UT Group Co., Ltd.
2146 TSE JASDAQ

31-Jul.-15

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Differentiating itself from its peers by an industry-leading employee retention rate and a "start-to-finish outsourced production service"

UT Group<2146> primarily operates a manufacturing dispatch and outsourcing service business. The group consists of a holding company and beneath it the subsidiaries that carry out the actual businesses, including an engineer business that dispatches design, development, and construction engineers. In the semiconductor field, which is where its major clients are found, it is the industry leader in terms of the number of manufacturing outsourced and dispatched employees. The group has achieved the No.1 employee retention rate in the industry by measures including its early introduction of permanent employment and a skill-based wage system, and is achieving growth by differentiating itself from its industry peers through its independent business model of a "start-to-finish outsourced production service." In December 2003, its predecessor Nihon Aim was the first company in the manufacturing dispatch and outsourcing services industry to be listed on the JASDAQ market and one of its objectives was "to create a company that has its employees as a major shareholder."

In its financial results for FY3/15, the group achieved double-digit increases in sales and operating profit, with sales up 18.5% YoY to ¥36,478mn, and operating profit up 22.4% to ¥2,232mn. It achieved a record high in outsourcing sales and, in addition, secured an increase in both sales and operating profit for the fifth consecutive fiscal year since FY3/11. This was because it was able to expand its share of existing clients thanks to the growth in demand following the recovery of manufacturing industry and its system of hiring 500 people per month, and also because new orders trended strongly, particularly in the automobile field.

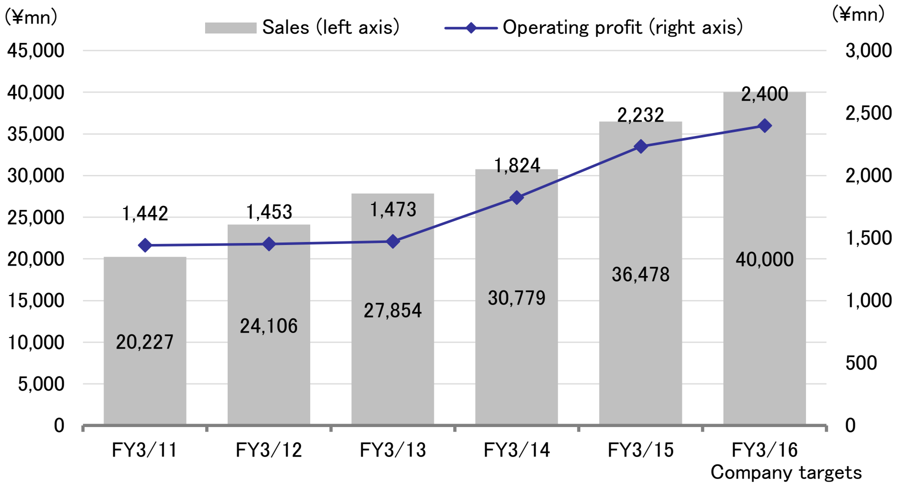
The group's targets for FY3/16 are to once again record an increase in sales and operating profit, with sales to rise 9.7% YoY to ¥40,000mn and operating profit 7.5% to ¥2,400mn. As in FY3/15, the growth in share for existing clients and in new orders is expected to be the driving force behind this improved performance. When considering factors such as the fact that a) sales in both FY3/15 Q3 (October to December) and Q4 (February to March), which will be the base for FY3/16, exceeded ¥9,500mn, b) that the positive contribution of System Revolution Co., Ltd., which has been made into a subsidiary, was not included in the targets, and c) if the revisions to the worker dispatch law that were recently discussed in the Diet comes into effect, it could have a positive contribution on the group's results, at FISCO we think the group's targets look conservative and there remains room for improvement above them, and it should have it sights set on a new record for outsourcing operating profit (¥2,823mn in FY3/08).

The group is developing its strategy based upon its medium-term management plan (FY3/12 to FY3/16), in which it sets out its vision of "Becoming Japan's No.1 outsourcing provider in quality and volume." In addition, in July 2015 the group announced its new medium-term management plan, with FY3/17 as its first fiscal year. Its main content includes setting out its new vision of "Creating work for all of Japan," and in order to drive growth the strategy it has evolved of accelerating M&As of industry peers and training facilities, and using M&As to participate in industries where it can utilize its strengths, and it presents a path toward achieving operating profit of ¥10,000mn and building a structure of 20,000 active employees. FISCO will pay attention to how these aspects develop in the future.

