UT Group Co., Ltd. [2146]

Corporate report on medium-term outlook and business

Upward Together

Create jobs nationwide in Japan

The new five-year business plan began in FY3/2017

Aiming to become a No. 1 Monozukuri personnel service company by taking advantage of its reliability, bonding, and growth

Becoming the flagbearer in Japan's initiatives of "Dynamic Engagement of All Citizens" and "Workstyle Innovation"

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UT Group
Upward Together

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1. Summary

Growth achieved by strength in "outsourcing services by regular employees" and "career formation support to employees"

Significant growth since foundation in 1995, being ahead of times in terms of "Dynamic Engagement of All Citizens" and the "Workstyle Innovation

UT Group was founded in 1995, with the aim to contribute to manufacturing, a vital source of the strength of Japan. Adopting the mission of "creating vigorous workplaces empowering workers," we have been growing while adopting a "regular (indefinite-term) employment" system and promoting technical training to employees, defying industry norms. In other words, we were well ahead of the times in terms of providing "dynamic engagement of all citizens" and the "workstyle innovation," which are essential elements of the Japanese government's Basic Policy on Economic and Fiscal Management and Reform 2016: Road Map to a 600 Trillion Yen Economy." As our approach was well suited to large-scale semiconductor plants, our steady growth was driven by securing the semiconductor industry as a major client group. In 2003, we were the first in the manufacturing dispatch business to be listed in the JASDAQ market.

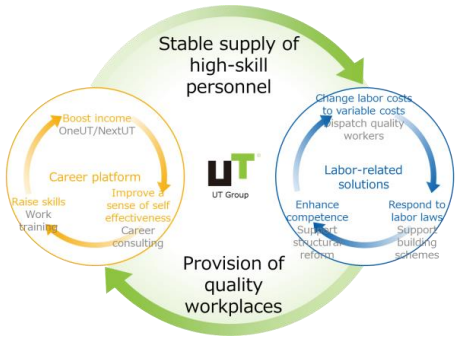
More than doubling of sales in the previous five-year business plan, to become Japan's No. 1 outsourcing provider in quality and volume

Under the previous medium-term business plan (FY3/2012 to 3/2016), we strove (1) to increase the number of client plants and the number of our workers per plant and (2) to diversify the client base to non-semiconductor clients. We entered the high-value-added engineer outsourcing business, enhanced the environment to motivate workers, and enhanced hiring capability, all of which resulted in achieving one of the largest business scale in manufacturing dispatch and outsourcing. Comparing FY3/2016 results to FY3/2011 results, sales expanded by 2.2 times to ¥44.0 billion, operating profit increased by 1.7 times to ¥2.4 billion, and the number of technical employees doubled to about 10,000.

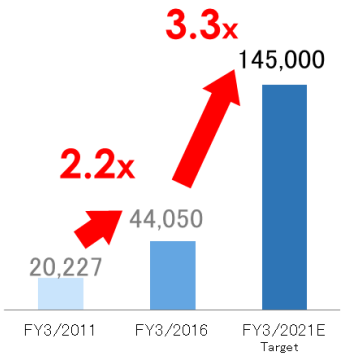
Tripling sales under the new medium-term business plan to "create jobs nationwide in Japan"

Under the new medium-term business plan (FY3/2017 to 3/2021), we are accelerating growth. Our new vision is to "Create jobs nationwide in Japan." Responding to both job seekers and companies in need of outside workers, we are strengthening our career development platform and contributing to the "workstyle innovation" and the "promotion of dynamic engagement of all citizens." Our three basic strategies are (1) expanding scale, (2) enhancing functions, and (3) expanding scope. Specifically, we aim at becoming No. 1 in manufacturing outsourcing, building overwhelming career building support capability, and making a great advance so as to become a leading company. We target tripling in sales to ¥145.0 billion, operating profit to ¥8.2 billion, and the number of technical employees to 29,000 by FY3/2021 compared to FY3/2016. We also aim at EPS of ¥157 in FY3/2021.

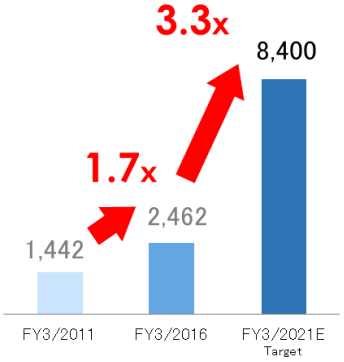
UT Group's business model



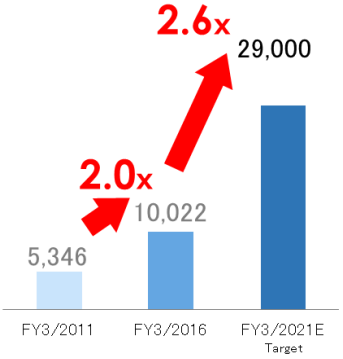
Sales (Million yen)



Operating profit (Million yen)



Number of technical employees



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Establish a platform for achieving FY3/2021 targets while nurturing potential for overachievement

Net increase in hiring of 3,600 a year, a medium-term goal

Enhance hiring capacity and career consulting to establish a platform for a net increase in hiring of 3,600 per year

In FY3/2017, UT Group expects to record sales of ¥55.0 billion and operating profit of ¥3.1 billion. We established the capacity to hire 750 per month and employee turnover has dropped. With consideration given to this, the number of technical employees is projected to increase by over 3,000 in hiring and by 1,600 from the acquisitions, compared to the previous year, to exceed 16,000 in total. During FY3/2018, we are building the capacity to increase net hiring by 3,600 per year. This pace of internal hiring means an increase of 14,400 (3,600 per year multiplied by 4 years) over the next four years on top of the present work force of 15,000, which will lead to 29,000 in total, a target in the medium-term business plan.

Three secular factors enable 3,600 net hiring per year over the next 4 years

We believe annual net hiring of 3,600 workers to be achievable due to the following three structural demand factors, in addition to a cyclical shortage in labor, evidenced by the recent trend of the jobs-to-applicants' ratio to be extremely high, such as above 1.4 times.

Structural demand factor (1): Expansion of indefinite-term employment (regular employee) dispatch, driven by deregulation

The Revised Worker Dispatching Act, enacted in September 2015, has abolished 26 specified job categories and has put a three-year limit to fixed-term employment contracts, and has abolished term limits for indefinite-term employment (regular employee) dispatch. The revised law significantly deregulated dispatch of regular employees, which is a special area of strength for UT Group, and we expect that there will be a shift to our type of dispatch from fixed-term dispatch and other types of non-regular employment.

Structural demand factor (2): Selection of dispatch companies by capacity to respond to tougher regulations and compliance issues

The September 2015 Revised Worker Dispatching Act has also obliged dispatch companies to provide career building support and training programs to dispatched workers, and to adopt measures to stabilize their employment. In addition, major clients in the manufacturing sector have been requiring dispatch companies to strictly adhere to compliance. As a result, major dispatch companies that can respond to such requirements have come to be favored and selected.

Structural demand factor (3): A virtuous cycle of demand creation based on strong hiring capacity

We are highly evaluated by clients for our capability to add 750 workers per month and to mobilize as many as 10,000 technical employees. We have thereby received more exclusive orders by committing to fulfillment of large-scale staffing needs. Ability to make this commitment enables us to have more negotiating power when discussing unit pricing, which then tends to lead to higher unit prices, and the higher unit price conditions facilitate our hiring activities. As a result, a virtuous cycle to create demand has been established.

Five sources of upside potential for overachievement

The following five factors may provide upside potential to our medium-term business plan. If these factors are realized, we believe we can potentially overachieve the medium-term business plan targets.

