

Altech Corporation

4641

Tokyo Stock Exchange Prime Market

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FISCO Ltd.

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

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* This is an English translation of a report issued on March 29, 2022.

Summary

In FY12/21, sales and profits increased as the mobilization rate recovered from the coronavirus pandemic. While continuing to shift towards growth fields, the Company made a full-scale entry into the home-visit nursing care business

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. This can be described as its corporate organizational culture, which is the source of its strength of producing talented human resources. The Company observed its 50th anniversary and second foundation period in July 2018, and it is undertaking initiatives to create next-generation strengths, including strengthening its operational base, as well as entering new business fields (agriculture- and nursing care-related markets), while also working on SDGs (Sustainable Development Goals). From April 4, 2022, the Company has changed to a new market classification, the Prime Market.

2. FY12/21 consolidated results

In FY12/21 consolidated results the Company recorded increased sales and profit, with net sales of ¥39,261mn, up 9.8% YoY, and operating profit of ¥3,875mn, up 6.5% YoY. Net sales and final profit both reached new record highs. Against initial targets, net sales and each level of profit were more or less within the target range. Net sales reflected the full-year contribution (additional six months’ sales) of Digital Spice Corporation, which was consolidated in July 2020, while Group companies also grew, including the agriculture-related company, Alps Agri Career Corporation. Furthermore, in the Company’s standalone results, as the mobilization rate continued to recover from the novel coronavirus pandemic (hereafter, “the coronavirus”), mainly in growth fields such as semiconductors and software development, the Company secured growth in sales atop an increase in the number of mobilized employees and mobilization hours. On the profit front, operating profit increased as earnings increased following the increase in sales. Moreover, although the Company recorded donations (for regional revitalization) using the corporate version of the hometown tax donation system in non-operating expenses, final profit increased YoY to surpass the target. In terms of activities, the Company established Alps Care Heart Corporation to operate a home-visit nursing care business and made a full-scale entry into that business.

3. Outlook for FY12/22

In its outlook for FY12/22, the Company is forecasting continued growth in sales and profits, with net sales to increase 8.2% YoY to ¥42,500mn and operating profit to increase 17.4% to ¥4,550mn, setting new record highs. 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, with the operating profit margin forecast to recover to above 10%. Group companies are also expected to grow, despite the consolidation impact of Digital Spice Corporation being fully absorbed.

Summary

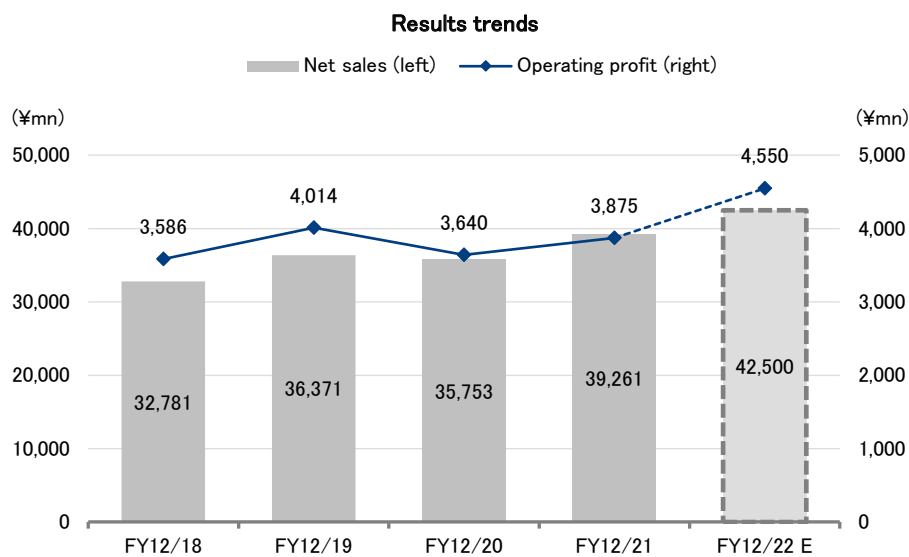
4. Medium- to long-term growth strategy

As its medium- to long-term growth vision, the Company has set out a strategy on five axes: 1) strengthening existing businesses, 2) responding to state-of-the-art technologies, 3) developing globally, 4) providing high-tech services and 5) taking on the challenge of new businesses. In particular, in the eleventh five-year plan (qualitative targets), its policy is to promote the Reinvestment of Management Resources toward the New Industrial Revolution. Toward solving societal problems also, it intends to continue to contribute in the agriculture- and nursing care-related fields that are suffering from serious labor shortages, including by providing advanced technologies, which will lead to the further improvement of its enterprise value. In the three-year (rolling) medium-term management plan, it has set targets for FY12/24 of net sales of ¥48,000mn, operating profit of ¥5,100mn, and ROE of 20% or above.

In the situation of the 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 the manufacturing business, and whether these will lead to sustainable growth.

Key Points

- In FY12/21, sales and profits increased as capacity utilization recovered
- The shift to growth fields and compliance with remote work were successful, and the Company’s Group companies, including new businesses (agriculture-related field) contributed to business performance growth. The Company also made a full-scale entry into the home-visit nursing care business by establishing a new company
- Forecasts for FY12/22 are for continued increases in sales and profits, reaching new record high results
- It is progressing the eleventh five-year plan’s qualitative target to “promote the Reinvestment of Management Resources toward the New Industrial Revolution.” Its policy is to actively work toward the SDGs (Sustainable Development Goals) in fields related to agriculture and nursing care by leading the times to promote the activities of global human resources.



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

■ Company profile

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

1. Company profile

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

| * For example, even during recession periods such as the bankruptcy of Lehman Brothers, it has not dismissed 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 that it has a corporate organizational culture that produces high-quality human resources and an original education and training system*, and its results are steadily growing, supported by its excellent reputation among its customers and the favorable ordering environment.

