%
Current liabilities	8,133	7,838	-294	-3.6%
Accounts payable - trade	1,978	1,941	-36	-1.9%
Short-term loans payable	274	224	-50	-18.3%
Non-current liabilities	399	320	-79	-19.8%
Total liabilities	8,532	8,158	-373	-4.4%
Net assets	15,741	16,866	1,124	7.1%
Shareholders' equity	15,687	16,822	1,134	7.2%
Current ratio	223.2%	245.8%	22.6pt	-
Equity ratio	64.6%	67.2%	2.6pt	-
Interest-bearing debt ratio	2.0%	1.5%	-0.5pt	-

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

(1) Outsourcing Business

Net sales increased 6.3% YoY to ¥42,688mn and segment profit increased 2.7% to ¥4,548mn. Growth was driven by factors including an increase in the number of mobilized engineers due to an increase in engineers and in the mobilization rate, and improvements to contract unit prices.

Looking at the performance indicators (standalone) that the Company prioritizes, the number of engineers increased to 4,516 (up 351 engineers from the end of the previous fiscal year), and the number of mobilized engineers increased to 4,397 (up 341 engineers). The full-year average mobilization rate was 96.1% (also 96.1% in the previous fiscal year) including newly graduated engineers (289 people), staying close to full mobilization. Contract unit prices per person rose ¥99 to ¥4,183. In contrast, mobilization hours were slightly lower at 162.5 hours (down 1.4 hours), but apparently currently show signs of recovery.

By industry, net sales were strong in automotive-related fields where development of eco-friendly and other next-generation vehicles is escalating, and brisk in semiconductor-related fields where demand is growing alongside the promotion of digital transformation (DX). This can be viewed as steps to address growth fields having contributed to earnings growth.

Regarding Group companies, ALPS BUSINESS SERVICE performed well, and Alps Agri Career, which is involved in agriculture-related fields, experienced significant growth accompanying the acceptance of foreign workers. Also, home-visit nursing care service provider Alps Care Heart increased the number of its offices, mainly in Kanagawa Prefecture. It is still small in scale but continues to grow steadily.

On the earnings front, the cost of sales increased due to improved compensation, and new businesses (agriculture- and nursing care-related fields) are still in the upfront cost stage but boosted earnings through sales growth. As a result, the segment secured profit growth and maintained a high profit margin of 10.7% (11.0% in the previous fiscal year).

(2) Global Business

Net sales increased 0.6% YoY to ¥3,527mn and segment profit increased 99.4% to ¥431mn. As in the previous fiscal year, additional orders for large-scale projects, mainly in the semiconductor industry, and expansion of staffing services business contributed to earnings growth. Also, the segment profit margin improved to 12.2% (6.2% in the previous fiscal year).

3. Summary of FY12/23 results

To summarize FY12/23, that the Company was able to expand the number of workers mobilized and increase contract unit prices while shifting to growth fields amid uncertain prospects and challenging earnings conditions for the manufacturing industry overall demonstrates its strengths. Also, in terms of activities, that the Company achieved some success on both new graduate and mid-career hiring amid escalating recruitment competition, and started to accept global resources in earnest as immigration restrictions have been lifted will be positive catalysts moving forward. In nursing care-related business, home-visit nursing care services grew, and the Company was able to show a new direction for the business (elderly housing with home-care services).

Main activities and achievements

Expanded agriculture-related personnel, and made noteworthy achievements in nursing care-related business

1. Recruitment and education achievements

In human resource recruitment, which serves as the Company's growth driver, the Company secured 289 people (330 in 2022) as new 2023 college graduates (standalone), while the number of engineering staff (standalone) at the end of the period increased to 4,516 (up 351 from the end of the previous fiscal year), due to the hiring of about 120 career human resources with an emphasis on quality.* About 210 new 2024 college graduates are scheduled to join the Company. As for global human resources, the lifting of COVID-19-related immigration restrictions allowed the Company to accept approximately 40 global engineers and 100 agriculture-related personnel, bringing the number of foreign personnel to 520 at the end of FY12/23.

* PANA R&D's absorption-type merger (on April 1, 2023) also contributed to growth in the number of engineer employees (standalone).

For education, the Company has arranged approximately 1,000 courses, and held 2,463 study sessions at each location. The topics of these study sessions include acquiring certification, career development, leadership development, and more recently, have focused on training engineers to work in cutting-edge fields.