Upside potentials

① **M&A to accelerate**
More M&A opportunities, at a time when selection of staffing provides is becoming stricter

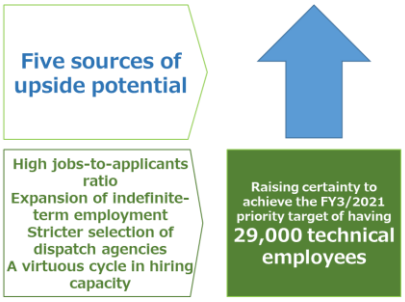
② **Foreign technical trainees**
We have established this as a line of business. Potential: 10,000 trainees in 4-5 years

③ **Higher unit price resulting from employees' career advancement**
Close to 45% rise in annual income, which also raises UT's gross margin

④ **Expanding personnel introduction business**
More of UT's employees convert to regular employees of our clients

⑤ **Providing labor issue solutions to large corporations**
Hundreds or thousands workers of large companies convert to regular employees of UT.

Medium-term business plan's image and upside potential



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2. Founding story, corporate outline, history, and business

Reliability, bonding, and growth: Story from foundation to becoming No. 1 in Monozukuri[1] in the human resources business

The root of the foundation was an "aim" to contribute to Japan's Monozukuri

UT Group originated from Aim C.I.C. Company, founded by 24-year-old Yoichi Wakayama in 1995. Its corporate name in Japanese included the English word "aim" to emphasize its high aspirations and determination. With a strong conviction that resource-limited Japan's strength lies in its Monozukuri, we started a personnel dispatching and subcontracting company focused on the manufacturing industry. The company was renamed Nihon Aim in 1996.

Focus on the workers' standpoint: Provide "reliability" and "growth"

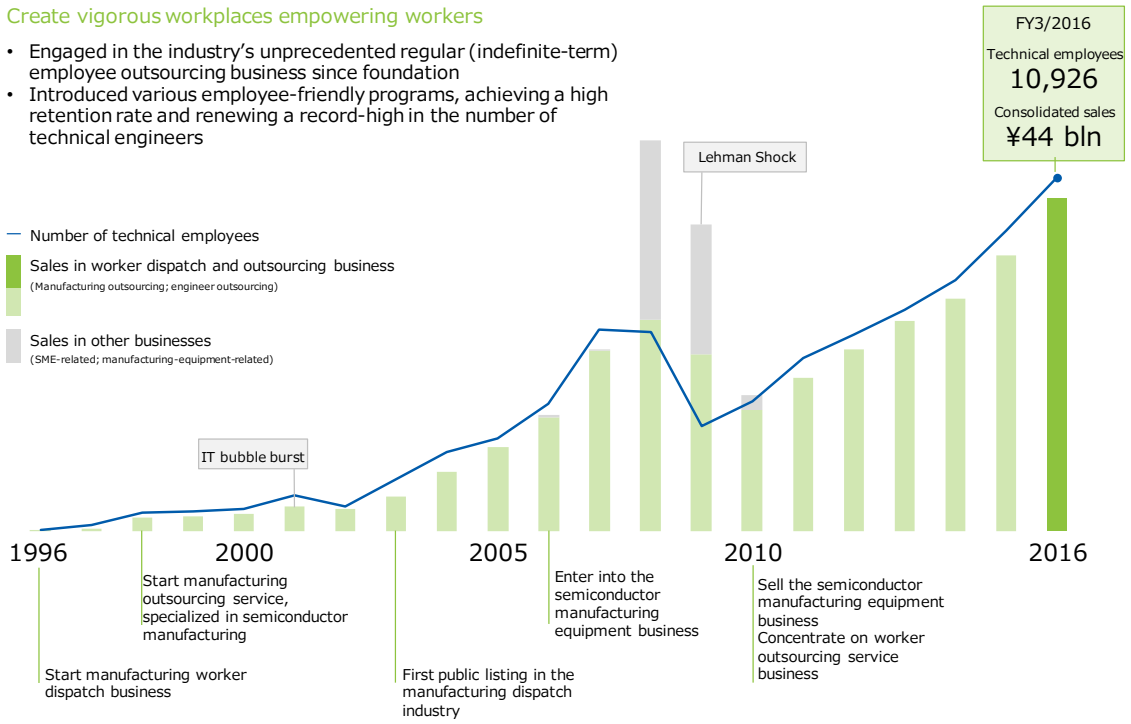
Back in 1995, Japan's makers in general were troubled with a low retention rate of dispatched workers and the resultant lower efficiency in production. We then proposed a scheme that would help dispatched workers grow through training and raised their pay based on their skill levels. This scheme helped improve both retention rate and production efficiency of the now highly motivated employees. Nihon Aim adopted the policies of providing "regular (indefinite-term) employment" and "social insurance for all employees," defying the industry norms.

Provided "bonding" through a teamwork

Next, Nihon Aim addressed the matter of how to reform work. A conventional individual dispatched worker would tend to not be motivated by a sense of fulfillment from working together with colleagues. Starting from this awareness we were inspired to create a unique business model: to do outsourcing service for an entire production process with our leader and our employees working as a single team. This model led to enhanced management efficiency of clients and we increased the number of client plants.

[1] Monozukuri is a Japanese concept widely accepted and used in Japan. It may be described as embracing "more than the literal meaning. It offers the idea of possessing the 'spirit to produce excellent products and the ability to constantly improve a production system and process'. The concept carries "overtones of excellence, skill, spirit, zest, and pride in the ability to make things good things very well."

UT Group's growth since foundation



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Adopted the mission "Create vigorous workplaces empowering workers"

In 2001, the IT recession hit the industry and Nihon Aim recorded a decrease in sales and profit for the first time. We discussed the survival of the company for more than a year and concluded that the innate function of Nihon Aim is to raise skills of employees and support clients' Monozukuri by deployment of teams. During the discussions, employees used a word "vigorously" many times. This concept has led to adopt as our mission "Create vigorous workplaces empowering workers"

Entered the semiconductor industry and became No. 1 in the semiconductor manufacturing outsourcing service

Consonant with our mission, we decided to concentrate management resources in the semiconductor field, which requires high-level expertise and is suitable for outsourcing service work in units of teams. Nihon Aim hired experienced personnel, established a human resources management system and a training system, and successfully obtained orders one after another from semiconductor manufacturers. Thereafter, Nihon Aim was highly evaluated by many companies, on the basis of its enhanced system for employee training and compliance, and proudly achieved the No. 1 position in the semiconductor manufacturing outsourcing service industry.

The industry's first company to be listed and launching of an employee shareholding plan; renamed UT Group

In 2003, Nihon Aim became the first company in the manufacturing outsourcing industry to be listed in the JASDAQ market. We also launched the industry's first employee shareholding plan. In April 2007, UT Group Co., Ltd. was founded as a holding company.

Built a base to become "Japan's No. 1 outsourcing provider in quality and volume"

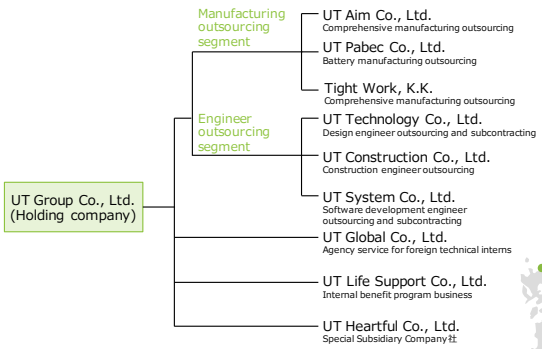
In 2008 UT Group faced another challenge, a global recession triggered by the Lehman Shock. The Japanese manufacturing sector, including the semiconductor industry, fell into a quandary with production dropping as much as by half. By taking various measures, UT Group was able to emerge from this crisis. In FY3/2012, UT Group launched a strategy to expand the number of client plants and the number of its workers per plant, and to diversify its client base to include non-semiconductor clients. We entered the high-value-added engineer outsourcing business, improved the environment to motivate workers, and enhanced hiring capability. These have enabled us to achieve one of the largest business scales in manufacturing outsourcing. Comparing FY3/2016 results to FY3/2011 results, sales expanded by 2.2 times to ¥44.0 billion, operating profit increased by 1.7 times to ¥2.4 billion, and the number of technical employees doubled to 10,000.

