

Altech Corporation

4641

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■ Summary

A group of high-level engineers supporting manufacturing in Japan. Provides high-level services for major manufacturing companies in fields such as machinery, electricity and electronics, software, and IT.

1. Is developing the Outsourcing Business and Global Business based on its “Heart to Heart” corporate philosophy

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, and IT. 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 is the source of one of its strengths, of producing talented human resources. The Altech Corporation Group is comprised of the Company and four subsidiaries, and since FY12/16, it has had two business segments, the Outsourcing Business and the Global Business.

2. FY12/16 consolidated results

The Company announced its FY12/16 results on February 14. Net sales were ¥26,743mn, up 17.7% year on year (YoY), operating income was ¥2,857mn, up 32.0%, ordinary income was ¥2,949mn, up 32.6%, and profit attributable to owners of parent was ¥1,988mn, up 37.4%. Growth was accelerated by making PANA R&D CO., LTD. a consolidated subsidiary, and the operating income margin exceeded 10%.

In the Outsourcing Business, the Company is focusing on securing excellent human resources and on sales measures, primarily improving the contract unit price, and as a result, the number of mobilized employees (employees who are working for customers) further exceeded that of the previous year and the contract unit price also increased. The early mobilization of new graduate recruits particularly contributed to the increase in sales. Sales and profits increased in the Global Business from acceptance inspections for large-scale construction projects in the engineering business.

3. Outlook for FY12/17

In the consolidated results forecasts for the FY12/17 full year, the outlook is for higher sales and profits, with net sales to increase 8.4% YoY to ¥29,000mn, operating income to rise 7.5% to ¥3,070mn, ordinary income to grow 7.5% to ¥3,170mn, and profit attributable to the owners of the parent to climb 7.1% to ¥2,130mn. Requests for the assignment of engineers from the Company Group’s main customers of major manufacturing companies have remained strong, and this trend is expected to continue.

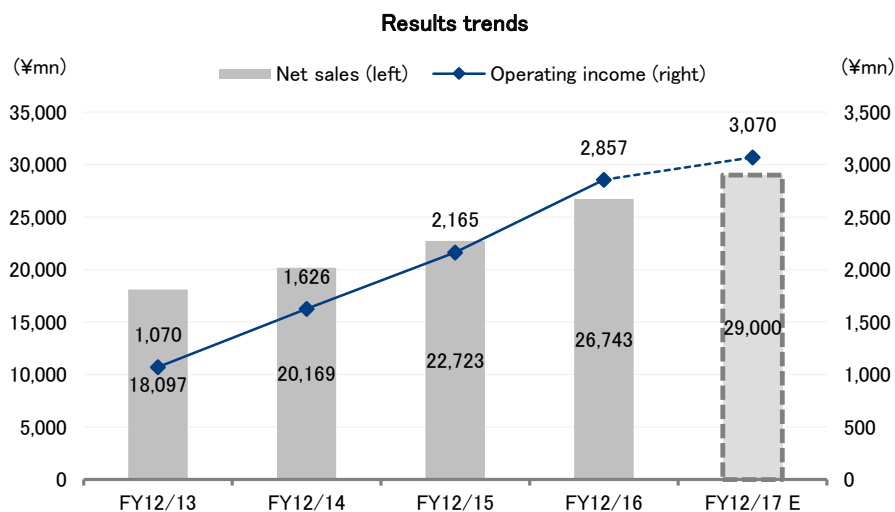
4. The new medium-term management plan

Together with its results announcement, the Company announced its quantitative targets in the medium-term management rolling plan for the three years from FY12/17 to FY12/19. The final targets in FY12/19 are for net sales of ¥33,400mn and operating income of ¥3,450mn.

Summary

Key Points

- Improving customer trust and employee satisfaction through its human resources based on “Heart to Heart” relations
- Positive results are improving through the high-level technological outsourcing services provided by its full-time engineers
- Plans to commemorate its 50th anniversary in July 2018 with a record-high dividend



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 outsourcer that provides high-level technological services to major manufacturing companies in fields such as machinery, electricity and electronics, and software and IT. Unlike fixed-term employment based employment agencies, the Company only employs full-time engineers, and even in the recession following the bankruptcy of Lehman Brothers, it did not dismiss a single employee. Also, in accordance with the Revised Worker Dispatch Act (enforced 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, which are both positive developments for the Company.