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

In accordance with the Revised Worker Dispatching Act (enforced on September 30, 2015), the employment period limitation was ended for indefinite-term employment, while incidental work was also ended on the abolition of specialized work classifications. Also, the acceptance of foreign workers (the establishment of a new residency status) is to be expanded following the revision to the Immigration Control and Refugee Recognition Act (enforced on April 1, 2019), and these and other revisions have been positive developments for the Company. At the present time, despite a temporary impact due to immigration restrictions following the coronavirus, the larger trend remains unchanged. Also, the equal pay for equal work regulation enacted in April 2020 does not have a negative effect, as since the past high unit prices have been realized in the development and design areas.

At the end of December 2021, the Company had 3,969 engineers, and of these, 3,706 (2021 average) were mobilized (working at customers). Since FY12/20, it has been able to maintain an overall high mobilization rate despite the temporary impact of the coronavirus.

Company profile

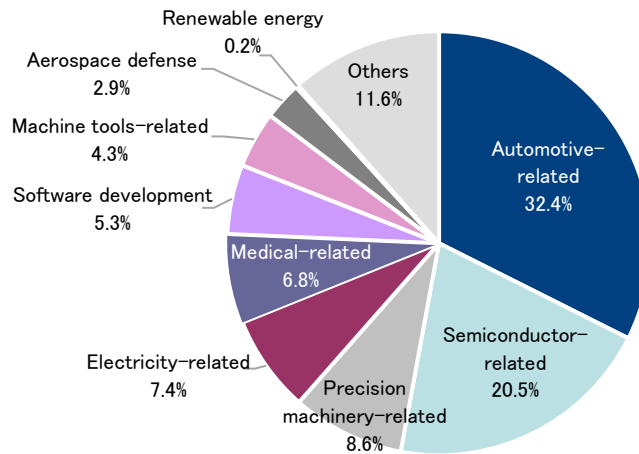
The Company has two business segments, the Outsourcing Business, which is mainly an assignment and outsourcing business in Japan, and the Global Business, which supports Japanese companies' operations overseas. The Outsourcing Business generates the majority of net sales, but the policy going forward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

* New businesses (agriculture- and nursing care-related fields) 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, 32.4% is provided by automotive-related*, in which R&D investment is active, and a total of 36.5% by semiconductor, precision equipment and electrical machinery-related. So, 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, medical-related, and software 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., Kioxia Holdings Corporation, Mitsubishi Electric Corporation <6503>, and Tokyo Electron Miyagi Ltd.) is 21.6%, without relying on a single company (FY12/21 result).

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

Composition of net sales by industry (FY 12/21 results)



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

Company profile

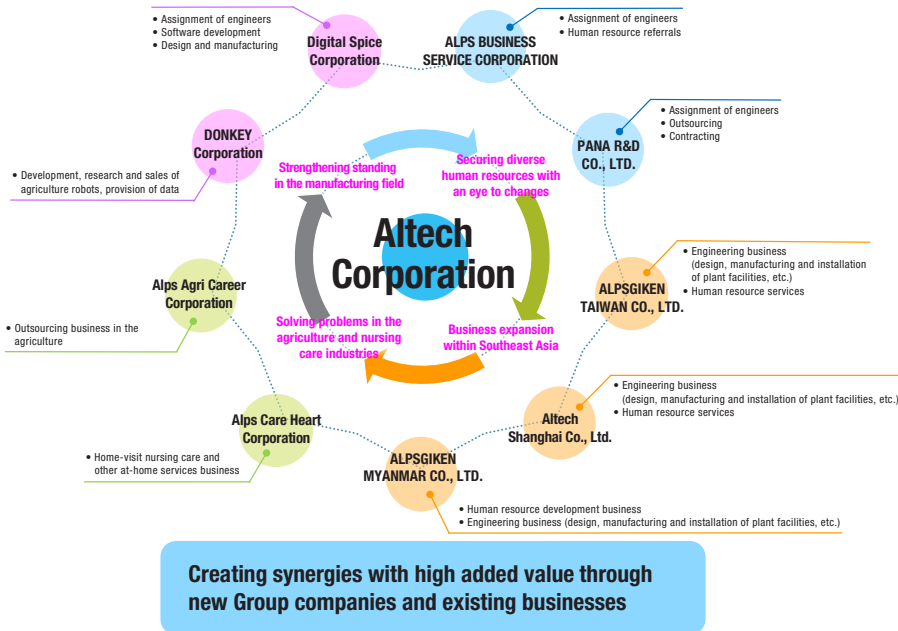
2. Group structure (and bases)

In total, there are seven consolidated subsidiaries (as of December 31, 2021): ALPS BUSINESS SERVICE CORPORATION, a provider of total staffing services; PANA R&D CO., LTD., which joined the Group in September 2016 and carries out the assignment of technical experts, ALPSGIKEN TAIWAN CO., LTD. (Taiwan) and Altech Shanghai Co., Ltd. (China), which conduct the Global Business; as new businesses, Alps Agri Career Corporation,*1 which operates in the agriculture-related field and Alps Care Heart Corporation, which operates in the nursing care-related field; and Digital Spice Corporation, which joined the Group in July 2020. The Group also includes the non-equity-method affiliate DONKEY Corporation*2, which received an increase in capital in May 2020, and ALPSGIKEN MYANMAR CO., LTD., which was established in October 2020. The generation of synergies with high added value by these nine Group companies forms a “spiderweb-type network organization.” 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 one overseas branch (Myanmar).

*1 Agri & Care Corporation, which was established in April 2018 with the purpose of entering new business fields changed its name to Alps Agri Career Corporation on July 1, 2021 and made a new start as a company specializing in the agriculture-related field. On the same date, Alps Care Heart Corporation was established to engaged in the home-visit nursing care business.

*2 Consolidated in February 2022 by additional acquisition of stock, the company aims to strengthen the manufacturing business and Group synergies.

Group structure (spiderweb-type network)



Source: The Company's results briefing materials

3. Business overview

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

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

The central areas of the technology field include machinery design, electricity and electronics design, software development, and chemistry. Alongside the transition to 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 to install production facilities and other facilities for Japanese companies overseas and providing maintenance and ancillary human resource services, ALPSGIKEN MYANMAR CO., LTD. is conducting a business to develop human resources who can be active in various fields, including the technologies, agriculture and nursing care fields, through the management of the Altech Higher Vocational Training College. Within the advance of economic globalization, one strategic axis is expanding the Global Business.