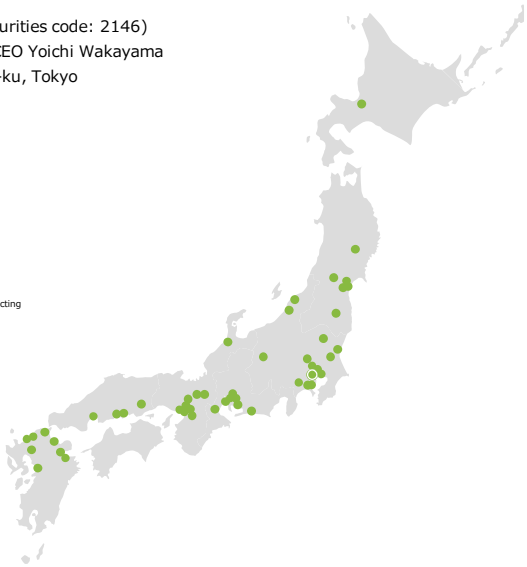
Corporate outline

At present, our corporate group, UT Group, is comprised of three subsidiaries in manufacturing outsourcing service, three subsidiaries in engineer outsourcing, and three subsidiaries engaged in other businesses.

Corporate outline, group companies, and offices in Japan

Corporate name:	UT Group Co., Ltd.
Founded:	April 2, 2007
Capital:	500 million yen
Listed stock exchange:	JASDAQ (Tokyo Stock Exchange) (Securities code: 2146)
Representative:	President, Representative Director & CEO Yoichi Wakayama
Location:	1-11-15 Higashi-Gotanda, Shinagawa-ku, Tokyo





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History

1995	Apr.	Aim CIC Company was founded.
2003	Dec.	Nihon Aim was listed in the JASDAQ market.
2007	Apr.	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 and a parent company of wholly owned subsidiaries. It was listed in the JASDAQ market.
2009	Jan.	United Technology Holdings was renamed UT Holdings Co., Ltd.
	Nov.	All shares of Apex were sold to HACHITOKU Co., Ltd.
2010	Jan.	Comm Leading Co., Ltd. was established, to strengthen the design and development engineer dispatch business.
2012	Apr.	Comm Agent was renamed UT icom Co., Ltd. and began providing manufacturing workers and outsourcing.
		UT Construction Network Co., Ltd. was established to enter the construction engineer dispatch business.
	July	To enhance UT Group's brand power, some subsidiaries were renamed to make corporate names of all subsidiaries to start with UT. Accordingly Nihon Aim was renamed to UT Aim Co., Ltd, and Comm Leading to UT Leading Co., Ltd.
2013	July	81% of shares of Panasonic Battery Engineering Co., Ltd. was acquired to make it a subsidiary that was renamed UT Pabec Co., Ltd.
2014	Apr.	UT icom Co., Ltd. and UT Revive Co., Ltd., both in manufacturing dispatch and outsourcing, were merged to UT Aim Co., Ltd.
2015	Mar.	Shares of System Revolution Co., Ltd. was acquired and it became a subsidiary.
	July	UT Holdings Co., Ltd. was renamed to UT Group Co., Ltd.
	Oct.	UT Leading Co., Ltd. was renamed to UT Technology Co., Ltd.
		UT Construction Network Co., Ltd. was renamed to UT Construction Co., Ltd.
		System Revolution Co., Ltd. was renamed to UT System Co., Ltd.
2016	May	Shares of Atex Co., Ltd. was acquired and it became a subsidiary.
2017	Jan.	UT Group opened an engineer development facility UT Advanced Career Center.
	Mar.	Shares of Tight Work, K.K. was acquired and it became a subsidiary.

Business Outline

Sales by segment

UT Group's business can be divided into manufacturing outsourcing (87% of total sales in FY3/2016) and engineer outsourcing (13%).

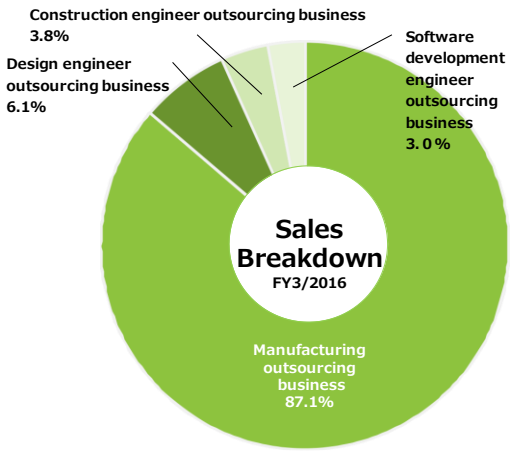
Subsidiaries

The manufacturing outsourcing business is operated by three subsidiaries: UT Aim, which is our original business company; UT Pabec, the former battery manufacturing outsourcing service company of Panasonic Corporation, which became UT Group's subsidiary; and Tight Work, K.K.

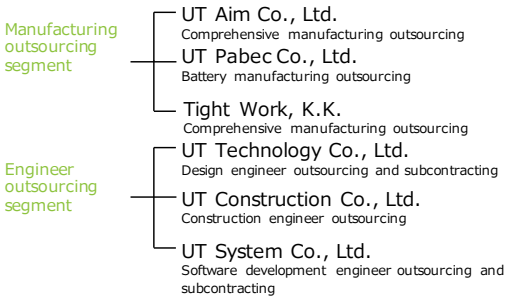
The engineer outsourcing business comprises three parts: design engineer outsourcing business, construction engineer outsourcing business, and software development engineer outsourcing business.

The design engineer outsourcing business is operated by UT Technology and Atex Co., Ltd., which became UT Group's subsidiary in May 2016, while the construction engineer outsourcing business and the software development engineer outsourcing business are mainly operated by UT Construction and UT System respectively. UT System became UT Group's subsidiary in March 2015.

Sales by segment



Subsidiaries



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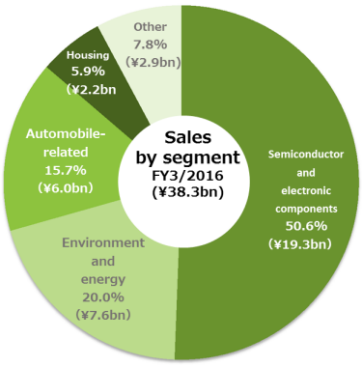
Manufacturing outsourcing business

Major clients in the manufacturing outsourcing business are large companies primarily in the semiconductor and electronic components sector, the environment and energy sector, the automobile-related sector, and the housing sector. In aggregate, over 10,000 employees are working in manufacturing processes based on over 500 contracts nationwide, supporting Japan's Monozukuri.

Sales breakdown and major client groups



Aisin Seiki
GS Yuasa
Sony
DaiNippon Printing
Toshiba
Toyota
Nissha Printing
NEC
Panasonic
Hamamatsu Photonics
Hitachi
Mitsubishi Electric
Mitsubishi Motor
LIXIL
Rohm

Major subsidiaries in manufacturing outsourcing

UT Aim Co., Ltd. Comprehensive manufacturing outsourcing	● Inherited UT Group's founding company ● Generates 80-90% of sales of the manufacturing outsourcing service segment
UT Pabec Co., Ltd. Battery manufacturing outsourcing	● Panasonic Group's battery manufacturing outsourcing service company became UT Group's subsidiary. ● Panasonic Group continues to be a major client.
Tight Work, K.K. Comprehensive manufacturing outsourcing	● General manufacturing dispatch company with a base in Kansai Region. ● Community-based detailed and thorough sales style

Engineer outsourcing business

Design engineer outsourcing business

UT Group's employees are engaged in design and development of software and hardware. They participate mainly in major makers' projects and provide technical services. Specific work tasks include design and development of enterprise systems or embedded software and hardware, based on contracts such as for subcontracting, entrusted development, and dispatching work, for clients of a broad range of industries, including automobile, semiconductor, telecommunication device, and consumer electronics.