Check Point

- Is realizing the lowest employee turnover rate in the industry through enhancing its system for developing and training its human resources
- Achieved a record high in outsourcing sales and a fifth consecutive fiscal year of higher sales and profits
- Is forecasting increases in sales and profits for FY3/16, but its forecasts are conservative and there is room to go even higher

Business Trends



Corporate Overview

After the financial crisis, it decided to return to dispatching engineers in the manufacturing industry

(1) Corporate history

The group, which reached its 20th anniversary this year, was founded in April 1995 based on the philosophy of President, Representative Director & CEO Yoichi Wakayama of contributing to both people looking for a job and companies wanting people. The group's corporate history can be categorized into three periods: a) its founding period up to 2001, b) its first growth period up to 2009, in which it adopted a niche strategy of specializing in the semiconductor field, and c) its second growth period from 2010, in which it returned to the manufacturing outsourcing industry in order to escape from its reliance on semiconductors by converting to a market leader strategy.

a) The founding period (1995 to 2001)

The origins of the group were the founding in April 1995 in Yokohama of Aim CIC Company for the business of dispatching personnel for in-plant work. In July 1996, Aim CIC was renamed Nihon Aim Co., Ltd. Since its founding, it has focused on the manufacturing field, and one after another it adopted employment systems that ran contrary to the prevailing wisdom in the industry at that time, such as permanent employment, 100% employee participation in social insurance and a skill-based wage system. In such ways, it was successfully able to increase its employee retention rate and production efficiency. Furthermore, it created an independent business model in which instead of dispatching individuals, it dispatches entire teams to provide its start-to-finish outsourced production service in which the team is responsible for an entire process, and implemented various reforms of employees' ways of working. These initiatives helped to improve the management efficiency at its corporate clients, which further increased client numbers, and established the business foundations for its first growth stage.

b) First growth stage (2001 to 2009)

Due to the collapse of the IT bubble, the performance of companies in the manufacturing industry, which are the group's clients, deteriorated, and so inevitably the group's results also worsened. In this situation, it decided to convert to a niche, growth strategy of specializing in the semiconductor field which requires high-level expertise and is appropriate for outsourcing work on the unit of an entire process. In October 2002, it established the Semiconductor Market Development Team (currently the Tsukuba Training Center), which promotes the start-to-finish outsourced production service for semiconductor device manufacturers and carries out planning to improve the abilities of functional employees specializing in the semiconductor business. These efforts bore fruit and up to 2007 prior to the Lehman Brothers' collapse, it had established its position as No.1 in the manufacturing outsourcing industry in terms of number of manufacturing outsourced and dispatched employees to the semiconductor-related industry. In April 2006, in order to advance into the semiconductor device design business, it made a subsidiary of ARTISTA Co., Ltd. (merged with Comm Leading Co., Ltd. in December 2011), thereby entering into the design and development engineers dispatch business.

Further, in April 2007 it established a joint holding company called United Technology Holdings Co., Ltd. (name changed to UT Holdings Co., Ltd. in January 2009; changed to UT Group in July 2015) with Apex Inc., which sells used semiconductor manufacturing equipment and provides technical services. Next, in June 2007, Nihon Aim Co., Ltd. (name changed to UT Aim Co., Ltd in July 2012) made a subsidiary of Micro Engineering Inc., which manufactures and sells semiconductor manufacturing equipment, thereby entering into the business of manufacturing and selling semiconductor equipment and accelerating its strategy of expanding the scope of its semiconductor business.

However, it had to abandon its expansion of its semiconductor business due to the deterioration of the performance of companies in the semiconductor industry following the worldwide recession triggered by the Lehman Brothers' collapse. In June 2009, it sold Micro Engineering and then in November it sold Apex, and decided to return to the engineer dispatch business in the manufacturing field, which had been its business domain since its founding.

In December 2003, the group's predecessor Nihon Aim listed on the JASDAQ market, with one of its objectives being "to create a company that has its employees as a major shareholder." Incidentally, this was the first IPO of an outsourcing company, and its formation of an employee shareholder plan was also a first for its industry.

c) Second growth stage (2010 to the present)

From the group's decision to return to its original business of manufacturing outsourcing, in addition to cultivating further transactions in its main manufacturing dispatch and outsourcing services business and expanding into client growth fields, such as the environment and energy field, the automobile-related field, and the housing field, it aimed to develop its business foundations by expanding its engineer business (dispatch of design and construction engineers). In this way, it implemented a market leader strategy of escaping from a reliance on semiconductors and becoming the No.1 outsourcing company, at the same time as implementing financial restructuring. Even though its business environment was working against it, such as the shift of the manufacturing industry overseas due to the Great East Japan Earthquake and the strong yen, the 2012 problem[*1] worked to the advantage of the group thanks to its policy of permanent employment, and its number of client plants increased, its results recovered, and its expansion trend accelerated.

In order to expand its business foundations, in January 2010 the group established Comm Leading Co., Ltd. (design and development engineers dispatch business)[*2], and then in March it established Comm Agent Co., Ltd. (distribution and retail dispatch business)[*3]. In addition, in July 2013, it acquired 81% of the shares of Panasonic Battery Engineering Co., Ltd. and made it into a subsidiary (at the same time, its name was changed to UT Pabec Co., Ltd.). Further, in March 2015, with the objective of expanding its engineer business even further, it made a subsidiary of System Revolution, which operates a software development business[*4].