2. Progress made in new business

(1) Agriculture-related field

Given the notable shortage of agriculture-related human resources within Japan, Alps Agri Career established a system alongside the lifting of immigration restrictions put in place due to COVID-19 and positioned itself on a track toward growth. In particular, it is charting a course towards solving challenges by providing a wide range of human resource services from agritech* to farming (temporary staffing). In FY12/23, about 100 global human resources were accepted and about 40 domestic new college graduates joined the Company, bringing the number of agriculture-related personnel to about 300 (including about 200 global human resources), and a turn to profit on a single month basis has apparently come into sight with business expansion. Going forward, the Company also plans to expand into agritech fields utilizing tools like robots, partly by collaborating with the Group company DONKEY.

* Agritech refers to the use of information transmission technology such as IoT and drones in agricultural fields

(2) Nursing care-related field

Alps Care Heart, which provides nursing care-related services, first began in Sagamihara City, using domestic human resources to provide home-visit nursing care services, and plans to expand its business locations to Kanagawa Prefecture, the Tokyo metropolitan area, and then nationwide. It has been steadily increasing the number of locations, having opened in No.5 (Sagami-Ono) in March, No. 6 (Moto-Sumiyoshi) in May, No. 7 (Naruse) in August, and No. 8 (Minami-Osawa) in November of FY12/23, and No. 9 (Musashi-Shinjo) in January and No. 10 (Hachioji) in February of 2024.

In addition, the Company made Tanpopo Shiki no Mori, which is engaged in business such elderly housing with home-care services in Yokohama City, into a consolidated subsidiary*1 on January 4, 2024. Starting with collaboration with Alps Care Heart (home-visit cursing care business), it aims to generate synergies with the futuristic serviced housing facility Fureai no Mori Sagamiko*2 currently being built and scheduled to start accepting residents from around May 2024.

*1 The acquisition cost was ¥246mn (goodwill is undetermined at this time).
*2 Housing for the elderly with medical and nursing care services (to be operated by Alps Care Heart).

(3) Manufacturing business

Subsidiary DONKEY, which is central to the manufacturing business, is working on demonstration experiments for small transport robots in collaboration with NTT DATA INSTITUTE OF MANAGEMENT CONSULTING, Inc. among others, aiming to establish an integrated smart agriculture system to realize sustainable urban agriculture. It has already started trial sales, having built up a track record in areas such as reducing work time. However, it forecasts that moving to mass production will take more time. Its strategy is apparently to become the de facto standard in this field by staying ahead of competitors.

Business outlook

Sales and profit uptrend expected to continue in FY12/24 too

1. Outlook for FY12/24

In its outlook for FY12/24, the Company forecasts the continuation of its increasing revenue and profits, with net sales set to increase 7.1% YoY to ¥49,500mn, operating profit to rise 4.4% to ¥5,200mn, ordinary profit to increase 4.9% to ¥5,300mn, and profit attributable to owners of parent (final profit) to decrease 5.3% to ¥3,500mn. The Company expects only final profit to decline due to temporary factors (e.g., gains on the sale of investment securities) in the previous fiscal year dropping out.

The Company expects both sales and operating profit to grow steadily against the background of strong customer demand for semiconductors, medical-related business, and software development related to cutting-edge technologies, for which demand is expanding. It also seems that the Company expects agriculture-related fields, where global human resources have been increasingly accepted along with the lifting of immigration restrictions, to contribute to earnings growth.

Outlook for FY12/24

(¥mn)

	FY12/23		FY12/24			
	Results	% of sales	Forecast	% of sales	Change	Rate of change
Net sales	46,216		49,500		3,283	7.1%
Operating profit	4,982	10.8%	5,200	10.5%	217	4.4%
Ordinary profit	5,053	10.9%	5,300	10.7%	246	4.9%
Profit attributable to owners of parent	3,696	8.0%	3,500	7.1%	-196	-5.3%

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

2. View of FISCO's analysts

At FISCO, we believe uncertainties in the business environment, including surging raw material prices and heightened geopolitical risk, continue to warrant sufficient caution. However, we also believe that the Company's forecasts are well within reach for the four following reasons. 1) The Company's targeted R&D investment areas are long-term investment fields that are directly connected to its future competitiveness and where strong demand is also likely going forward. 2) It is steadily working to expand its business foundation, including through human resource recruitment and education. 3) It is maintaining a high mobilization rate while shifting to growth fields. 4) Group companies are all performing solidly. In addition, the pace of contributions to earnings growth going forward from the agriculture-related field, which has been accepting global human resources as immigration restrictions have been lifted, as well as the nursing care business, which has entered a new domain (operation of housing with services for the elderly) while steadily increasing the number of locations, warrants attention as factors that will additionally affect results.