Construction engineer outsourcing business

UT Construction is engaged in this business. It provides all-around support for a series of processes including survey, design, construction and completion in the construction industry. This is achieved by combining "worker dispatch services" to provide the right amount of high-quality manpower when needed with "outsourced work services" to fulfill needs that cannot be satisfied by employee dispatch alone.

Software development engineer outsourcing business

UT System is engaged in this business and provides support for the development of various systems; from large-scale backbone systems, mission-critical peripheral systems, and scratch development to the installation of ERP software. In addition to the development of enterprise applications, UT System is prepared to provide total solutions that spans from proposal for IT infrastructure building and management to design and maintenance services.

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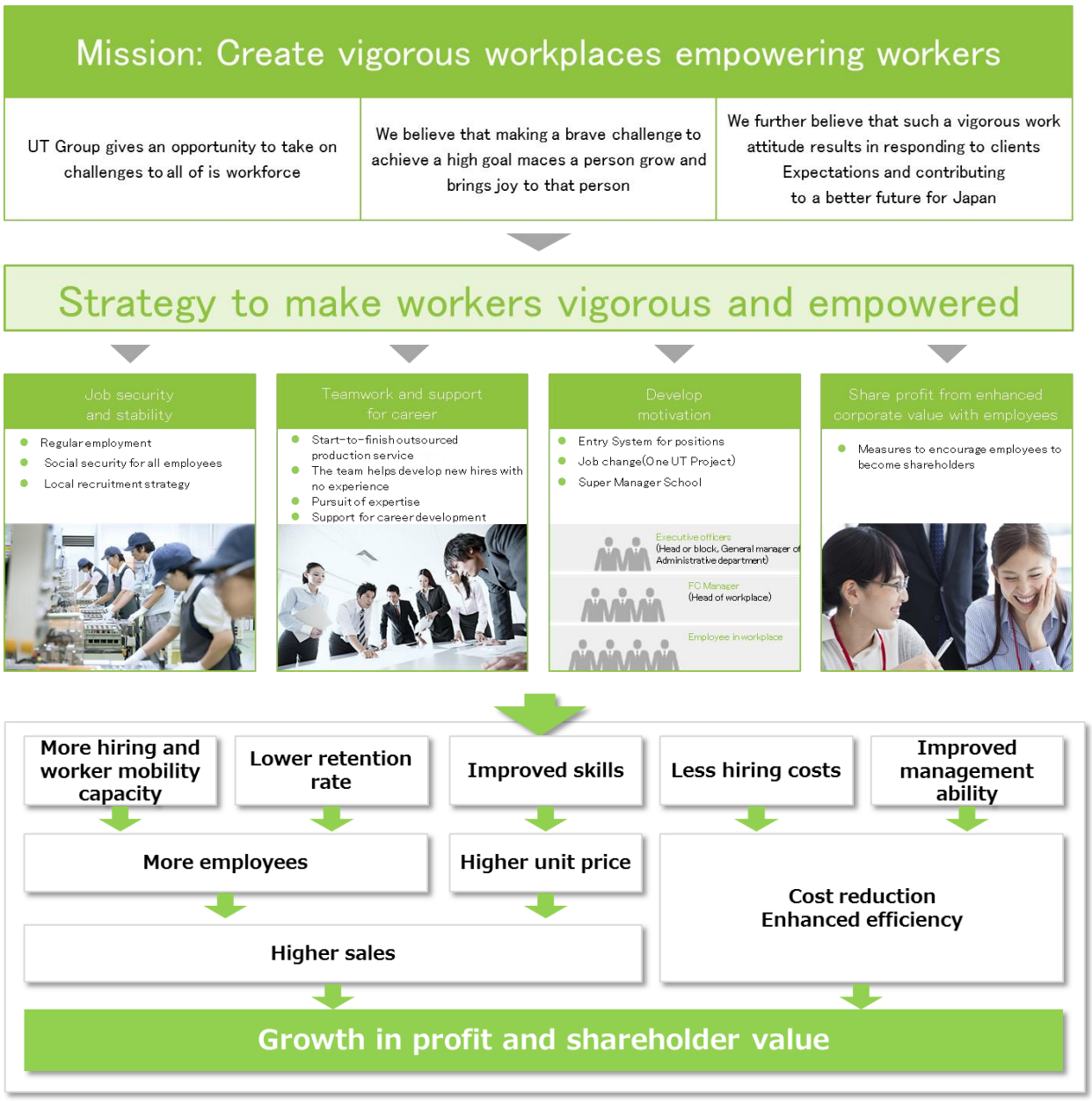
3. Mission, vision, offering value, and business model

Mission: "Create vigorous workplaces empowering workers"

People are the greatest resource in Japan, a country with limited natural resources. UT Group's mission is to "Create vigorous workplaces empowering workers" by offering people a workplace where they can shine. Specifically, we provide workers with opportunities to take on challenges and an environment to grow, by providing the best match between workers and companies. We strongly believe that this is our way to contribute to the future of Japan.

As specific strategies, we have promoted job security and stability, teamwork and support for career development, development of motivation, and sharing of profit from enhanced corporate value with employees. Through these strategies, a virtuous cycle has been created for long-term sustainable corporate value enhancement.

UT グループのミッションと戦略及び価値創造サイクル



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Brandmark

UT Group's corporate brand UT means "Upward Together." It incorporates our desire to cooperate and grow together with our clients.

UT Group's brandmark was designed by using the silver ratio (1:√ 2 ≒ 1: 1.414), which has been used in the architectural design of the famous Horyuji temple in Nara, for two letters, U and T. It is composed of green, representing vigorous workstyle, and black, representing service quality assurance. These well-balanced two letters represent a teamwork and bonding of our people, while the graphic pattern composed of multiple images of the same mark stands for consistent growth of our people and business.

Brandmark

Upward Together

Vision: "Create jobs nationwide in Japan"

Japan is in the midst of a paradigm shift in its industrial and economic structures. The Japanese Monozukuri work front has dramatically changed as a result of the startup of the Internet of Things (IoT) and Industry 4.0 initiatives, while requirements for human resources are also changing from moment to moment in terms of quality and volume. In the meantime, the declining birth rate, the aging population, and the economic disparity between the haves and have-nots have resulted in a significant supply/demand gap between regions and industries. Given such an environment, UT Group has declared its new vision to be "Create jobs nationwide in Japan." As a part of the new social infrastructure, we will endeavor to respond better than ever to needs in human resources. Through such efforts, we will help create new jobs in various regions and develop human resources, thereby bringing new vitality to Japan's labor market.

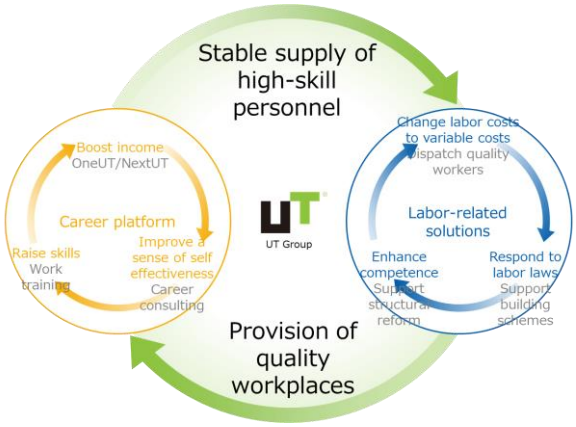
As specific measures to achieve the vision, the following three basic strategies have been specified in the new medium-term business plan:

First, to become bigger. We aim to be No. 1 in employment service provider in the Monozukuri area.

Second, to strengthen functions in order to refine our formidable career-formation support power.