Company profile

The consolidated subsidiaries are the 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 operates 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 to the Head Office and the Back office and the training center, the Company has 2 Techno Parks(monozukuri centers) where it conducts manufacturing, 20 sales offices within Japan, and 1 overseas branch office (in Myanmar).

2. 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, current Chairman and Director 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, Sagami-hara 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, Sagami-hara 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, Sagami-hara 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, Sagami-hara 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)

Company profile

Date	Major event
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
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

Source: Prepared by FISCO from the Company materials

Business overview

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

The Company discloses information on two reportable segments, the Outsourcing Business, which is mainly engineer assignment and outsourcing operations, and the Global Business, which is to support Japanese companies' operations overseas. 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%. In the percentages of net sales by operational phase, design and development is slightly less than 60%, analysis/evaluation/production technologies are approximately 30%, and planning/R&D are around 10%, so basically all sales are provided by upstream processes.

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.

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, the Company has met the technical needs of its customers in the field of mechatronics through its services characterized by "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 and space, 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. In the percentage of net sales by segment in FY12/16, the Global Business provided only 7.4% of total net sales, but going forward the Company's policy is to accelerate its global growth and this percentage is expected to rise year by year.

3. Global engineers

Alongside the overseas expansion and globalization of the manufacturing industry, companies are being required to utilize global human resources, and for over 10 years since 2005, the Company has been training and employing more than 300 full-time global engineers who have provided high-level technological services to more than 200 customer companies.

Business overview

Currently, the Company is conducting operations centered on its specialized areas of design and development in the fields of machinery and electric machinery. Its global engineers are active in various countries, but mainly in China and Vietnam. Also, in recent years, in an increasing number of cases its engineers are acting as bridges (bridging engineers) to the local sites during a period of overseas expansion.

4. The education and training system

The Company's greatest strength is its human resources, and its education and training is the source of this strength as they produce its excellent human resources. This is encapsulated in the words of its corporate philosophy, "Heart to Heart." Based on this corporate philosophy, it places great importance on "connecting people's hearts" and cultivates a corporate culture to earn the trust of customers and to raise employee satisfaction. It has put in place an education and training system to link this corporate culture to the future generations of employees.

The Company's education and training system can be broadly divided into the abilities development education system and career development support.

(1) The abilities development education system

Abilities development education involves technical education, human management training, and functional and occupational training. In addition to technical training, after joining the Company new recruits receive an education for each field and industry that is prepared for them according to their levels and needs, such as in basic technologies, specialized technologies, and advanced technologies. In addition, there is a menu for engineers to acquire qualifications and for self-development, while they can also study independently. Furthermore, the Company provides them with not only a technical education, but also a complete lineup of human management training and functional and occupational training to encourage their growth as members of society and employees.

(2) Career development support

The Company has established the "Engineer Support System" as its career development support system. This is a mechanism that supports its employees' continuous career development as engineers and promotes their development to become high-level engineers. After joining the Company, each individual engineer is designated a senior engineer within the Company, who are called career supporters, who support the new engineers on all aspects, from technical related through to mental health related, through annual career development consultations. Therefore, each engineer can eliminate any anxieties they have about the future or problems they are facing, and choose from a variety of career paths. In the long term, this maintains and improves the engineers' motivation.

■ Business performance

Achieved major increases in sales and profits in FY12/16 on a new subsidiary joining the Group and the early mobilization of new-graduate recruits

1. Summary of the FY12/16 consolidated results

Net sales were ¥26,743mn, up 17.7% YoY, operating income was ¥2,857mn, up 32.0%, ordinary income was ¥2,949mn, up 32.6%, and profit attributable to the owners of the parent was ¥1,988mn, up 37.4%. Growth was accelerated by PANA R&D CO., LTD. joining the Group and the operating income margin was 10.7%, exceeding 10%. Also, although SG&A expenses increased alongside the business expansion, they are declined in comparison to net sales and to a certain extent a suppression effect is being achieved. It is considered that this is due the effects of the merger in September 2016 of ALPS BUSINESS SERVICE CORPORATION with Alps Career Designing Corporation.