Company profile

(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, at the current point in time, they are 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, where the shortage of human resources is conspicuous. It is said that in these fields, the keys are introducing state-of-the-art technologies, such as AI, IoT, and robots, and utilizing an overseas labor force, and the Company's strategy seems to be to aim for the first-mover advantage in fields that utilize its advanced technological capabilities and expertise in developing human resources (including recruitment of global human resources) that it has cultivated up to the present time.

* 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." Further, under the leadership of the current President and Representative Director Atsushi Imamura, it is aiming to improve results and expand its business, including by focusing on training human resources who are specialized in upstream processes, such as development and design, and the early mobilization of new graduate engineers.

History

Date	Major event
July 1968	Matsui Design Office was founded in Sobudai, Sagamihara City, Kanagawa Prefecture Started the first five-year plan, "Develop the Company"
January 1971	Renamed the Matsui Design Office as Altech Inc., and established it in Sobudai, Sagamihara City, Kanagawa Prefecture
July 1973	Started the second five-year plan, "Increase Business with Prime Customers and Maintain Internal Capital"
July 1978	Started the third five-year plan, "Implement an Institutionalization of the Company and Improve Technical Capabilities"
January 1981	Moved head office to Kyowa, Sagamihara City, Kanagawa Prefecture
March 1981	Reorganized the organization and transferred it to Altech Corporation
July 1983	Started the fourth five-year plan, "To be an International company and Develop Human Resources"
April 1984	Opened the Tohoku business office in Koriyama City, Fukushima Prefecture
April 1985	Opened the Shinshu business office in Shiojiri City, Nagano Prefecture
July 1985	Constructed a building in Nishi-Hashimoto, Sagamihara City, Kanagawa Prefecture and relocation of Head Office to
February 1986	Established Kita Kanto business office in Fukaya City, Saitama Prefecture
April 1986	Established subsidiary Technical Training Center CO., LTD. (currently, ALPS BUSINESS SERVICE CORPORATION) from the technical training department
July 1988	Started the fifth five-year plan, "Restructuring of the Organization and Developing the Company's own Technology."
December 1989	Established Tateshina Techno Park in Chino City, Nagano Prefecture, started production of in-house developed products and the design and production of precision machinery
October 1990	Adopted a divisional organization structure to utilize profit center management and accounting systems. Established six business division below the Tohoku business division
July 1993	Started the sixth five-year plan, "Nurture High-quality Human Resources for High-quality Companies"
June 1996	Altech is listed on the OTC market of the Japan Securities Dealers Association (currently, JASDAQ) Increased capital to ¥832,619,000
July 1997	Increased capital to ¥1,502,219,000

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Company profile

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. (CHINA) in Shanghai, China
March 2011	Relocated Head Office to Minato Mirai, Nishi Ward, Yokohama City, Kanagawa Prefecture Opened the Hitachi Sales Office
February 2012	Opened the Kyoto Sales Office
August 2012	Established the subsidiary Alps Career Designing Corporation in Chiyoda Ward, Tokyo
July 2013	Started the tenth five-year plan "Expansion of Enterprise Scale through Innovation" ~ Accelerate growth as we move toward our 50th anniversary ~
December 2014	Subsidiary Altech Forest Corporation removed from the scope of consolidation on the transfer of shares
April 2015	Opened Yangon branch office in Myanmar (Yangon city)
September 2016	Made PANA R&D CO., LTD. a consolidated subsidiary Alps Business Services Corporation merged with Alps Career Designing Cooperation
April 2017	Start of broadcasts of TV commercials
September 2017	Divided the Nagoya Sales Office into the Nagoya Office I and the Nagoya Office II, and opened the 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, the 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)

Source: Prepared by FISCO from the Company's website

■ Business performance

Increasing the number of mobilized employees by actively recruiting new graduates and mobilizing them at an early stage, while the growth in results is being driven by improvement in the contract unit price

1. Trends in past results (consolidated)

Looking at results up to the present time, we see that they have steadily grown alongside the increase in the number of engineer employees. In particular, since FY12/14, despite the ongoing severe recruitment environment, the Company has still been able to recruit around 250-300 new graduates a year and realize their early mobilization, and this has driven the growth in results. It can be said that recruiting around 250-300 new graduates every year and around 80 global personnel in fields with high levels of specialism, and then completing their training at an early stage by promoting the team formation*1 and maintaining a high mobilization rate is a growth model that only the Company is capable of. For the contract unit price*2 also, 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 carrier plans of each worker (however, there was a decrease in FY12/20 due to temporary factors caused by the coronavirus). Moreover, the collaboration with consolidated subsidiary ALPS BUSINESS SERVICE CORPORATION, expansion of overseas business, and performance of PANA R&D CO., LTD. and Alps Agri Career Corporation, which is engaged in new business (agriculture-related field), contributed to the growth in the consolidated results. Even in FY12/20 and FY12/21 when results were impacted by the coronavirus, there were no major changes to the trends of the performance indicators that the Company prioritizes, which can be said to confirm the robustness of its businesses.

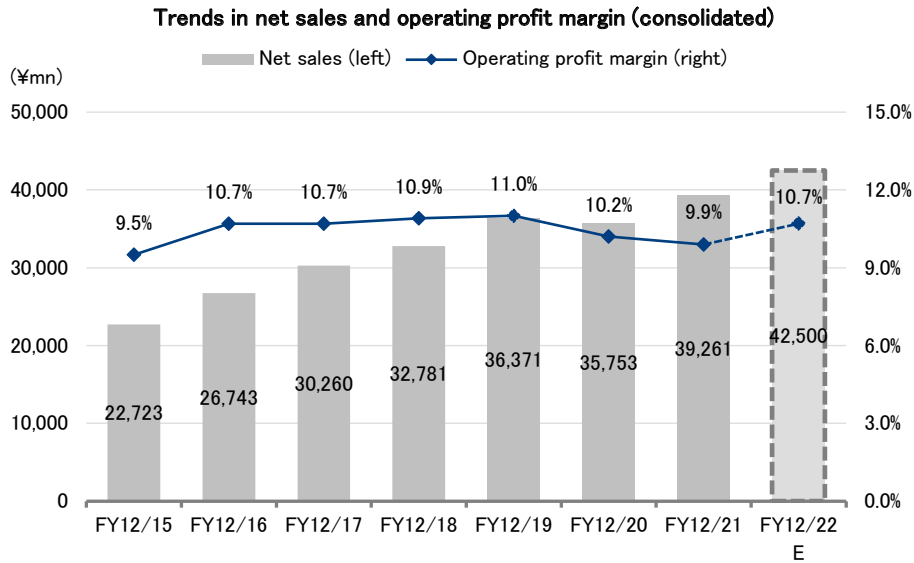
*1 By utilizing team assignments (consisting of multiple people), new employees can work while being guided, educated and trained by senior engineers, enabling a strategy for their early mobilization. It seems that this framework is also highly evaluated by customers, as it gives them peace of mind.