Third, to diversify various aspects of business, including client industries, regions, manpower, and services in order to create vigorous workplaces in more areas. We are thereby planning to make a major advance and become a leading company.

UT Group's business model



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Expanding scale

The key to become bigger in the employment service industry is to achieve balanced growth both in the client base through aggressive sales activities and in the number of technical employees through enhanced hiring activities. Being able to ensuring an attractive workplace makes hiring of valuable personnel easier, which then lead to more attractive workplace. Our strategy to create such a virtuous cycle remains the same in the new medium-term business plan.

Our sales activities emphasize an increase in share of business within a client plant, on top of acquiring new clients. This is because as we provide a wide range of works, including higher value-added management services, comprehensively and as an organization, we can become an indispensable partner to clients and raise our profitability and job stability. As for hiring, we utilize our hiring capability across Japan and enhance hiring at each location. In addition to these initiatives, we will also promote alliances with middle-sized peers and M&A activities, which should also contribute to our growth in scale.

Enhancing functions

In addition to a scheme facilitating employees' acquisition of knowledge needed in their workplaces, UT Group has devised and implemented many schemes unique in the industry, including a program for employees in manufacturing dispatch work to make a job change to work as construction engineers or IT engineers and a system to allow employees to put themselves up as candidates for managerial positions. In the new medium-term business plan, we are adding programs to enhance support for career formation or future opportunities of our individual employees.

We began an internal career counselor certification scheme in April 2016. Managers who are certified as counselor will give advice and provide consultation as needed to each employee in the same workplace, in addition to being engaged in personnel administration. Approximately 150 managers have been certified so far. In the long run, the number of certified managers is projected to reach around 500.

We will also focus on creating an environment that facilitates employees taking training courses, including e-learning. We also plan to expand educational content. As a part of this, we became the first Japanese company to sign a contract for a Training Partner Program with Siemens K.K. This program aims at developing personnel in IoT-based manufacturing, or in the so-called 4th Industrial Revolution. We are hoping that this program will lead us to develop higher value-added personnel who can respond to needs of the automotive and other manufacturing industries.

Expanding scope

The medium-term business plan is concerned with opportunities to expand into new areas from various perspectives. Let us highlight two of those important perspectives.

The first is to leverage our accumulated strengths to better enter into other industries. We think that we can contribute to problem solving of not merely the manufacturing industry but of various other industries, by using UT Group's strengths, such as personnel administration know-how, large-scale hiring capability, and capability to cope with fluctuation in demand for manpower. We are therefore trying to find growth potential areas where our competence can be demonstrated.

The second perspective is diversification of manpower. In order to make domestic industries more vibrant in a country with an aging population, which is also decreasing, we will strive to secure the needed manpower even in regions experiencing a sharp decrease in population. At the same time, we feel that the society as a whole should be more concerned than at present regarding performance of work by women, seniors, and persons from overseas.

UT Group has been exploring opportunities to launch overseas business, such as to employ local staff needed for overseas expansion of Japanese companies mainly in Southeast Asia, or to employ non-Japanese staff to work in Japan. We also intend to take up the challenge of establishing a framework to mobilize women and seniors. We believe that such initiatives can diversify our business, and lead us to higher levels of capability to respond to the changing environment.

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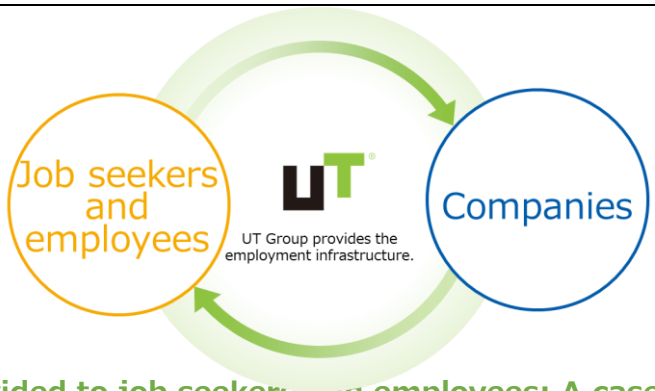
Our values to be offered

UT Group is emphasizing its provision of value to job seekers and employees, as well as to clients. We thus aim at becoming a corporate group selected by both persons seeking employment and firms seeking employees. We call this a Twin Customer Strategy.

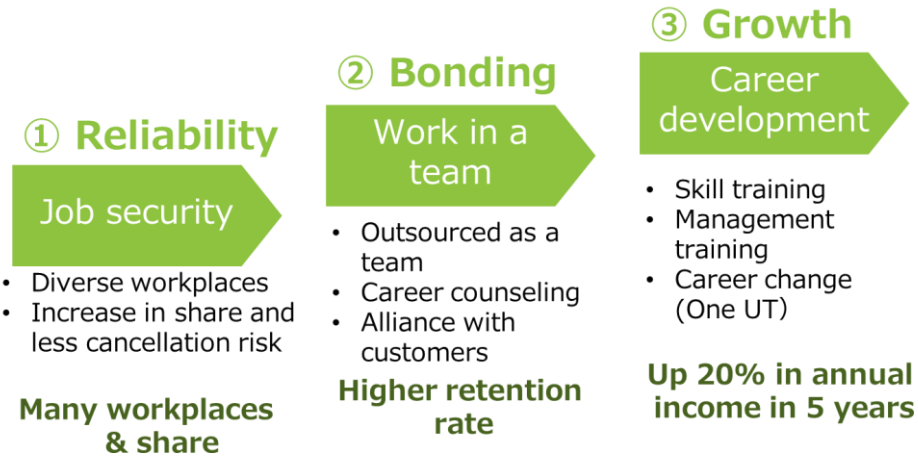
Twin Customer Strategy



Three values provided to job seekers and employees: A case of a dispatched worker becoming senior executive officer in seven years

We provide safety, bonding, and growth to job seekers and employees so as to be chosen by them. This is our way to contribute to the "dynamic engagement of all citizens" and the "workstyle innovation." The three initiatives concerning safety, bonding, and growth are aimed at helping them determine their careers and raise their overall value. Recent examples indicate that employees who made an internal career change increased annual income by as much as 45% on average.

Safety, bonding and growth



Assisting employees to raise their value

Career options	Vocational training
More career options in workplaces and work types Job change program out of nationwide workplaces and jobs Program to enable a transfer to engineers within the group System to assist transfer to client companies Entry System to managerial positions	Training and education to raise motivation and value Career design training Support of skill up and obtaining qualifications Engineer development program Leader/management training

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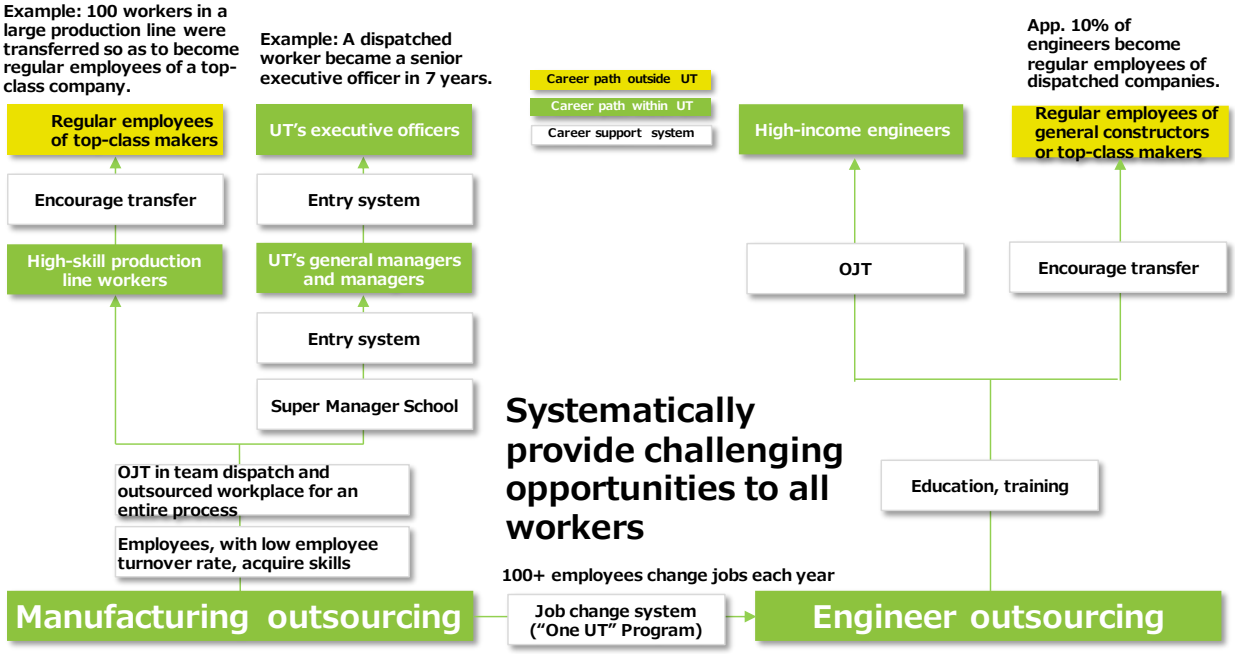
Career formation scheme