Medium- to long-term growth strategy

Targeting sustainable growth by taking on new domains with cutting-edge technologies and developing new earning pillars

1. Twelfth five-year plan (qualitative targets)

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). Upon the 55th anniversary of its foundation in July 2023, it announced the twelfth five-year plan (qualitative targets) as its vision up to 2028. With "utilizing technology to challenge partners in a co-creative society" as the theme, it is working on the four measures described below. It aims to strengthen its foundation for sustainable growth by moving on to the next phase in the largely unchanged course it has been charting so far. The biggest point is that the Company intends to work to educate personnel to anticipate future needs, with an eye to new markets and services yet to be imagined being brought about by the development of cutting-edge technology such as that typified by generative AI, growing social demands for environmental measures, steps towards carbon neutrality, and so forth.

● **Twelfth five-year plan's four measures**

1) Take on new domains of engineering outsourcing

Develop engineers competent in state-of-the-art technologies, and take on new business and work areas unconstrained by existing boundaries.

2) Develop new earnings pillars

Aim to expand the agriculture and nursing care businesses and raise their earning capacity by strengthening integration with technology.

3) Help create a sustainable, prosperous society

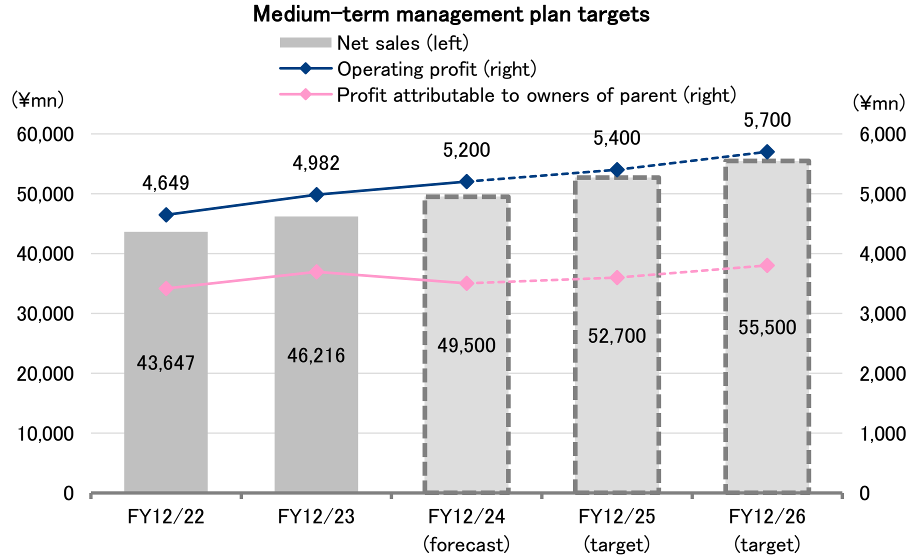
Aim to create new businesses that lead to regional revitalization, a social task, by leveraging the technological and personnel expertise of the Group.

4) Employ digitalization to foster an organizational culture where diverse personnel thrive

Aim to establish a framework where diverse human resources can thrive more by promoting more efficient, centralized control of management resources scattered throughout the organization.

2. Medium-term management plan (three-year quantitative targets)

Additionally, the Company announced three-year quantitative (rolling) targets in February 2024. It has set FY12/26 targets of net sales of ¥55,500mn, operating profit of ¥5,700mn, ordinary profit of ¥5,800, and profit attributable to owners of parent of ¥3,800mn, while it also intends to secure ROE of 20% or above.



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

3. Industry trends and the Company's position

According to the Ministry of Labor, Health and Welfare's "Aggregated Results of Business Reports by Worker Dispatching Businesses (Preliminary Report)," the number of assignment workers nationwide peaked at 2.02mn at the time of the global financial crisis in 2008 and then trended downward, but this decline bottomed-out in 2013 and by 2021 had recovered to 2.09mn. Also, due to developments such as the revisions to the Worker Dispatching Act and the introduction of the equal pay for equal work system (both enacted on April 1, 2020)*, the environment surrounding the assignment business is approaching a major turning point. In other words, it is thought that aspects such as the technological capabilities and expertise of the assignment employees, and what the companies that they are assigned to expect from these employees, will change greatly in the future. Simply put, needs will be strong for human resources who possess new and advanced technological capabilities and expertise, but work in downstream processes is likely to change greatly, depending on economic trends and other factors.