(1) Outsourcing Business

In this business, as a result of focusing on securing excellent human resources and sales measures, mainly to improve the contract unit price, the mobilization rate was maintained at a high level, and in addition, the number of employees mobilized exceeded the previous year (2,797 people as of the end of December 2016, up 295 people on the end of the previous fiscal year), while the contract unit price also rose (an average of ¥3,856 at the end of December 2016, up ¥52 on the end of the previous fiscal year). In particular, all of the new-graduate engineers recruited in April had been mobilized by the end of July, and this early mobilization contributed to the higher sales. New-graduate engineers do not immediately take charge of an upstream process independently, rather they are assigned to a team where they are supported by a senior engineer, which would seem to be why they can be mobilized so quickly. This can be said to be evidence that the Company's human resources training based on its education and training system is functioning effectively. Also, with regard to the contract unit price, it negotiates the contract renewal with customers, with most of the negotiations taking place in March and April of each year. Its customers place great trust in the Company and highly evaluate its technological capabilities, so they tend to allow an increase based on higher than the equivalent personnel expenses at their own company. The average annual mobilization (working) hours per capita was 173.5H, down 0.8H YoY, but this was because of the reduction in overtime hours based on the workstyle reforms being pursued by major companies in recent years.

In the percentages of net sales by customer industry, automotive-related accounts for around 40%; electricity, precision equipment, and semiconductors approximately 40%; and medical-related around 6%. Automotive-related is a promising field, mainly for areas such as automated driving equipment, and on a net sales basis it is expected to trend around 40%. As can be seen from the industry fields, many of its customers are in the so-called advanced-technology and booming-industry fields. The Company's approach is to shift to successful companies alongside the current trends, to identify customer trends, and to open-up high-growth areas. At the current time, it is focusing on actively opening-up the medical and semiconductor fields.

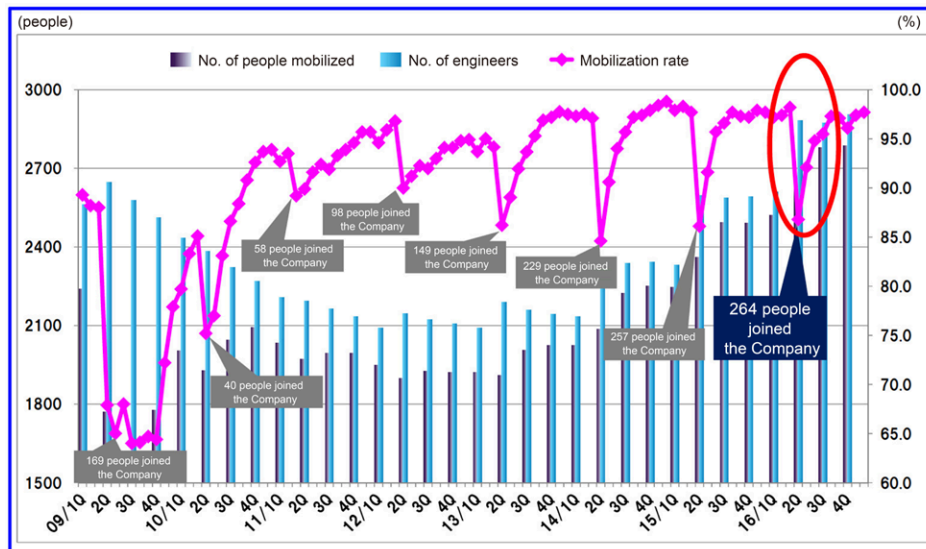
Business performance

FY12/16 results

	FY12/15		FY12/16		YoY
	Results	% of sales	Results	% of sales	
Net sales	22,723	100.0%	26,743	100.0%	17.7%
Cost of sales	16,957	74.6%	20,057	75.0%	18.3%
SG&A expenses	3,600	15.8%	3,828	14.3%	6.3%
Operating income	2,165	9.5%	2,857	10.7%	32.0%
Ordinary income	2,223	9.8%	2,949	11.0%	32.6%
Profit attributable to owners of parent	1,446	6.4%	1,988	7.4%	37.4%