*2 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.

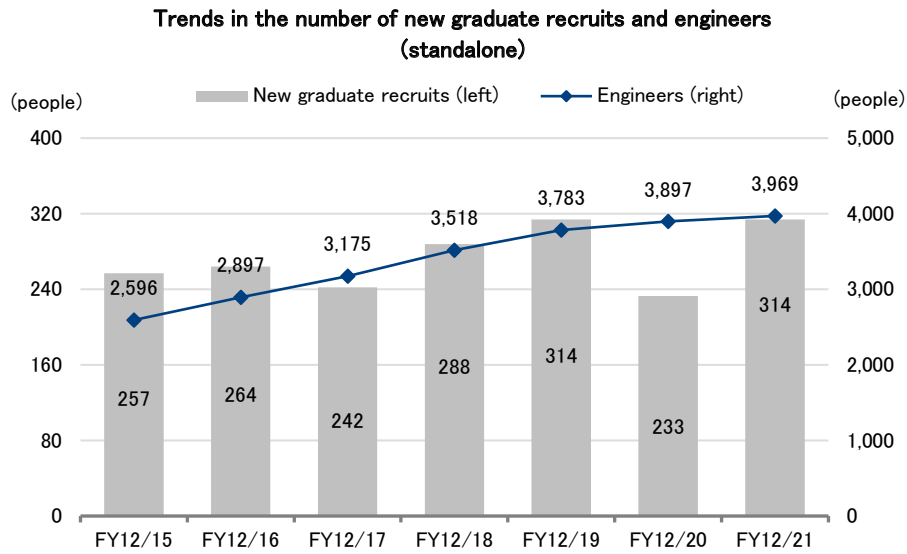
In profit-loss, profits have trended upward alongside the growth in net sales and the operating profit margin has also improved, trending at a high level of above 10% for the past few years. Even since FY12/20, with the impact of the coronavirus, the Company has retained an operating profit margin of around 10%.

For the Company's financial condition, the equity ratio remained at a level of 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 in FY12/17, it reached a level of above 20%. Therefore, the Company's financial condition can be evaluated as being extremely good. It also has plentiful liquidity on hand (cash and deposits), which serves as a buffer against unforeseen circumstances and 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.

Business performance



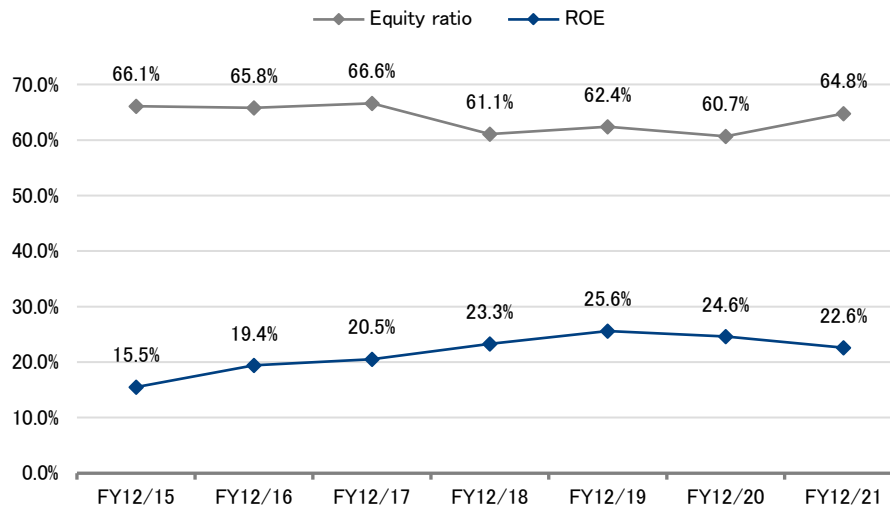
Source: Prepared by FISCO from the Company's financial results



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

Business performance

Trends in equity ratio and ROE (consolidated)



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

In FY12/21, sales and profits increased as capacity utilization recovered from the coronavirus. The results reflected contribution from a shift towards growth fields and growth in the agriculture-related field

2. Overview of FY12/21 results

For FY12/21 consolidated results, sales and profits increased (excluding ordinary profit) with net sales of ¥39,261mn, up 9.8% YoY, operating profit of ¥3,875mn, up 6.5%, ordinary profit of ¥4,574mn, down 0.5%, and profit attributable to owners of parent of ¥3,095mn, up 1.2%. Net sales and final profit both reached new record highs. Against initial targets, net sales and each level of profit were more or less within the target range.

Net sales reflected the full-year contribution (additional six months' sales) of Digital Spice Corporation, which was consolidated in July 2020, while Group companies also grew, including the agriculture-related company, Alps Agri Career Corporation. The Company's stand-alone net sales also increased due to growth in the number of mobilized employees and a recovery in mobilization hours as the mobilization rate recovered from the coronavirus.

On the profit front, operating profit increased as earnings increased following the increase in sales. Moreover, ordinary profit decreased slightly, mainly as a result of recording donations* utilizing the corporate version of the hometown tax donation system in non-operating expenses, despite recording "employment adjustment subsidies" for maintaining employment again this fiscal year in the amount of ¥830mn (¥887mn in the previous fiscal year) in non-operating expenses. Nevertheless, final profit finished higher than the target, securing a new record high.