In March 2011, the group announced its medium-term management plan (FY3/12 to FY3/16), in which it set out its vision of moving from being "'the No.1 semiconductor outsourcing service provider' to being 'Japan's No.1 outsourcing company' in terms of both quality and volume." It presented the path it would take toward achieving operating profit of ¥10,000mn and a structure of 20,000 engineers from March 2017 onwards. At the same time, it committed to achieving an EPS growth rate of 30% or more (5 year average) and a total return ratio of 50% or more (changed from a dividend payout ratio of 30% or more in FY3/13). Then, in July 2015, it announced its new medium-term management plan (FY3/17 to FY3/21).

*1 The 2012 problem that affected the group was that in conjunction with the rapid expansion in production following the Lehman Brothers' collapse, from 2009 the re-utilization of dispatch workers started once again in the manufacturing industry. But then the temporary employment periods of the dispatched workers that started at that time all came to an end at the same time in 2012. Manufacturing companies, which are the group's main clients, were required to decide whether to directly employ their dispatch workers and workers on a fixed-term employment contract, or to switch to outsourcing. Since then, the shift toward outsourcing has accelerated even outside of the semiconductor industry.

*2 In July 2012, its name was changed to UT Leading Co., Ltd.

*3 In April 2012, its name was changed to UT icom Co., Ltd., and at the same time it launched a manufacturing dispatch and outsourcing business. But then in June 2012, it spun-off the distribution and retail dispatch business and established UT Agent Co., Ltd. In April 2013, UT Agent transferred its business to UT icom (UT icom was merged with UT Aim in April 2014).

*4 The acquisition cost was ¥1,000mn.

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Company History

April 1995	Aim CIC Company was founded for the business of dispatching personnel for in-plant work.
July 1996	Aim CIC was renamed Nihon Aim Co., Ltd.
October 2002	The Semiconductor Market Development Team was established (currently, the Tsukuba Training Center).
December 2003	Nihon Aim was listed on the JASDAQ market.
April 2006	ARTISTA Co., Ltd. was made a subsidiary in order to enter into the design and development engineer dispatch business.
April 2007	Nihon Aim and Apex Inc. jointly transferred shares to establish United Technology Holdings Co., Ltd. (currently UT Group Co., Ltd.) as a pure shareholding company. It was listed in the JASDAQ market (Nihon Aim became unlisted).
January 2009	United Technology Holdings was renamed UT Holdings Co., Ltd.
November 2009	All shares of Apex were acquired by HACHITOKU Co., Ltd.
January 2010	Comm Leading Co., Ltd. was established in order to strengthen the group's design and development engineers dispatch business.
March 2010	Comm Agent Co., Ltd. was established in order to enter into the distribution and retail dispatch business.
February 2011	ARTISTA and Comm Leading were combined to form Comm Leading.
April 2012	The name of Comm Agent Co., Ltd., was changed to UT icom Co., Ltd. and a manufacturing dispatch and outsourcing business was launched. UT Career Co., Ltd. was established (entered into the outplacement business). UT Construction Network Co., Ltd. was established in order to enter into the construction engineer dispatch business.
June 2012	The distribution and retail dispatch business of UT icom Co., Ltd. was spun-off and UT Agent Co., Ltd. was established.
July 2012	To enhance the UT Group's brand power, some subsidiaries were renamed to make corporate names of all subsidiaries start with UT.
October 2012	UT Life Support was established in order to expand welfare services to employees.
July 2013	81% of shares of Panasonic Battery Engineering Co., Ltd. were acquired to make it a subsidiary that was renamed UT Pabec Co., Ltd.
March 2015	System Revolution Co., Ltd. was made into a subsidiary.
July 2015	UT Holdings Co., Ltd. was renamed UT Group Co., Ltd.

Operations are mainly carried out by teams of experienced employees organized on the unit of an entire process

(2) Businesses

The group consists of the UT Group Co., Ltd. which functions as the pure holding company for the other group companies of six consolidated subsidiaries, which conduct the actual businesses.

Outline of the Six Consolidated Subsidiaries

Company name	Founded	Address	Description of business
UT Aim Co., Ltd.	April 1995	Shinagawa Ward, Tokyo	Manufacturing dispatch and outsourcing
UT Leading Co., Ltd.	September 2005	Shinagawa Ward, Tokyo	Design and development engineer dispatch
UT Career Co., Ltd	April 2012	Shinagawa Ward, Tokyo	Outplacement business
UT Construction Network Co., Ltd.	April 2012	Shinagawa Ward, Tokyo	Construction engineer dispatch
UT Pabec Co., Ltd.	July 2013	Shinagawa Ward, Tokyo	Manufacturing dispatch and outsourcing
System Revolution Co., Ltd.	August 1986	Shibuya Ward, Tokyo	Software development and operational management Specified worker dispatch business

The two main businesses it is engaged in are the manufacturing dispatch and outsourcing services business and the engineer business, but in terms of financial accounting, it discloses information on one business, the outsourcing business. In FY3/15, percentages of total sales by business were 91.3% from the manufacturing dispatch and outsourcing services business and 8.7% from the engineer business (breaking this down, 5.6% from the dispatch of design engineers and 3.1% from the dispatch of construction engineers). Also, percentages of sales according to client business category were 44.8% from the semiconductor and the electronic parts field, 25.3% from the environment and energy field, 16.0% from the automobile-related field, 6.7% from the housing field, and 7.2% from other fields.