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

The early mobilization of new-graduates contributed to the higher sales



① "No. of people mobilized" is the number of people in each quarter
 ② "No. of engineers" is the total number of engineers in each quarter
 ③ "Mobilization rate" is the Company-wide mobilization rate per month, including new graduates (%)

Source: From the Company's briefing materials

(2) Global Business

In this business, both sales and profits increased significantly from the acceptance inspections for large-scale construction projects in the engineering business. These were mainly overseas construction projects, particularly in China, including for the installation and maintenance of production equipment and other machinery and equipment at the facilities of Japanese companies, and in FY12/16, net sales increased 68.2% YoY from these acceptance inspections of large-scale engineering projects. This business provides only around 7.4% of the Company's total net sales, but it is considered to be making a reasonable level of profits and is expected to expand in the future. This is one of the two business segments that the Company reports on, from which we can sense the Company's intention to grow the Global Business in the future.

Business performance

Financial condition is excellent and the equity ratio is high

2. Financial condition and business indicators

The Company's financial condition is excellent. At the end of FY12/16, the equity ratio was at the high level of 65.8%, and borrowing and other interest bearing debt was a comparatively small amount (the interest-bearing debt ratio was 6.7%). Further, the current ratio was 230.0% and it has a sufficient balance of cash and deposits on hand, meaning there are no issues in terms of stability. With regard to profitability also, the operating income margin is above 10%, while ROA and ROE also both further improved YoY to reach high levels.

The Company does not hold many fixed assets like companies in the manufacturing industry because it is focused on its engineer assignment business as its core technical competence. Within its total assets, cash and deposits account for around 45%, so it would seem able to flexibly respond to opportunities for M&A and similar, which are considered to be indispensable for proactive business expansion in the future.

Looking at the YoY changes in assets and liabilities, cash and deposits increased ¥754mn, notes and accounts receivable rose ¥667mn, goodwill grew ¥462mn, accounts payable climbed ¥412mn, and retained earnings increased ¥1,201mn. The increases in notes and accounts receivable occurred alongside the business expansion, while the rise in goodwill was from PANA R&D CO., LTD. being made a consolidated subsidiary in September 2016 (amortization period, eight years). Accounts payable is a temporary item, and considering it is not included in interest-bearing debt, it is not particularly a problem. Retained earnings are steadily being accumulated from the improvement in profitability, and can be understood as indicating that the Company is able to supplement internal reserves and secure funds for dividends.

Consolidated balance sheet and the main business indicators

	(¥mn)		
	FY12/15	FY12/16	Change
Current assets	10,960	12,167	1,206
(cash and deposits)	6,556	7,311	754
(notes and accounts receivable - trade)	3,249	3,916	667
Non-current assets	3,596	4,290	694
(goodwill)	0	462	462
Total assets	14,557	16,458	1,900
Current assets	4,657	5,289	632
(accounts payable - other)	984	1,396	412
Non-current liabilities	267	325	57
(interest-bearing debt)	700	720	20
Total liabilities	4,925	5,614	689
Net assets	9,632	10,843	1,210
(retained earnings)	5,260	6,461	1,201
(stability)			
Current ratio	235.3%	230.0%	-5.3
Equity ratio	66.1%	65.8%	-0.3
Interest-bearing debt ratio	7.3%	6.7%	-0.6
(profitability)			
ROA (ratio of ordinary income to total assets)	15.9%	19.0%	3.1
ROE (ratio of profit to equity)	15.5%	19.4%	3.9
Operating margin	9.5%	10.7%	1.2

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

■ Business outlook

Aiming for further increases in sales and profits on the 50th anniversary of its foundation

1. The outlook for the FY12/17 full year results

In the consolidated results forecasts for the FY12/17 full year, the outlook is for higher sales and profits, with net sales to increase 8.4% YoY to ¥29,000mn, operating income to rise 7.5% to ¥3,070mn, ordinary income to grow 7.5% to ¥3,170mn, and profit attributable to owners of parent to climb 7.1% to ¥2,130mn. Requests for assignments of engineers from the Company Group's main customers of major manufacturing companies have remained strong, and this trend is expected to continue. As the Company approaches the 50th anniversary of its foundation in FY12/18, it seems likely that the motivation within the entire Group toward expanding results will be high. Also, the same as in the FY12/16 results, in the FY12/17 forecasts it is expected that rather than individual results, the YoY growth rates in each of the indicators of consolidated results will be greater, and expectations are high for the contribution to results of each of the consolidated subsidiaries.