* The equal pay for equal work system was introduced with the aim of eliminating the unfair differences in treatment between so-called regular employees (permanent workers recruited for an indefinite period) and non-regular employees (employees recruited for a fixed period, part time workers, and assignment workers) working in the same company or organization. Generally, there are concerns about the effects of introducing this system, such as that the wages of non-regular employees will increase and that wage differences will grow among non-regular employees.

In the Company, engineers have a stable position through being recruited for an indefinite period (permanent employees), and they receive education and training to have advanced technological capabilities and expertise. Therefore, they are trusted by customer companies. The results of the Company, which specializes in assignments of engineers recruited for an indefinite period, are expected to grow solidly. Of course, efforts will be needed to capture customer needs and to undertake upstream processes in industries requiring technological capabilities and expertise, such as the electricity and machinery, automotive, aviation and space industries. However, it is thought that its businesses can continuously grow by gaining the trust of customers, supported by long-term human resources education.

Also, having observed trends over several years, while the number of working hours per engineer is decreasing due to the impact of workstyle reforms, the number of engineers being requested is increasing. In addition to supplementing the labor shortage at manufacturers, there appears to be a distinct trend emerging where demand is increasing not only to compensate for personnel shortages at manufacturers but also in cutting-edge technological areas that require skills in specific technologies. Therefore, going forward, whether the Company can acquire (develop) excellent engineers in the fields with the most cutting-edge technologies, which it has positioned as its priority fields, is likely to become an increasingly important factor for its success in the future.

4. Medium- to long-term focal points

Amid a declining population in Japan and economic globalization, at FISCO we evaluate the Company's strategy for the direction of its business development, which involves ascertaining changes to the industrial structure and societal problems in the future, to be rational. The focus for the future will be on how to link sustainable growth with efforts to respond to new technological fields where demand is growing and to solve social issues, including the progress made in new businesses. In particular, it seems that its success or failure in the agriculture- and nursing care-related fields will be determined by whether the Company itself can advance ahead of other companies to create new markets, and whether its utilization of cutting-edge technologies and accumulation of expertise will lead to solving the labor-shortage problem and also to improving productivity (and securing profitability). Furthermore, the manufacturing business, centered on Digital Spice and DONKEY, holds potential upside factors for business performance, and we intend to focus on the Company's specific moves in this area going forward.

Sustainability initiatives

The Company has formulated a basic policy on sustainability and further strengthened its specific initiatives

1. Initiatives for SDGs

The Company's Group supports the Sustainable Development Goals (SDGs) advocated by the United Nations and based on its "Heart to Heart" management philosophy, it is aiming to contribute to the achievement of the SDGs through its Outsourcing Business and other businesses, including by developing technologies.*

* In August 2019, the Company newly established a page on its website to promote SDGs, while it is also listed on the website of the Ministry of Foreign Affairs as a company that is promoting SDGs.

2. Establishment of a basic policy on sustainability

In November 2021, the Company established a basic policy on sustainability in order to further strengthen its sustainability initiatives. It has also set specific indicators and publicly announces their progress. In addition, the ongoing contribution to regional revitalization (Taiki-cho, Hokkaido) using the corporate version of the hometown tax donation system* can be viewed as part of these initiatives.