●Manufacturing dispatch and outsourcing services business

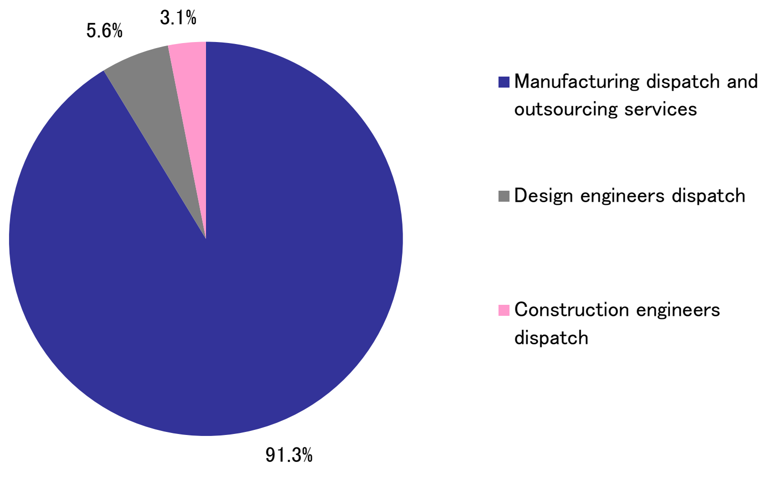
It dispatches permanent employees and carries out outsourcing of the in-plant work of Japanese manufacturers. Rather than dispatching individuals for the work outsourced to it, it mainly organizes experienced employees into teams, establishes a chain of command, and carries out the work on the unit of an entire process (start-to-finish outsourcing). The group's employees that carry out the outsourcing work are called engineers and their employment forms are divided into permanent employees following a transfer to locations nationwide (approximately 70% of all employees) and contract employees.

Its main users are manufacturing companies in industries including semiconductor, electronics, environment and energy, automobile, and construction and building materials. Specifically, its main clients include the Sony Group<6758>, the Panasonic Group <6752>, and the Toshiba Group <6502>. The consolidated subsidiaries UT Aim and UT Pabec carry out this business. As of the end of March 2015, it dispatched engineers to 438 plants and employed 8,597 engineers.

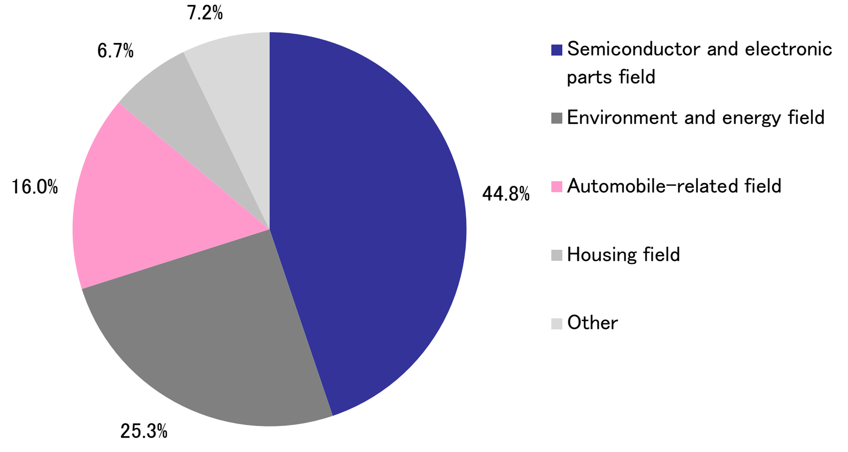
●Engineer business

The business involves software outsourced development; machinery, electrical, and electronic design development (including design work using 3D CAD); and the dispatch of construction engineers. Software development is carried out by UT Leading and System Revolution, but the dispatch of engineers for machinery, electrical, and electronic design development is carried out by UT Leading alone. The construction engineer dispatch business is carried out by UT Construction Network Co., Ltd. The main clients for software development and the dispatch of engineers for machinery, electrical, and electronic design development are major electronics manufacturers. Clients in the construction engineer dispatch business include major construction companies, primarily super general contractors. As of the end of March 2015, the group employed 702 engineers in this business.