Expansion of recruitment by initiating corporate branding and improving name recognition.

2. The specific measures for FY12/17

The Company has indicated it will implement the following measures for itself and for the Group. In the case of the measures for itself, looking toward next year, which will be the 50th anniversary of its foundation, it has set the theme of "Taking on the challenge of..." and it is considered that the Company strongly intends to expand its business by actively implementing measures to take on challenges as a company.

(1) Measures to take on challenges (Parent)

These are measures to promote positive activities in terms of utilizing human resources in the areas of recruitment, education, and sales. They have been set as a measures for the Company, because it is considered that the Company will oversee the measures to utilize human resources, and that the aim is to maintain and improve the strength of human resources and to foster a sense of unity and governance as a group.

a) Taking on challenges for recruitment

The Company has cited the following measures for recruitment; 1) firmly establishing a Company-wide cooperative recruitment system, 2) conducting career recruitment tailored to customer needs, and 3) expanding recruitment of global engineers. Within the trend in the labor market in recent years for labor shortages, the competition to acquire excellent human resources has been fierce, and together with the branding activities described below, this is one area the Company is focusing on for its measures. For the recruitment targets, it is aiming to recruit 250 new graduates (entry in 2018) and 120 mid-career recruits (entry in 2017), while it is considered that it may further increase mid-career recruitment according to the situation.

Business outlook

b) Taking on challenges for education

The Company is also aiming to further improve its human resources education based on its philosophy of “together with people,” the same as for recruitment. Its measures are to 1) improve the rate its engineers take qualifications exams, in cooperation with the business divisions, 2) create an environment in which engineers work hard together as colleagues, and 3) enhance opportunities for career-path related training. In combination with the Engineer Support System and other systems, it will further enhance its long-term development of engineers. While the Company does not announce specific numerical targets, it has cited “Improving the rate that engineers take qualifications, exams increasing the number of in-Company certified teachers, and promoting long-term career formation” as the targets it is aiming to achieve.

c) Taking on sales challenge

To improve results and expand its business, the Company will actively implement the following sales measures; 1) push forward the decisions on mobilizing new graduates, 2) establish an annual cycle for new-graduate sales, and 3) promote the rotation of career targets. In terms of the targets it is aiming to achieve, it has cited “taking early decisions on mobilizing recruits (by June for all April new-graduate recruits), establishing an early mobilization cycle (recruitment of new graduates in both the spring and the fall), and aiming to achieve an actual unit price of ¥4,000.” Incidentally, for the recruitment of the new graduates in the fall, it is looking to hire global engineers from overseas.

(2) Group measures for the full fiscal year

The measures by business segment and by Group company for the domestic and overseas businesses are as follows.

a) Domestic business

ALPS BUSINESS SERVICE CORPORATION is strengthening Group cooperation and promoting business expansion and employee training. PANA R&D CO., LTD. is pursuing synergies, and advancing measures for recruitment and sales collaboration. Through these measures, the aim is to establish an Altech Corporation Group brand for its domestic business and to expand the corporate scale. In addition, in order to improve name recognition, as corporate branding activities it is planning to conduct advertising, including creating posters for students and employees and holding joint briefing meetings. The Company Group is comprised of BtoB companies, and in the past, they have generally not conducted advertising. But amid the situation in recent years, including the intensifying competition to recruit human resources, it has aimed to establish a brand and increase name recognition as a corporate group, secure a competitive advantage for recruitment, and to raise awareness within the Group. Also, the catch phrase used in the advertising posters is “People, technologies, customers - whatever the era, you can always encounter ‘excellence’”. The meaning of this catch phrase is that as engineers, new recruits can have a long career in the Company by encountering many excellent customers, technologies, and senior employees, and learning and utilizing technologies suited to whatever the era. In addition to eliminating concerns about the future among the students who are conducting job-search activities, it also seems to be a message aimed at current employees toward improving the corporate image.