* Donation to the "From Taiki-cho! The Plan for Regional Revitalization through Aerospace Industry Accumulation" in Taiki Town, Hokkaido Prefecture

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Business performance

Financially, total assets were up 7.4% compared to the end of the previous fiscal year to ¥22,545mn, mainly due to the increase in cash and deposits. Shareholders' equity increased 14.6% to ¥14,601mn, including due to the accumulation of internal reserves, and therefore the equity ratio increased to 64.8% (60.7% in the previous period).

Overview of FY12/21 results

	FY12/20		FY12/21		YoY		(¥mn)			
	Results	% of sales	Results	% of sales	Change	Rate of change	FY12/21		Vs. Forecast	
							Forecast	% of sales	Change	Achievement rate
Net sales	35,753		39,261		3,507	9.8%	40,000		-738	98.2%
Outsourcing Business	34,715	97.1%	37,519	95.6%	2,804	8.1%	-	-	-	-
Global Business	1,038	2.9%	1,742	4.4%	703	67.8%	-	-	-	-
Cost of sales	27,289	76.3%	30,322	77.2%	3,032	11.1%	-	-	-	-
SG&A expenses	4,823	13.5%	5,063	12.9%	239	5.0%	-	-	-	-
Operating profit	3,640	10.2%	3,875	9.9%	235	6.5%	4,000	10.0%	-124	96.9%
Outsourcing Business	3,430	9.9%	3,671	9.8%	241	7.0%	-	-	-	-
Global Business	207	20.0%	201	11.6%	-6	-3.0%	-	-	-	-
Ordinary profit	4,595	12.9%	4,574	11.7%	-21	-0.5%	4,400	11.0%	174	104.0%
Profit attributable to owners of parent	3,057	8.6%	3,095	7.9%	38	1.2%	3,060	7.7%	35	101.2%
Number of engineers	3,897		3,969		72					
Number of mobilized employees	3,555		3,706		151					
Mobilization hours*1	162.3		164.5		2.2					
Contract unit price*2	4,066		4,021		-45					

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

*2 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

FY12/21 financial condition

	(¥mn)			
	End-FY12/20	End-FY12/21	Change	Rate of change
Current assets	14,657	16,331	1,674	11.4%
Cash and deposits	8,619	9,984	1,364	15.8%
Note and accounts receivable – trade	5,227	5,465	237	4.6%
Work in process	267	303	35	13.2%
Non- current assets	6,339	6,213	-125	-2.0%
Goodwill	411	327	-84	-20.4%
Total assets	20,996	22,545	1,548	7.4%
Current liabilities	7,768	7,442	-325	-4.2%
Accounts payable - trade	1,630	1,712	81	5.0%
Short-term loans payable	1,058	773	-284	-26.9%
Non-current liabilities	457	467	9	2.2%
Total liabilities	8,225	7,909	-315	-3.8%
Net assets	12,771	14,635	1,864	14.6%
Shareholders' equity	12,746	14,601	1,855	14.6%
Current ratio	188.7%	219.4%	30.7pt	-
Equity ratio	60.7%	64.8%	4.1pt	-
Interest-bearing debt ratio	9.2%	6.1%	-3.1pt	-

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

Business performance

(1) Outsourcing Business

Net sales increased 8.1% YoY to ¥37,519mn and segment profit increased 7.0% to ¥3,671mn. The increase reflects the full-year contribution (additional six months' sales) of Digital Spice Corporation, which was consolidated in July 2020, as well as growth at all Group companies, including Alps Agri Career Corporation, which is engaged in new business (agriculture-related field). On a stand-alone basis, the Company secured a 4.3% YoY increase in sales due to growth in the number of mobilized employees and a recovery in mobilization hours following the recovery in the mobilization rate.

Looking at the performance indicators (stand-alone) that the Company prioritizes, the number of engineers increased to 3,969 (up 72 engineers from the end of the previous fiscal year), and the number of mobilized engineers increased to 3,706 (up 151 engineers), while the average mobilization hours per engineer has been returning to pre-coronavirus levels at 164.5 (up 2.2 hours YoY) as a movement to curb overtime subsided. Meanwhile, the average contract unit price decreased to ¥4,021 (down ¥45), mainly due to conducting manufacturing training for certain engineers (a portion of new graduate hires) due to the impact of the coronavirus. This can be viewed as a transitory factor that will last until the new recruits move on to mobilization.*1 Moreover, in net sales by industry, net sales growth appears to reflect a contribution from further progress in a shift to growth field such as semiconductors and software development.*2 On the other hand, in the mainstay automotive field, sales remain broadly on a recovery trend, increasing YoY, despite a slight decrease in the sales composition ratio due to the impacts of a semiconductor shortage and the spread of the coronavirus in Southeast Asia, which is a supply source.

*1 The annual average mobilization rate recovered to 93.6% (92.1% in the previous fiscal year). Although the rate continued to flounder through 2Q in particular (on a quarterly basis) at 89.0% (89.2% in the same quarter of the previous fiscal year), in 4Q it returned to pre-coronavirus levels at 97.0% (92.2%).

*2 In net sales by industry, the composition ratio for semiconductors increased to 20.5% (17.7% in the same quarter of the previous fiscal year), while for software development the ratio increased to 5.3% (4.7%).

In the Group companies, ALPS BUSINESS SERVICE CORPORATION and PANA R&D CO., LTD. performed strongly. Alps Agri Career Corporation, which is conducting new businesses (agriculture-related field), delivered steady growth due to development and assignment etc. of foreign workers accepted before the coronavirus, despite restrictions on increasing the numbers of foreign workers accepted due to the impact of the coronavirus.

For profits, the Company secured an increase in profits due to the recovery of the mobilization rate, despite an increase in the cost of sales following an increase in the number of engineers, including new graduate recruits.

(2) Global Business

Net sales increased 67.8% YoY to ¥1,742mn and segment profit decreased 3.0% to ¥201mn. Though sales increased markedly due to the acceptance of large-scale projects, on the profit and loss front, profits decreased YoY. Nevertheless, due to highly profitable human resource services, the Company managed to retain high profitability from the previous fiscal year.