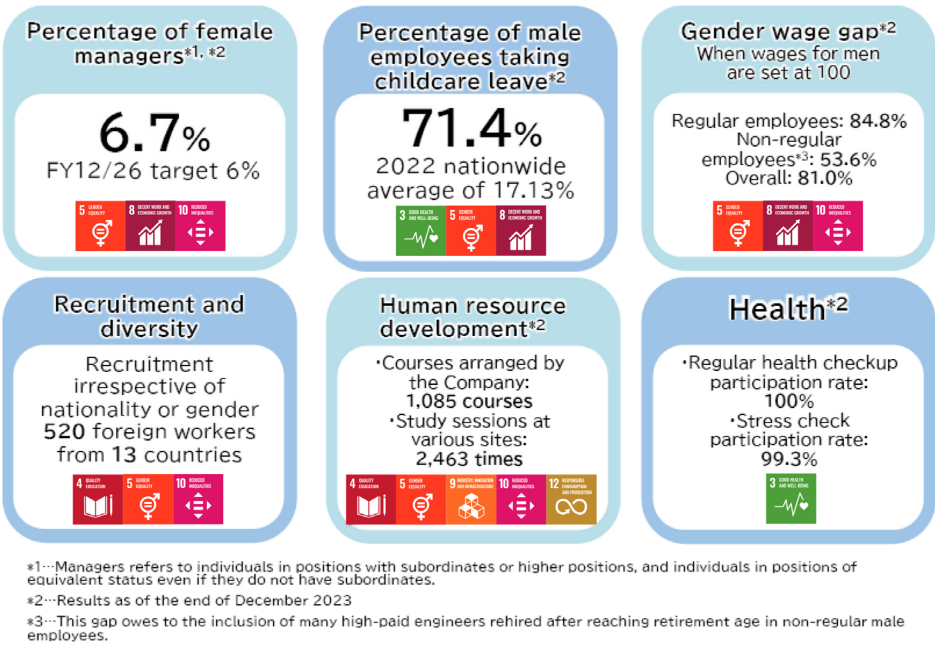
> * Using the corporate version of the Hometown Tax Donation system, the Company has donated (three times since 2021) to "From Taiki-cho! The Plan for Regional Revitalization through Aerospace Industry Accumulation" in Taiki-cho, Hokkaido. The aerospace business is one of the fields that the Company is focusing on, and its goal is to support the development of business that will advance Taiki -cho, aiming to further realize regional revitalization and a sustainable society.

Basic policy on sustainability

We of the Alps Giken group will value the bonds between people based on our corporate philosophy, "Heart to Heart." Through our business activities, we will aim to realize a sustainable environment and society, and sustainably increase our corporate value.
1. We will strive to preserve the global environment by providing advanced and diverse technology services.
2. We will utilize our management resources, namely human resources and technological capabilities, to engage in solving various social issues.
3. As a good corporate citizen, we will cooperate with stakeholders to engage in social contribution activities.

Source: Prepared by FISCO from the Company's website

Status of key benchmarks



Source: From the Company's results briefing materials

Shareholder return policy

Aims for a dividend payout ratio of 50% on a consolidated basis. Plans to pay an annual amount of ¥88 in FY12/24

1. Basic dividend policy

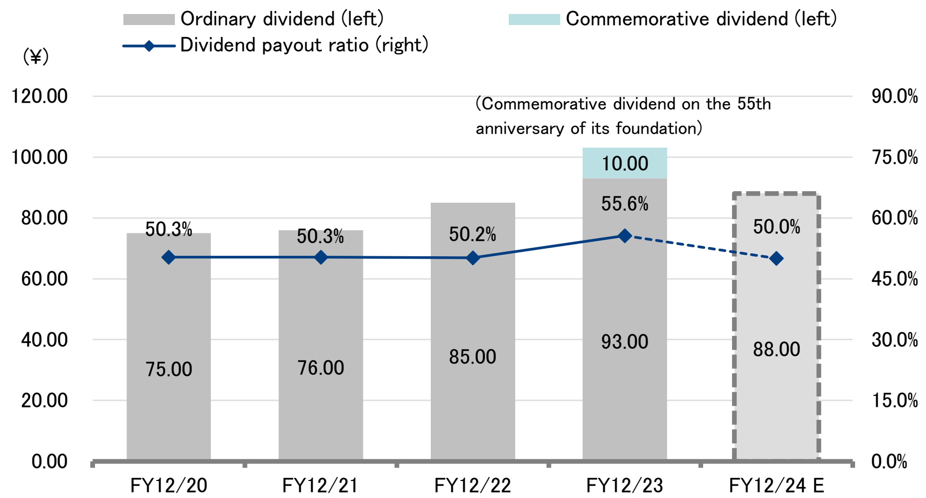
The Company pays dividends as its policy to return profits to shareholders. It aims for a dividend payout ratio on a consolidated basis of 50% (of which, the interim dividend is 50% of the annual dividend), and its basic policy is to pay an annual dividend of ¥10, regardless of results.

2. Dividend trend and plan

For dividends per share in FY12/23, the Company increased ordinary annual dividends by ¥8 from FY12/22 to ¥93, and paid a commemorative dividend of ¥10 for total annual dividends of ¥103 (interim dividend ¥52, period-end dividend ¥51; a dividend payout ratio of 55.6%).

For dividends per share in FY12/24, the Company forecasts ordinary annual dividends of ¥88 (interim dividend ¥44, period-end dividend ¥44; a dividend payout ratio of 50%).

Dividend and dividend payout



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

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