As shown above, our systematic career formation scheme has brought about a degree of noteworthy outcome, such as transfer of hundreds of our regular employees to a major client company in one year, and promotion of our dispatched worker to a senior executive officer in seven years.

Five free programs for employees to raise their work skills

We have adopted five programs that all UT Group employees can join in order to raise their work skills.

One UT Project

The One UT Project supports career advancement of all UT Group employees. In a way, it presents them with a new starting point toward the future. Training courses are available to learn basics, improve knowledge, and develop skills. They can take courses in fields outside their own and thereby prepare to their specialty or transfer to another Group company. By means of this program, around 100 manufacturing dispatch employees change their job each year. This means UT Group is better able to respond to ambitions of our employees and to help them become more value-added as persons.

Super Manager School

The Super Manager School provides practical training programs in order to develop the future top-level managers of UT Group. The objective is to develop personnel who understand corporate policy, think about how to contribute to it by themselves, and act without waiting to be instructed. Other desirable types of personnel include those personnel who can devise strategies for an operational goal, execute them, and achieve the desired result, and those who are always ready to take on a challenge for personal and corporate growth through work.

MTM Training

The MTM Training Program offers courses on management leadership. The themes include "Policy and personnel," "Organization management," "Compliance and safety," "Executive training," "Monozukuri management," and "Business management," all of which are required for executives in their workplace.

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Equipment Maintenance Training

Equipment maintenance training has been introduced for the benefit of clients in the manufacturing industry. The ultimate objectives are to expand employment opportunities by fulfilling needs of clients and deepening the relationship with them; to develop more skillful employees and raise their salaries; to establish an environment for employees to build their career over the long run; and to support career-formation of employees, with attention given to the various possibilities that may arise, including a transfer into major manufacturers.

UT Advanced Career Center（UTACC）for engineers

UT Advanced Career Center (UTACC) has been established to develop engineers who are ready to go to work on the front lines, and to support their career formation. At the UTACC, practical career training is offered to manufacturing dispatch employees with no experience in engineering, job seekers who want to become engineers, and employees who are motivated to acquire new skills or a new license. We thus promote their career formation and at the same time are able to provide client companies with engineers who can do skillful work from day one.

The UTACC's training programs broadly cover subjects for design and development engineers, system engineers, construction engineers, and others. Courses are diverse; from a basic course on manners and business skills to studies on special themes such as Basic Design, 3D, CAD, PLC (Sequencer), JAVA, Project Management, and Measurement, as well as practical training by using actual equipment of the workplace.

The 4th Industrial Revolution is anticipated to bring drastic changes in Monozukuri. Design and development, preproduction, plant design and operation, as well as supply chain information and operation will all be digitalized and connected online. UTACC activities are in anticipation of that.

The physical space of production sites is optimized based on simulation of virtual space using computer software. In order to succeed in such digital manufacturing, it is indispensable to develop personnel who have advanced know-how on operations in both virtual space and physical space. At the UTACC, UT Group, with its strength in personnel in manufacturing production sites, is collaborating with Siemens, which is one of front runners in digital manufacturing. We are developing personnel who are skilled in simulation as well as equipment and instrument in production sites.

UT Advanced Career Center（UTACC）

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Entry System to bring forth candidates for important Group positions

We promote a corporate culture that forthrightly faces challenges as a constructive way to grow and develop, with the mission to "provide challenging opportunities for everyone, and encourage, support, and praise those challengers." One of such examples is our Entry System. We respect willingness of each man and woman we employ and encourage them to take the initiative in applying for positions. Upon screening and review, we decide who to fill in the position among the applicants.

Outline of the Entry System

Every employee can run for candidacy to the manager senior staff once a year.

It is the fifth year from the operation. In some case, the technical employee in manufacturing outsourcing business has become senior executive officers, after joining UT-Group.

Three value contributions provided to client companies as comprehensive labor issue solutions

We provide three sources of value, through matching, risk control, and support in designing a personnel strategy for client companies. We aim to solve personnel/labor-related issues and at the same time help improve international competitiveness of Japan's manufacturing industry.

Matching, risk control, and support in designing a personnel strategy

① Matching

Fulfill demand for HR

- Hiring capacity
- Flexibility to change in demand
- HR development

Ratio of fulfillment, share

② Risk control

Smooth use of HR with no risk

- Response to labor laws
- Response to CSR Labor affairs, reputation, risk responsiveness

Quality of proposals

③Support in designing a personnel strategy

Assist to raise corporate value

- Labor solutions & consulting
- Absorption of client employees
- Shift to fixed-term employment

Number of proposals

At present we are seeing an increase in demand for comprehensive solutions. Companies in the midst of structural reform such as cost restructuring and disposal of non-core business tend to confront labor issues. We support those corporate clients by proposing transfer of their employees to UT Group or to temporary assignment outside the client group.

Concerning various labor policies, our accumulated know-how on stabilization of employment and improvement in employment conditions of non-regular employees can be utilized to support client companies.

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Labor relations solution consulting

Structural reform	Response to labor policies
Re-establish cost structure Liquidate non-core businesses Arrange transfer of regular employees Assist being seconded outside the group companies	Stable employment and improvement of working conditions for non-regular workers Revised Labor Contracts Act Revised Worker Dispatching Act The same labor, the same wage