3. Summary of FY12/21 results

To summarize FY12/21 from the above, 1) despite the coronavirus, the number of engineers increased steadily through online recruitment and so forth, 2) the mobilization rate recovered toward the latter half of the fiscal year due to remote working capabilities and so forth, 3), the Company is accelerating its shift to growth fields, 4) Group companies have all performed strongly, delivering steady earnings growth. These points demonstrate the strength of the Company's earnings foundation and the high level of its response capabilities. On the other hand, due to immigration restrictions following the coronavirus, delays are occurring in the acceptance of foreign workers such as agriculture workers, giving rise to some concern over the impact of this on future earnings. However, since human resource needs are increasing sharply in Japan, we can also expect some assistance from government policy, and we believe that the Company can fully recover as immigration restrictions are relaxed.

■ Main activities and achievements

The Company made a full-scale entry into the nursing care business and is actively working towards the realization of sustainability, including contributions to regional revitalization

1. Measures in response to the coronavirus

In order to respond to the coronavirus pandemic, the Company established a response headquarters and is implementing measures with the safety of customers (assignment destinations) and employees as the highest priority. In particular, in addition to responding flexibly and speedily to conditions and requests of customers (assignment destinations), it is promoting employees work from home and commute outside peak hours, prohibiting overseas business trips in principle, utilizing video conferencing, and conducting online training. In such ways, it intends to continue to responsibly conduct measures for changes to workstyles and operations until the time when the coronavirus pandemic is considered to have settled down. It is also using this opportunity to work to convert to a structure that is adapted to the new normal, including conducting online recruitment, enhancing online courses, and responding to remote working.

2. Recruitment results

For the recruitment of human resources who will drive the Company's growth, the Company secured 314 new graduate recruits in 2021 (233 in the previous fiscal year), but in the recruitment of mid-career hires, which put a priority on quality, the Company struggled to achieve around 70 recruits (target 120 recruits). Partly reflecting this, the number of engineers (standalone) at the end of the fiscal year increased steadily to 3,969 (up 72 engineers YoY); however, the result is weaker than the pace of increase to date. Moreover, regarding foreign workers, the Company remains unable to accept global engineers and farm workers due to the impacts of immigration restrictions following the coronavirus. The Company is sufficiently aware of these delays in accumulating these human resources, and as well as preparing an acceptance structure for when immigration restrictions are relaxed, it is also continuing aggressive recruitment and increasing engagement (reducing the attrition rate), and so forth, aiming to recover as soon as possible.

Main activities and achievements

3. Progress made in new businesses (agriculture- and nursing care-related fields)**(1) Agriculture-related field**

Alps Agri Career Corporation*, is in charge of the agriculture-related field. Although it continues to be unable to accept foreign workers due to immigration restrictions following the coronavirus, the shortage of agriculture workers in Japan is acute, and by moving ahead with developing and assigning foreign workers accepted before the coronavirus, Alps Agri Career Corporation has steadily increased its track record of contracts nationwide.

* To review the track record to date, in September 2019, a Group human resources assignment company was the first company in all of Japan to acquire the new "Specified Skilled Worker (i)" residency status for foreigners, and it has been assigning agri-tech and agriculture (farm work) workers from China, Myanmar, and Vietnam to various work nationwide.

(2) Nursing care-related field

On July 1, 2021, the Company established Alps Care Heart Corporation to conduct the home-visit nursing care business. In doing so, the Company aims to provide diverse services for elderly people and create a new social infrastructure with a view to further expanding its nursing care business. The Company's policy is to develop a distinctive home-visit nursing care business by combining its strengths in IT utilizing technological capabilities with the nursing care. First, the Company will use Japanese workers to start the home-visit nursing care service from Sagami-hara City, with plans to expand its locations into Kanagawa Prefecture, Tokyo Metropolitan Area, and then nationwide. Starting with the opening of its first location (Hashimoto) on October 1, 2021, followed by a second location (Fuchinobe) on December 1, the Company will steadily establish the business.

4. Contribution to regional revitalization

Using the corporate version of the Hometown Tax Donation system, the Company made a donation to the "From Taiki-cho! The Plan for Regional Revitalization through Aerospace Industry Accumulation" in Taiki Town, Hokkaido Prefecture. 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 Town, aiming to further realize regional revitalization and a sustainable society.

Business outlook

The FY12/22 outlook is also for new record high results driven by continued increases in sales and profits

1. Outlook for FY12/22

For the FY12/22 results, the Company is forecasting increase in net sales and operating profit, with net sales to increase 8.2% YoY to ¥42,500mn, operating profit to rise 17.4% to ¥4,550mn, ordinary profit to increase 0.3% to ¥4,590mn, and profit attributable to owners of parent to grow 0.8% to ¥3,120mn, for record high business results.

Business outlook

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, with the operating margin forecast to recover to above 10%. Group companies are also expected to grow, despite the consolidation impact of Digital Spice Corporation being fully absorbed. The newly established home-visit nursing care business is also expected to contribute to business performance to a degree, despite still being small in scale.

2. Plan for activities

The Company continues to realize a virtuous circle for the three main pillars (recruitment, education, and sales) that support its growth. In particular, its policy is to further promote appropriate recruitment and training for the new normal, and aim to ascertain in advance changes to technologies and industries, and to respond to growth fields.

(1) Recruitment

The Company will take steps such as 1) strengthening referral recruitment*1 and Group coordinated recruitment, 2) enhancing engagement*2 and communicating its appeal autonomously, and 3) establishing the recruitment brand using social media, etc. For new graduate recruitment in 2023, the Company plans to hire 320 recruits, and for mid-career hires in 2022, 120 recruits.

*1 Recruitment through a system of introduction and recommendation by the Company's own employees.

*2 Engagement refers to the trust relationship between employees and their company. The Company defines engagement as being enhanced by empathizing with the corporate mission and vision and undertaking voluntary activity from a desire to contribute, and the Company and employees walking together in mutual respect, trust, and gratitude. By enhancing engagement, the Company can expect to reduce the attrition rate, stimulate referral recruitment, and ultimately lift the Company's performance.