Sales Percentages by Business (FY3/15)



Percentage of Sales by Client Business Category (Manufacturing Only) (FY3/15)



The Group's Strengths and Business Risks

Has achieved the lowest employee turnover rate in the industry through enhancing its system to develop and train human resources

(1) Strengths and competition

The group's strengths are its systems of permanent employment and 100% employee participation in social insurance. In addition, by introducing Job Grade, which is a skill evaluation system on 25 levels; Entry System, in which employees can fairly become candidates for management; and an Employee Stock Ownership Plan (ESOP), it has achieved the lowest employee turnover rate in its industry (specifically, its current turnover rate is around 3 to 4%, which is significantly below the industry average of 8%). In addition, it has enhanced its system for developing and training human resources, including through the One UT Project (a career progression program for design engineers), the Super Manager School (an executive training school), and MTM Training (a management leadership development program). This is considered to be a factor behind its ability to maintain the quality of its employees, which has been highly evaluated by its corporate clients.

Further, another one of its strengths seems to be that it can contribute to the improved management efficiency of its clients through the format of its outsourcing contracts, in which a team provides a start-to-finish outsourced production service.

The group is leveraging its strengths to differentiate itself from competitors in the semiconductor field, which is where its main clients are located, and has established an unshakeable position as the No.1 company in the manufacturing outsourcing industry in terms of the number of manufacturing outsourced and dispatched employees. On the other hand, competition is fierce for manufacturing outsourcing in growth fields like automobiles, where the group has been aiming to expand its business to escape from its reliance on the semiconductor field through developing a market leader strategy. But despite this competition, the group is steadily increasing client numbers by leveraging its strengths. The specific competitors in this field can be said to include Nikken Sogyo, NISSO, Outsourcing <2427>, and World Holdings<2429>.

(2) Business risks

The group's business risks can be summarized into two points; a) its high reliance on the manufacturing and semiconductor-related industries and b) securing human resources.

As the group's clients are in the manufacturing industry, they are likely to be affected by fluctuations in the macro economy, like a strong yen and the domestic economic climate. Further, while the percentage of sales from the semiconductor field is declining due to the progress the group is making in its strategy of escaping from its reliance on the semiconductor-related field, it still provides around 40% of sales, so the group could be affected by changes in the performance of its semiconductor-related corporate clients.

The group's source of revenues is its human resources and securing them is its biggest challenge. It may not be able to secure the engineers it requires due to conditions in the labor market. Or if its employee retention rate declines, this may have a negative impact on earnings due to an increase in hiring expenses. In addition, its hiring system in its main manufacturing dispatch and outsourcing services business is founded upon hiring locally in each region, so if it has difficulties hiring in one region, it will have to hire from other regions and will incur relocation expenses, which may cause profitability to decline.

In order to expand its engineer business, the group began hiring new graduates from among the graduates of March 2014. It hired 240 graduates in April 2014 and 364 graduates in April 2015. It plans to hire 500 graduates in April 2016 (300 engineers and 200 manufacturing dispatch and other employees).

■ Financial Results Trends

Achieved a record high in outsourcing sales and the fifth consecutive fiscal year of increased sales and profits

(1) FY3/15 financial results

In its financial results for FY3/15, the group achieved double-digit increases in both sales and operating profit, with sales up 18.5% YoY to ¥36,478mn and operating profit up 22.4% to ¥2,232mn. In addition to achieving a record high in outsourcing sales, it recorded increases in sales and profits for the fifth consecutive fiscal year since FY3/11.

FY3/15 Results Overview

(unit: ¥mn, people)

	FY3/14		FY3/15				
	Results	Ratio	Target*1	Target*2	Results	Ratio	YoY
Sales	30,779	-	32,000	36,000	36,478	-	18.5%
Cost of sales	25,349	82.4%	25,900	29,370	29,718	81.5%	17.2%
Selling, general and administrative expenses	3,605	11.7%	3,600	4,630	4,528	12.4%	25.6%
Operating profit	1,824	5.9%	2,500	2,000	2,232	6.1%	22.4%
Ordinary profit	1,754	5.7%	2,360	1,920	2,157	5.9%	23.0%
Net profit	934	3.0%	1,400	1,100	1,168	3.2%	25.0%
Number of engineers	7,768	-	-	-	9,299	-	19.7%

*1: announced on May 14, 2014
*2: announced on February 12, 2015

The growth in sales was due to the strong performance of the manufacturing dispatch and outsourcing services business against the backdrop of the expansion in demand for dispatching and outsourcing services following the improvement in the performance of the manufacturing industry. In addition, the dispatch of design and construction engineers increased and the number of client plants rose by 25 compared to the end of the previous fiscal period, to 438 plants. Another factor behind the higher sales was that the group's number of engineers reached its highest ever total, of 9,299 engineers.