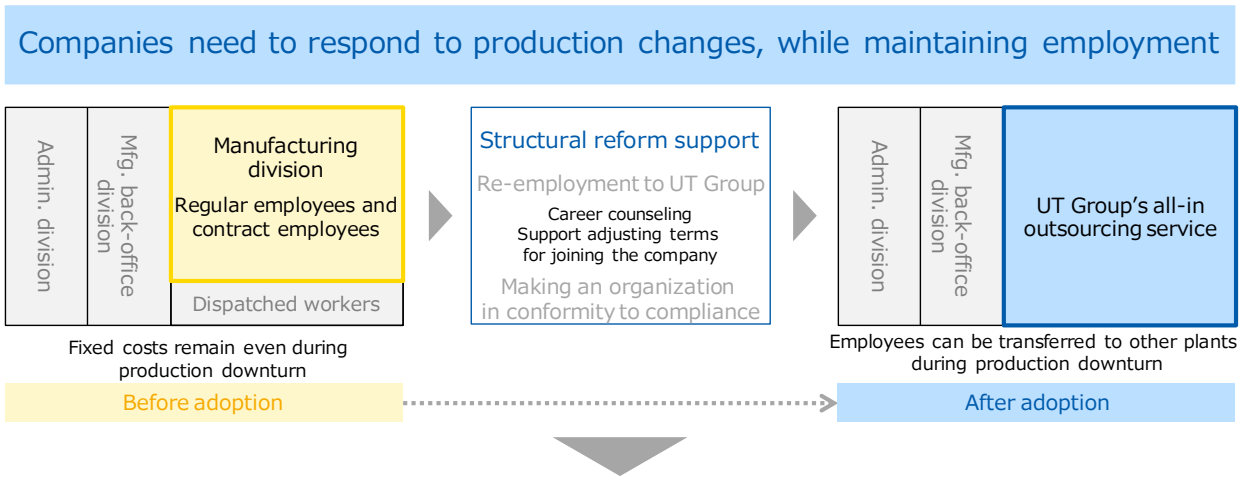
In consultation with the client company, we separate the manufacturing manpower into three categories and devise solutions to each one. The three categories are "Core personnel" (mainly regular employees), "Core-flow personnel" (highly-skillful non-regular employees), and "Flow personnel" (replaceable non-regular employees). While all of these categories have comprehensive needs, specific needs are expected to increase particularly in three areas: (1) In-house Solution Service, whereby we accept the client's regular employees as transferees to UT Group; (2) support to build a Job Grade system, which facilitates fair treatment of employees according to their skill and ability, based on the concept of the same labor, the same wage; and (3) Foreign Technical Intern Trainee Services to combat the labor shortage. As we focus on career formation, our targets are to develop Japanese employees as the Core-flow personnel with higher growth potential, and to develop foreigners initially at an entry level to raise their skills in Japan as the Flow personnel for building their career-formation base.

Growth is expected in the transfer of client employees to UT Group (In-house Solution Service)

In the In-house Solution Service, Japanese manufacturers transfer a part of their regular employees to UT Group, and outsource their production line work to UT at the same time, according to needs derived from economic changes in Japan and overseas. We believe this is a uniquely innovative scheme. Our clients acquire new business options, while we can take care of the labor and production management, resulting in maintaining employment for these employees and increasing profit for us. Since October 2009 when we received the industry's first order of this kind, we have received five orders in total in the semiconductor, electronic parts, and precision fields.

The orders received so far are for 100-300 employees, but in the future, an order involving thousands of employees can be possible. As such a large order has not been incorporated in the medium-term business plan, this may become a factor for upward revision in earnings.

Schematic showing the transfer of client employees to UT Group (In-house Solution Service)



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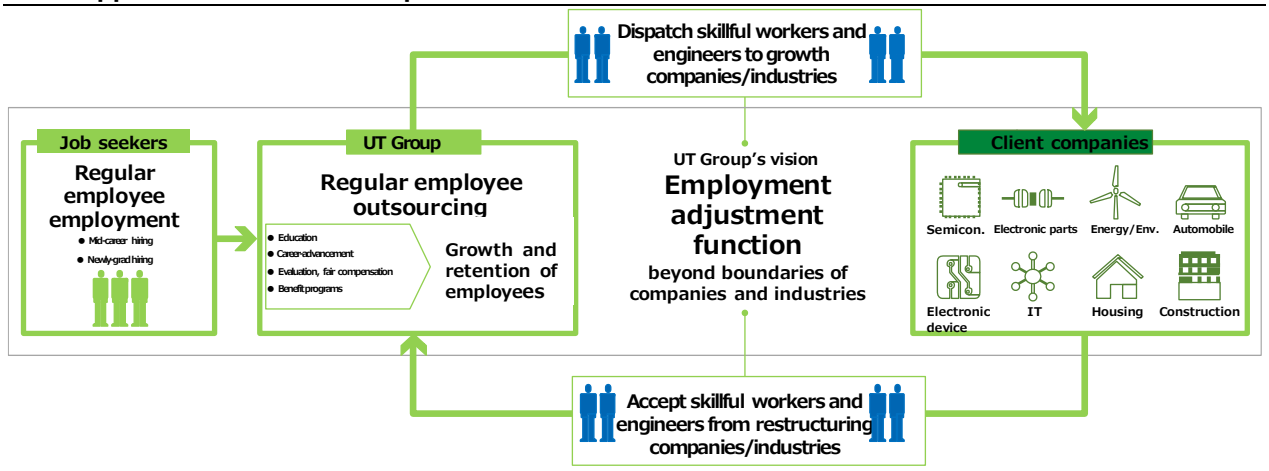
Business model: Infrastructure to create employment in Japan

UT's business model target

UT Group hires people as "indefinite-term employees," provide stable employment to those who do dispatch work, and consistently support their career formation so that they come to have greater value added. We thus provide high-quality employment services for industry. Going forward, we aim to play a role of an "employment adjustment function" by receiving employees transferred from other companies and industries in the course of their restructuring, and reassigning them to growth areas. The ultimate aim of our business model is to become an element of "employment creation infrastructure" that supports industry.

Looking at the current status and future direction of our added value to job seekers and corporate clients, we see that our values for both parties have been steadily rising. We intend to accelerate this trend so as to raise the probability that we will become that "employment creation infrastructure."

UT's business model: Taking up the challenge of becoming "Infrastructure to create employment" that supports Monozukuri in Japan



3 values to job seekers

① Reliability
② Bonding
③ Growth

3 values to companies

① Matching
② Risk control
③ Support for the creation of human resource strategies

Values offered		Present status	Future development
Job seekers and employees	Reliability	Ample experience in indefinite-term employment Japan's top company in the number of manufacturing outsourcing workplaces	Increase the workforce to 29,000 Enhance the engineer outsourcing business to further increase the number of workplaces
	Bonding	Increase in large-scale workplaces due to large-scale hiring capacity Higher ratio of outsourcing services by team	Strengthen marketing efforts to large companies, in particular five general electric companies and five automakers Focus on workplaces that can absorb 50 or more dispatched workers
	Growth	Career-formation supporting capacity for 100-200 employees a year, leading to higher unit price	Promote career formation of all 15,000 employees
Client companies	Matching	Highly valued for hiring capacity	Enhance competitiveness by expanding scale
	Risk control	A leading company in compliance	Maintain/improve compliance even when rapidly expanding scale
	Support in designing a personnel strategy	Industry's top-class in terms of the wide variety in the corporate menu	Accumulate experience and know-how

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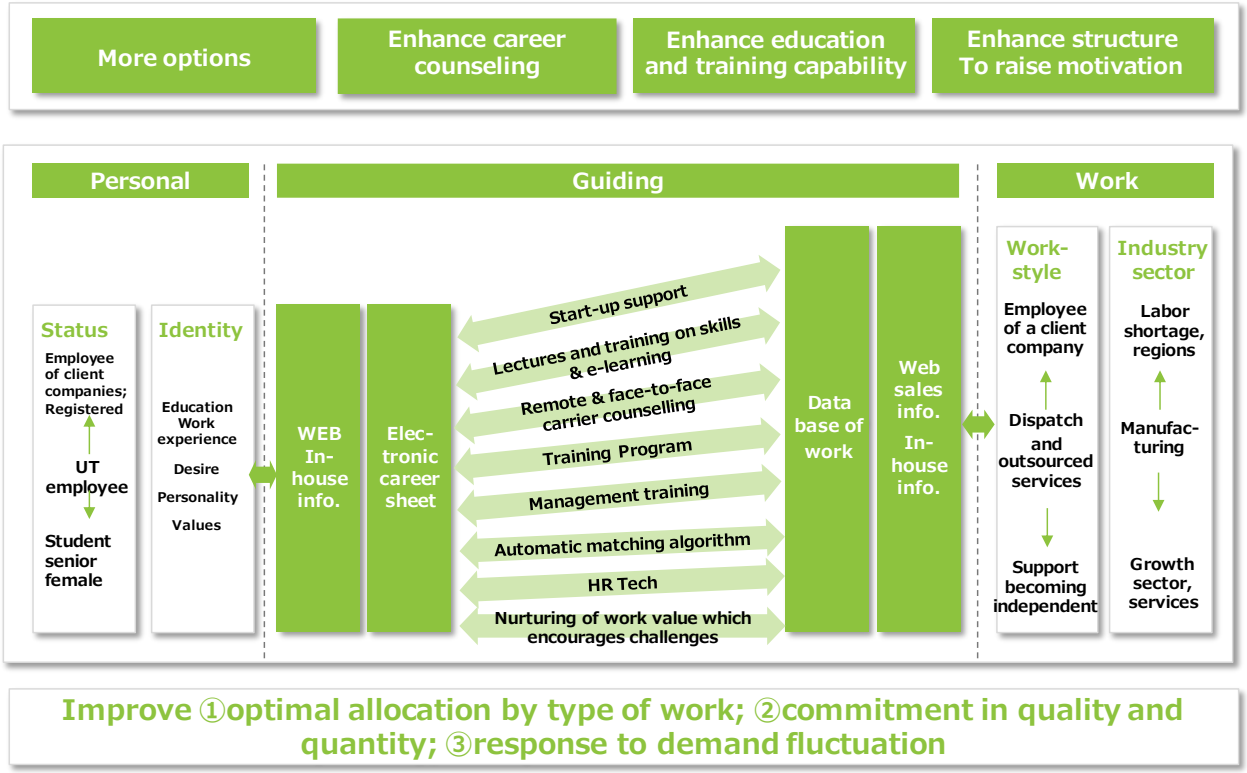
How to enhance the functions which will be the key for the infrastructure to create employment