(2) Education

The Company will increase service quality by promoting autonomous career advancement and upskilling (retraining on skills in response to changes in demand) through 1) improvement of the self-development environment using online services; 2) strengthening coordination between employees in training and study sessions, 3) customized training to enable us to continue to be customer's preferred supplier.

(3) Sales

The Company aims to provide higher value-added services and bolster its customer service reputation by 1) strengthening swift solution sales, 2) accelerating the development of new fields such as advanced technology and environment, and 3) linking with education to shift to fields that enable better growth.

3. View of FISCO's analysts

At FISCO, although sufficient caution is warranted regarding uncertain elements in the business environment, such as protraction of the coronavirus, supply chain confusion, soaring raw materials prices, and increased geopolitical risk, we believe the Company's forecasts are sufficiently attainable for the following reasons: 1) the R&D investment areas that the Company is targeting are long-term investment fields directly connected to its competitiveness in the future and in which strong demand is expected going forward; 2) even during the coronavirus pandemic, it has steadily expanded its business foundation, including by recruiting and educating human resources; 3) while the Company is shifting to growth fields, the year-end mobilization rate has returned to pre-coronavirus levels, and 4) Group companies are all performing solidly. Meanwhile, the point to focus on is the progress made in new business in the agriculture- and nursing care-related fields. In particular, it will be necessary to closely watch additional factors causing variation in performance, such as how quickly the newly started home-visit nursing care business can get up and running with the expansion in the number of locations, and what impact the timing and scale of the reopening of acceptance of foreign workers in the agriculture-related field will have on business results.

■ Medium- to long-term growth strategy

Aiming to expand the portfolio by developing new technologies and opening up markets, while also aiming for sustainable growth through solving societal problems

1. Medium- to long-term growth vision

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

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

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 corresponding markets. It is already actively training human resources, including organizing projects for increasing the number of mobilized employees in the AI and cutting-edge technology fields.

(2) Investigating potential new businesses (new markets, new business)

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

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

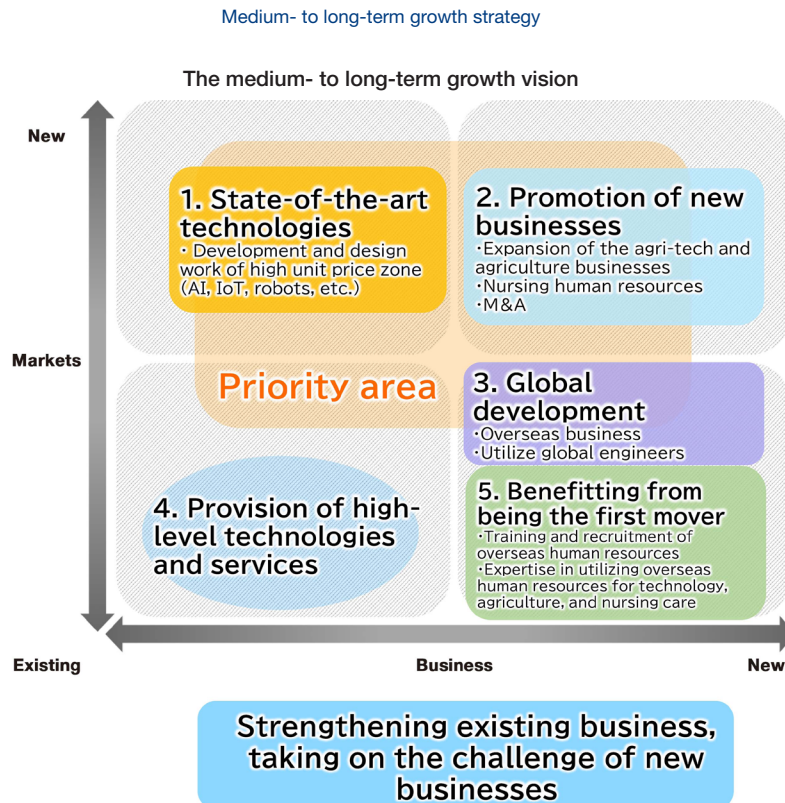
Basically, this is the provision of services like the construction and management of production facilities locally alongside the overseas expansion of its customer companies. For the time being, the Company's regional focus is on China and Asia, and it is also aiming to utilize global engineers, such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

(4) Provision of high-level technological services (existing markets, existing business)

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.

(5) Obtaining the first-mover advantage (existing markets and new businesses)

The Company will obtain the first-mover advantage from its expertise in the recruitment and training of human resources and utilization of overseas human resources in the technologies, agriculture and nursing care fields.



Source: The Company's results briefing materials

2. The medium-term management plan (rolling-type)

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

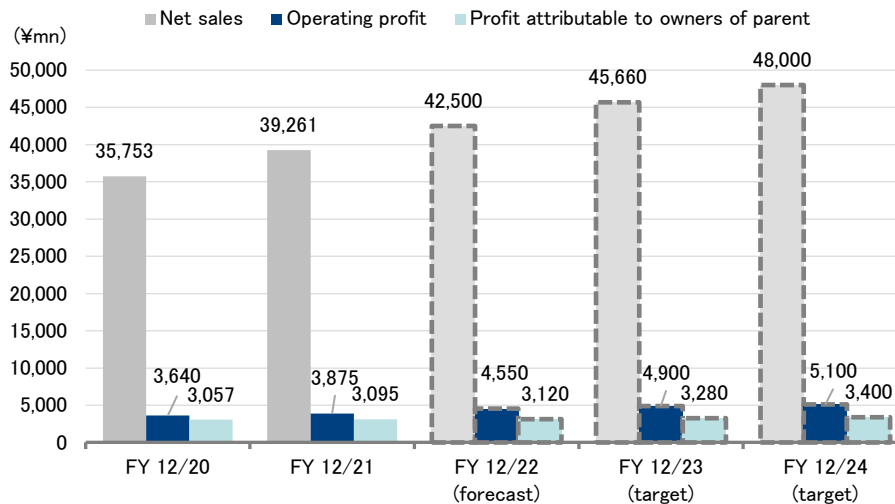
- Create sustainable competitive advantages in the outsourcing market
- Accelerate growth and strengthen the earnings foundation by increasing investment
- Optimize human resource development and the organization in response to changes in the business environment

A point particularly worthy of praise is that the Company is specifically conducting activities toward solving societal problems, such as investing in the agriculture- and nursing care-related fields. Furthermore, the establishment of DONKEY Corporation (and its consolidation through additional investment) and the consolidation of Digital Spice Corporation are also distinctive in that they differ from the kind of investments made up until now for strengthening the manufacturing business, and will therefore be a focus point.