On the other hand, the factors behind the increase in operating profit (up ¥408mn YoY) were the increase in profits (¥1,003mn) due to higher sales from an expansion in share and new orders, and also an increase in profits (¥327mn) due to improvements in the gross profit margin (FY3/14 17.6% → 18.5%) following improvements in unit prices, and growth in overtime and a withdrawal from low-profitability business offices, which meant gross profit increased (¥1,330mn). These factors outweighed a decline in profits from the increase in selling, general and administrative expenses (¥923mn), partially due to higher hiring-related expenses because of proactive hiring activities in order to build the foundations of a system for 500 new hires a month (¥461mn).

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Compared to the initial targets announced in May 2014 (sales ¥32,000mn, operating profit ¥2,500mn), sales exceeded the target but operating profit was slightly below it. The reasons why sales exceeded the target were the expansion in share following additional orders from existing clients, particularly in the manufacturing dispatch and outsourcing services business and the engineer dispatch business, and also the new orders from automobile-related clients. Conversely, the reasons why operating profit was below the target were negative factors including a) profits in the re-employment support business were below target (¥200mn below the target), b) an increase in expenses to hire new graduates (up ¥250mn), and c) an increase in sales-related expenses (up ¥50mn). However, both sales and operating profit exceeded the revised targets announced in February 2015 (sales ¥36,000mn, operating profit ¥2,000mn).

(2) Financial conditions

As of the end of March 2015, total assets had increased ¥4,369mn from the end of the previous fiscal period to ¥16,427mn. Breaking this down, current assets increased ¥3,997mn from the end of the previous fiscal period due to the rise in cash & deposits (¥3,050mn) that occurred in conjunction with the increases in profits and long-term debt, while accounts receivable also rose (¥867mn). Fixed assets increased ¥380mn from the end of the previous fiscal period because of factors including the rise in goodwill (¥787mn) following software development company System Revolution becoming a subsidiary in March.

Liabilities increased ¥3,904mn from the end of the previous fiscal period to ¥12,803mn. Specifically, in conjunction with the improved results, each of accrued expenses, accrued income tax, and accrued consumption tax increased, and consequentially current liabilities rose ¥2,864mn from the end of the previous fiscal period. Long-term liabilities grew ¥1,040mn from the end of the previous fiscal period. This was because, while corporate bonds declined, long-term debt increased (¥1,444mn) as the group procured funds at low interest rates in preparation for the deployment of its medium- to long-term strategy, in addition to the M&A of System Revolution.

Net assets rose ¥465mn from the end of the previous fiscal period to ¥3,624mn. This was mainly due to the increase in retained earnings of ¥416mn from the end of the previous fiscal period following the improved results.

Balance Sheet

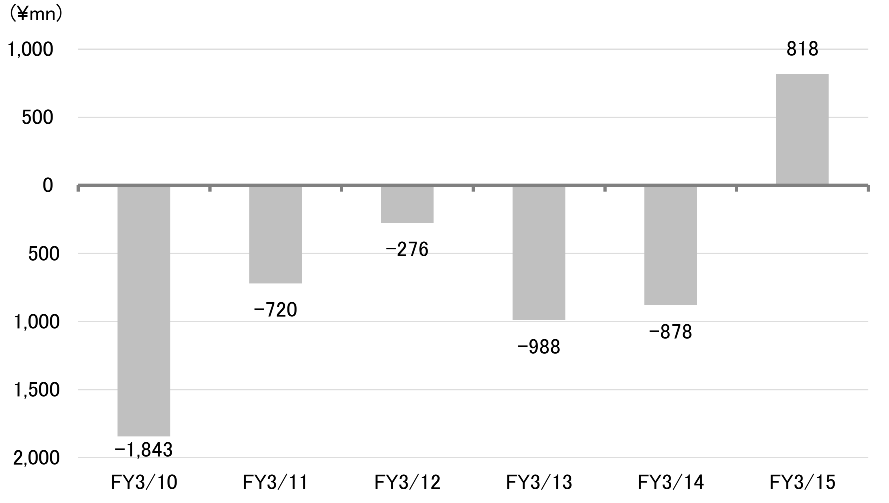
(unit: ¥mn)

	FY3/14	FY3/15	Change	Breakdown
Current assets	9,197	13,194	3,996	
Cash & deposits	4,151	7,201	3,050	
Accounts receivable	4,150	5,017	866	
Fixed assets	2,833	3,213	379	
Tangible fixed assets	65	68	2	
Intangible fixed assets	158	945	786	Goodwill +773
Investments and other assets	2,608	2,199	-409	Deferred tax assets -454
Deferred assets	27	20	-8	
Current liabilities	5,421	8,285	2,863	Accrued expenses +473 Accrued income tax +399 Accrued consumption tax +1199
Short-term borrowings + Current portion of corporate bonds	1,601	2,020	419	Short-term borrowings +85 Current portion of long-term debt +335
Long-term liabilities	3,477	4,517	1,040	
Long-term debt+ Corporate bonds	3,429	4,363	934	Corporate bonds -420 Long-term debt +1444
Net assets	3,159	3,624	465	
Shareholders' equity	3,103	3,519	415	Retained earnings +642
Total assets	12,058	16,427	4,369	