b) Global Business

The Company is making a fully-fledged start to expanding its business scale at its overseas bases in Taiwan and Shanghai. As previously explained, the scale of the Global Business is not yet that large, but centered on locations such as Taiwan and Shanghai, it is conducting installation and adjustment projects and maintenance work for the production facilities and equipment of Japanese companies in fields including LCDs and semiconductors. Although there will be some fluctuations, for example with the project periods, business expansion can be expected from the increase in customer numbers and other factors.

Business outlook

c) The Yangon branch office (training of nursing human resources)

Since 2003 in Myanmar, Mr. Matsui has invested his personal funds to establish nursing and IT schools, which have been training local human resources. In 2015, the Altech Corporation Yangon branch office was opened, and alongside the developments in Japan's nursing care-related legislation, it is conducting training while maintaining cooperation between Japan and Myanmar. This initiative signifies one of the Company's social contributions.

3. Developments in the assignment business 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 fallen to 1.26 million people by 2014. 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.

■ Medium- to long-term growth strategy

Expand corporate scale through innovation

~Accelerating growth as we move toward our 50th anniversary~

1. The new medium-term management plan (2017 to 2019)

Since its foundation, the Company had formulated qualitative targets for every five years and quantitative targets for every three year. In conjunction with its recent results announcement, it announced its quantitative targets for the new medium-term management rolling plan that will run for 3 years, from FY12/17 to FY12/19. The final targets for FY12/19 are net sales of ¥33,400mn, operating income of ¥3,450mn, ordinary income of ¥3,550mn, and profit attributable to owners of parent of ¥2,460mn.

The major themes for the five-year plan are "Expand the corporate scale through innovation – accelerating growth as we move toward our 50th anniversary," and the specific measures to achieve them are as follows.

Medium- to long-term growth strategy

(1) Anticipate changes to technologies and industries and provide a variety of high-level technological services

Specifically, it has cited the following measures to achieve this; 1) Change the structures of sales, recruitment, and education, 2) promote team creation and outsourcing, 3) improve customer satisfaction, and 4) establish a brand as a group of high-level engineers. Within the engineer assignment business, to be asked by major customer companies to carry out work in upstream processes, the Company must be able to ceaselessly read and anticipate changes in technologies and industries and acquire high-level and diverse technologies. These various structures are essential to achieve this.

(2) Accelerate the expansion in the scale of the Company Group through the independence and growth of affiliated companies

It has cited the following specific measures for this; 1) have affiliate companies demonstrate their individuality and profitability, 2) create new businesses that capture trends, and 3) contribute to society through the expansion of the Group. The Company currently has four affiliated companies in Japan and overseas, and in the previous fiscal year, PANA R&D CO., LTD. newly joined the Group, therefore it is thought that it will increase M&A and similar activities in the future. Fostering a sense of unity as a group while also securing the independence and growth of each Group company seem to be an important theme.

(3) Making a leaping forward to become a global corporate group developing businesses in Asia

Its specific measures for this are as follows; 1) strengthen the business foundation and expand the business fields, 2) utilize the network in Southeast Asia, and 3) provide global outsourcing services. The Company is aiming to further develop its business fields and areas, mainly in Asia, which is where its existing manufacturing-industry customers are conducting overseas expansion.

2. Medium to long-term growth vision

Together with the medium-term management plan, the Company has explained its direction for its next business development in the process after the 50-year anniversary 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.

(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.