In the three-year (rolling) medium-term management plan, it has set quantitative targets for FY12/24 of net sales of ¥48,000mn, operating profit of ¥5,100mn, and profit attributable to owners of parent of ¥3,400mn, while it also intends to secure ROE of 20% or above.

Medium- to long-term growth strategy

Medium-term management plan targets



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 Lehman Shock in 2008 and then trended downward, but this decline bottomed-out in 2013 and by 2019 it had recovered to 1.56mn. 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 on April 1, 2020)*, the environment surrounding the assignment business is approaching a major turning point. This is that it is considered 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 (full-time 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 (regular 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. But it is considered its businesses can continuously grow through acquiring the trust of customers, supported by long-term human resources education.

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

Medium- to long-term growth strategy

Also, having observed the 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, it seems that a characteristic trend is that demand is increasing 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. Points to focus on from FISCO's analysts

In a situation of a declining population in Japan and economic globalization, at FISCO we evaluate the Company's strategy for the direction of its business development, of ascertaining changes to the industrial structure and societal problems in the future, to be rational. Including the progress made in the new businesses, the point to focus on in the future would seem to be how will its responses to the new technological fields in which demand is growing and its measures to solve societal problems connect to sustainable growth. In particular, it seems that its success or failure in the agriculture- and nursing care-related fields will be determined by whether or not the Company itself can go ahead of other companies to create new markets, and whether or not 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 DONKEY Corporation and Digital Spice Corporation, holds potential upside factors for business performance, and we intend to focus on the Company's specific moves in this area going forward.

Sustainability and ESG initiatives

The Company has formulated a basic policy on sustainability and established a committee to further strengthen 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 on its promotion of 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 initiatives on sustainability. At the same time, it established a sustainability committee with the purpose of overseeing their specific planning, execution, and management. The previously mentioned contribution to regional revitalization (Taiki Town, Hokkaido Prefecture) using the corporate version of the hometown tax donation system can be seen as part of these initiatives.

Sustainability and ESG initiatives

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

Shareholder return policy

Aims for a dividend payout ratio of 50% on a consolidated basis. In FY12/21, increased the dividend by ¥1 compared to the forecast for an annual dividend of ¥76

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 ¥10.0, regardless of results.

2. Dividend trend and plan

Profits increased more than forecast. Therefore, for the FY12/21 dividend per share, the Company upwardly revised the period-end dividend by ¥1 compared to the initial forecast and paid an annual ordinary dividend of ¥76 (interim dividend ¥37, period-end dividend ¥39) (for a dividend payout ratio of 50.3%).

At the current time, for FY12/22 the Company plans to pay an annual dividend per share of ¥76 (interim dividend of ¥38 and period-end dividend of ¥38), the same amount as the previous fiscal year, (for a dividend payout ratio of 50.0%).

3. Acquisition and cancellation of treasury stock

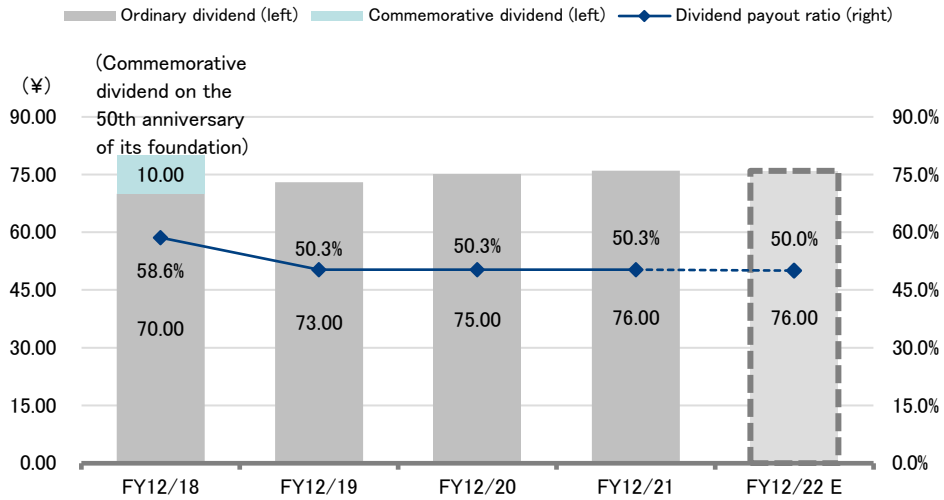
On February 14, 2022, the Company acquired 413,100 shares of treasury stock with the intention of executing shareholder returns and flexible capital policy. On February 28, 2022, the Company canceled 3,000,000 shares*1 of its treasury stock holdings in accordance with the "Basic policy on holding and canceling treasury stock."*2

*1 After cancellation, the number of treasury shares was 1,636,493 (7.5% of the number of issued shares)

*2 Established on February 14, 2022, the policy is as follows: 1) the upper limit on treasury stock holdings shall be around 10% of the total number of issued shares, 2) if the treasury stock holdings exceed the upper limit, in principle the Company shall cancel the surplus portion each fiscal year. Meanwhile, reasons for holding the stock are as follows: 1) as resources for executing strategies such as M&A or business and capital alliances, etc.; and 2) as resources for providing incentives for directors and employees to realize sustainable creation of corporate value.

Shareholder return policy

Dividend and dividend payout



Note: Figures have been retroactively revised to take into account the Company having conducted a 2 for 1 share split on January 1, 2018, and a 1.1 for 1 share split on July 1, 2019.

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



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