Balance of interest-bearing debt	5,030	6,384	1,353
Net cash	-878	818	
Management Indicators			
(indicators of financial strength)			
Current ratio (%)	169.7	159.3	
Shareholders' equity ratio (%)	25.7	21.4	
D/E ratio (%)	162.1	181.4	
(indicators of profitability)			
Ordinary profit to total assets ratio (%)	16.3	15.1	
Return on equity (ROE) (%)	32.2	35.3	
Operating margin (%)	5.9	6.1	

Due to the increase in long-term debt, shareholders' equity ratio and D/E ratio (interest-bearing debt divided by shareholders' equity), which are indicators of financial strength, slightly worsened. But due to the improved results, net cash (the amount obtained from subtracting interest-bearing debt from cash & deposits) returned to a surplus, and when also considering that the objective of long-term debt is to procure funds for M&As for business expansion, it is considered there has been no change to the improvement trend. Conversely, ROE and operating margin, which are indicators of profitability, continued to improve in conjunction with the group's better results.

Trends in net cash



Higher sales and profits are expected in FY3/16, but the conservative targets mean there is room for even further improvement

(3) FY3/16 group targets

The group targets for FY3/16 are an increase in both sales and operating profit, with sales up 9.7% YoY to ¥40,000mn and operating profit up 7.5% to ¥2,400mn.

FY3/16 Group Targets

(unit: ¥mn)

	FY3/15		FY3/16		
	Results	Ratio	Target	Ratio	YoY
Sales	36,478	-	40,000	-	9.7%
Cost of sales	29,718	81.5%	32,440	81.1%	9.2%
Gross profit	6,760	18.5%	7,560	18.9%	11.8%
Selling, general and administrative expenses	4,528	12.4%	5,160	12.9%	14.0%
Operating profit	2,232	6.1%	2,400	6.0%	7.5%
Ordinary profit	2,157	5.9%	2,240	5.6%	3.8%
Net profit	1,168	3.2%	1,320	3.3%	13.0%

The main factors behind the increase in sales are forecast to be the expansion in share of existing clients and the increase in new orders, the same as in the previous fiscal period. On the other hand, for the increase in operating profit, it is expected that the decrease factors, like a ¥632mn increase in selling, general and administrative expenses, partially due to the rise in expenses to stabilize the system to hire 500 people a month (¥400mn), will be exceeded by the increase in gross profit (¥800mn) from the higher sales from the expansion in share of existing clients and the increase in new orders (gross profit up ¥640mn), and also the improvement in the sales profit ratio (FY3/15 18.5% → 18.9%) due to higher unit prices and other factors (gross profit up ¥160mn). The group commented in its results briefing that its forecasts for FY3/16 are conservative based on the downward revision of its forecasts in the past.

FISCO considers that the group's targets are conservative and there is room for it to achieve even higher results. This is because of improved performance of the manufacturing industry thanks to economic recovery, the return of production to Japan thanks to the weak yen and other factors, and improvements in the business environment. We also consider them to be conservative because a) sales in both FY3/15 Q3 (October to December) and Q4 (February to March), which will be the base for FY3/16, exceeded ¥9,500mn, b) the positive contribution of System Revolution Co., Ltd., which has been made into a subsidiary, was not included in the targets, and c) if revisions to the worker dispatch law that were recently discussed in the Diet come into effect, it could have a positive contribution on the group's results.

Medium-term Management Plan

Steadily expanding its businesses through M&As and other methods, and has also announced its new medium-term plan

In its current medium-term management plan announced in March 2011, the group has set out its vision of changing from being the "No.1 semiconductor service provider" to being "Japan's No.1 outsourcing service provider in quality and volume" (where "quality" means to establish a working environment where its employees can work vigorously, and "volume" means to be the No. 1 in size in the manufacturing outsourcing industry). Based on the outsourcing track record it had cultivated up to that time, it also set out its strategy of aiming to expand into the growth fields of the environment and energy and to create high-quality employment opportunities and more opportunities for people to advance their careers. During the period of executing the medium-term management plan, the group presented a path toward realizing operating profit of ¥10,000mn and a structure of 20,000 employees from March 2017. At the same time, it committed to two points; that it was aiming for an EPS growth rate of 30% or more (5 year targeted average) and a total return ratio of 50% or more (changed from a dividend payout ratio of 30% or more in FY3/13)

The group's fundamental strategy at the time it announced its medium-term management plan can be summarized in the following three points: to expand share of existing clients (improve profit productivity and achieve stable growth), uncover client needs, and horizontally develop permanent employees (namely, build foundations so that one third of operating profit is from businesses other than the manufacturing dispatch and outsourcing business). It has broadly achieved its initial objectives within its plan, and it has revised its strategy to the following four specific points; growth in the manufacturing dispatch and outsourcing services business, making the engineer dispatch business into a core business, M&As and new business start-ups, and the enhancement of the internal management base.