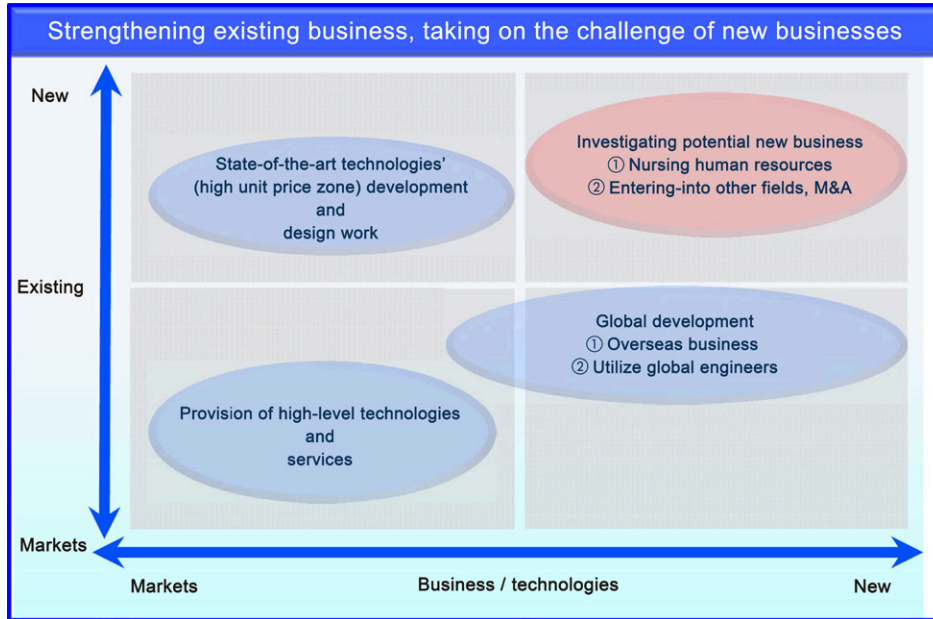
(3) Global development (existing markets, new business / technologies)

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.

Medium- to long-term growth strategy

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

The Company is currently searching for opportunities to launch a nursing business. As previously stated in the specific measures for FY12/17, it has already started to train nursing human resources in Myanmar and it is investigating launching this business in line with the establishment of a legal system for nursing care in Japan. While other potential new businesses have not yet been materialized, it is currently investigating entering-into other fields with services that will utilize the Company's strength of its excellent human resources.



Source: From the Company's briefing materials

Shareholder return policy

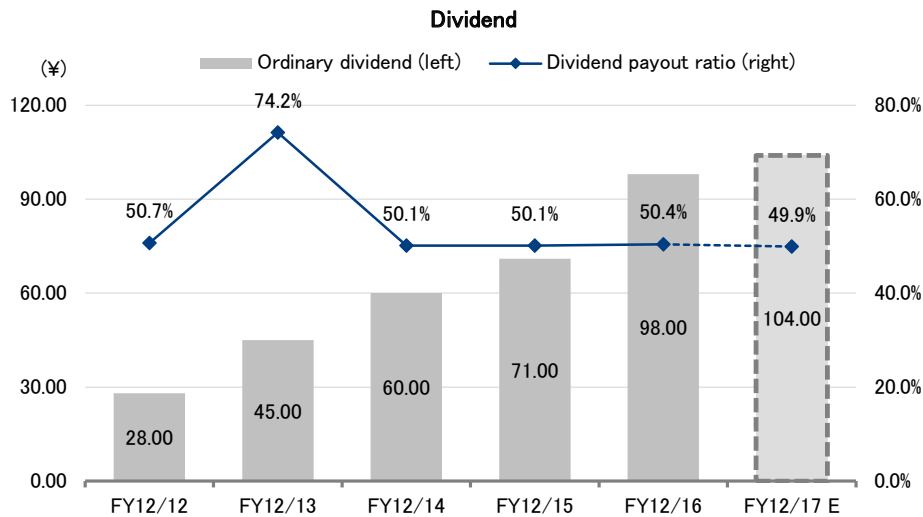
Plans to pay a record-high dividend in FY12/17

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 ¥20, regardless of results.

2. Dividend trend and plan

Looking at how the dividend has trended in the past 5 years, we see it has steadily and continuously increased against the backdrop of the favorable results, with the dividend payout ratio also trending at around 50%. The Company has announced that it plans to pay a dividend of ¥104 in FY12/17 as the total of the interim and year-end dividends, which will be a record high for an annual dividend.



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



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