(1) Growth in the manufacturing dispatch and outsourcing services business

It intends to grow its share of business with existing clients (strategy to increase the group's share of dispatches per plant), expand market shares of sales and hiring within regions by implementing a regional dominant strategy (conduct sales and hiring upon dividing the country into five blocks and build a structure to be No.1 in each region in terms of sales and hiring), and construct a hiring structure in order to stably secure 500 new hires per month (in FY3/15 it put in place a structure for 500 hires, but it is aiming for 600 to 700 hires in the future).

(2) Make the engineer dispatch business into a core business

It is cultivating its engineer dispatch business to be an earnings pillar second only to its main manufacturing dispatch and outsourcing services business by establishing an infrastructure for hiring, expanding share in markets with high demand, and conducting employee education and training. In addition to new hiring, it is aiming to effectively secure and retain engineers through its One-UT Project.

(3) M&As and new business start-ups

In order to further accelerate its growth engine, it intends to pursue M&As and business start-ups. For example, making System Revolution a subsidiary in March was one part of this strategy.

(4) Enhancement of the internal management base

In addition to aiming to improve operational efficiency by changing the system to prevent workload from concentrating too much on specific people by promoting the building of a framework for internal backbone work, it is also making a concerted effort to promote the training and development of all employees.

In addition, in July 2015 the group announced its new medium-term management plan with FY03/17 as its first year. The main content of this plan includes its new vision of "Creating work for all of Japan," and it presents an evolved strategy and a path toward achieving operating profit of ¥10,000mn and building a structure of 20,000 active employees. Also, in order to drive growth, it will accelerate M&As of industry peers and training facilities, and participate in industries where it can leverage its strengths through M&As. FISCO will be keeping a close watch on future developments.

Returns to Shareholders

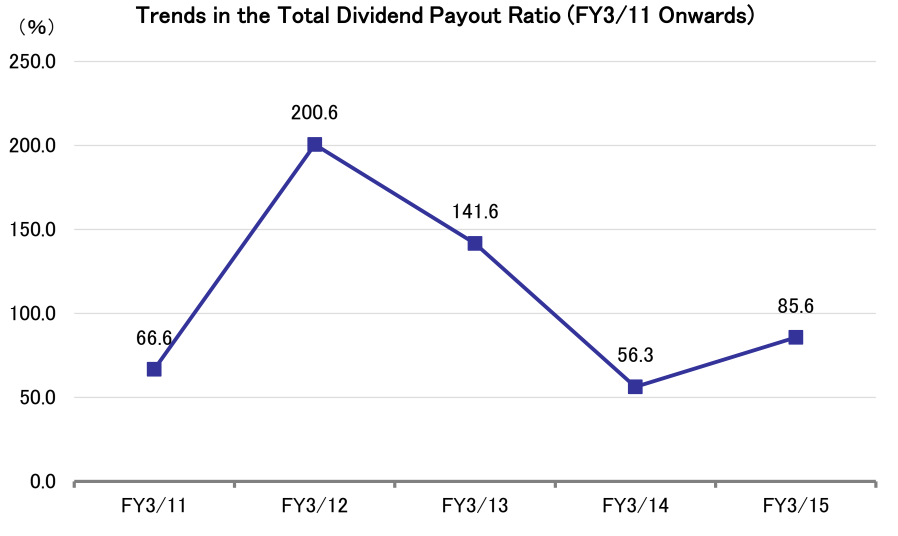
The basic policy for returns to shareholders is to target a total return ratio of 50% or more

The group regards returning profits to shareholders to be an important management issue. Its basic policy is to target a total return ratio (the sum of dividends paid and share buybacks as a ratio of consolidated net income) of 50% or more (changed in its medium-term management plan in FY3/13 from targeting a dividend payout ratio of 30% or more).

Looking at its track record of returning profits to shareholders since FY3/11 from the data it disclosed in its medium-term management plan, we see that it paid dividends up to FY3/14 and, in accordance with its target, the dividend payout ratio was 30% or more (since FY3/13, it has targeted a total return ratio of 50% or more). However in FY3/15 it decided that it would not pay dividends and instead decided in February that it would spend ¥1,000mn to acquire its own shares (scheduled acquisition period from February 13, 2015, to February 12, 2016) through a purchase of 3,000,000 shares (upper limit). In actuality, by June 11 it had acquired 1,885,800 of its own shares at an acquisition cost of ¥1,000mn, for a total return ratio of 85.6%. As of June 30, the group had resolved to retire 1,885,900 of its own shares (4.84% of outstanding shares before the retirement).

Upon calculating the FY3/15 total return ratio based on this, it comes to 85.6%. As of the end of May, in this share buyback it had acquired 1,079,500 of its own shares at an acquisition cost of ¥557.2mn.

Trends in the Total Dividend Payout Ratio (FY3/11 Onwards)



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