Summarized below are the strategy directions to enhance functions, which will be the key for the infrastructure to create employment.

Directions of strategy to enhance functions



We will expand functions to guide optimal matching, depending on characteristics of personnel and work, and comprehensively enhance the improvement of (1) optimal allocation by type of work; (2) commitment in quality and volume; and (3) response to fluctuations in demand.

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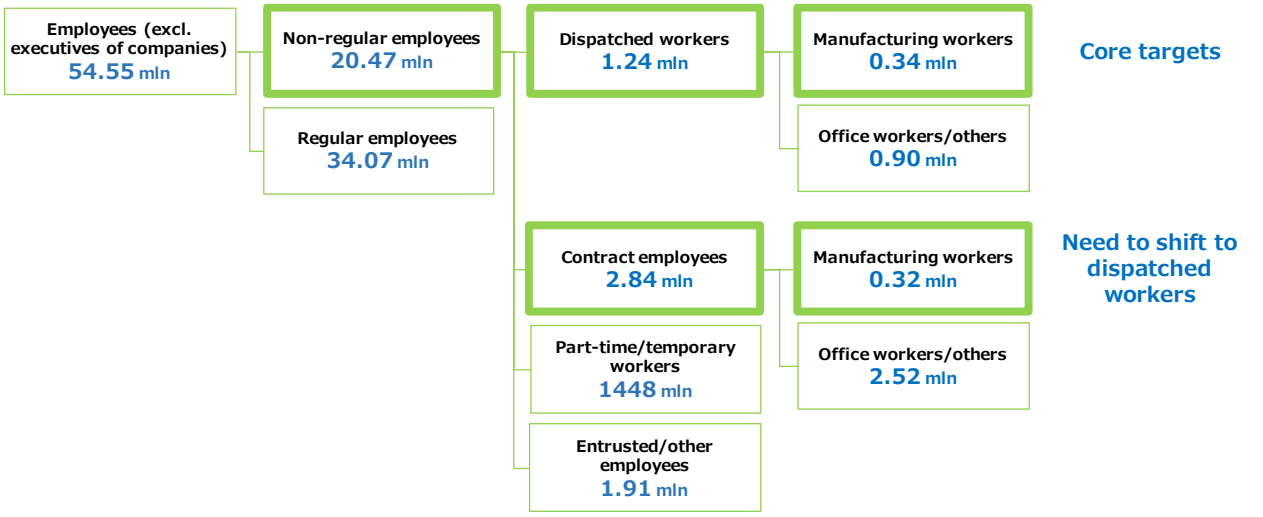
Market and competitive environment

Favorable external market environment

Market size: The number of dispatched workers for production processes is rising

According to the January 2017 Labor Force Survey by the Ministry of Internal Affairs and Communications, of the total of 54.55 million employees (excluding management personnel) in Japan, 1.24 million are dispatched workers, of which 0.34 million are engaged in production processing.

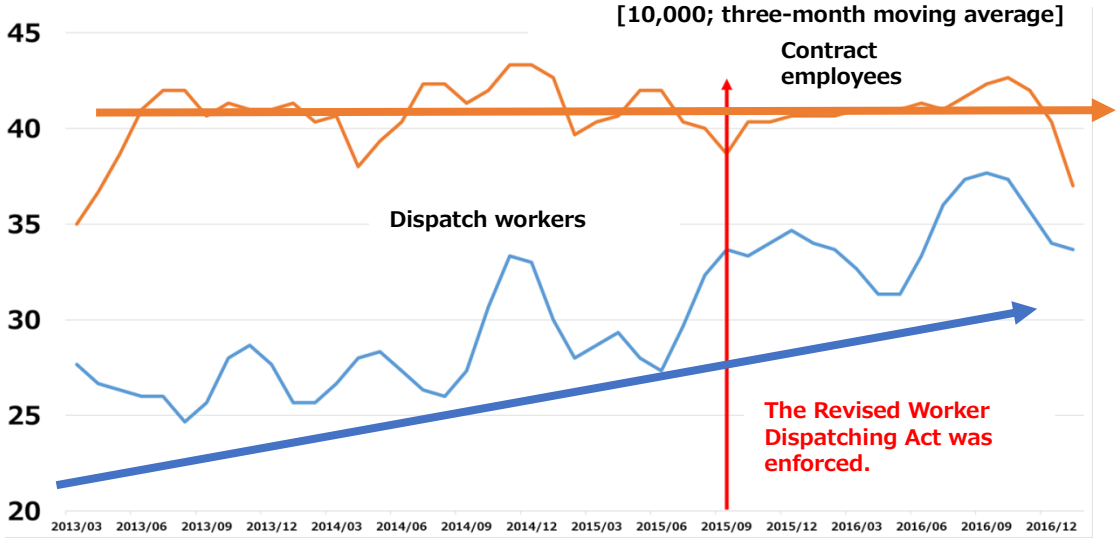
Labor composition by employment mode



Source: Ministry of Internal Affairs and Communications, January 2017 Labor Force Survey

The trend of the numbers of dispatched workers and contract employees (three-month moving average) for the period for which data is available shows that the number of dispatched workers has consistently increased, while the number of contract employees has been close to flat. We believe this reflects the increased regulation of contract employees and deregulation of dispatched workers for manufacturers (details below). This trend is likely to continue, in light of the present situation concerning deregulation. The red line in the graph indicates the time that the Revised Worker Dispatching Act was enacted.

Numbers of contract employees and dispatched workers in manufacturing process



Source: Ministry of Internal Affairs and Communications, Labor Force Survey

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Business trend: Client demand is expected to increase

The long-term trend in UT Group's major businesses is summarized below. It is expected that there will basically be an increase in client demand but clients will be more selective regarding use of dispatch agencies, basing their choice on criteria such as hiring power, flexibility to respond to major changes, capability to support career formation of workers, and nationwide integrated administrative system. We believe such trend will be very favorable for UT Group.

Business environment (medium-term trend)

Manufacturing outsourcing	Design & development engineer outsourcing	Construction engineer outsourcing
● Production capacity to return to Japan due to the appreciation of the yen ● Expanding needs to respond to fluctuations and to nationwide operation	● Chronic shortage of engineers ● Increasing ICD-related demand (My Number, big data, etc.)	● Increase in demand to build infrastructure (reconstruction from earthquake; aging facilities; Olympic-related demand) ● Steady demand in private construction] ● Chronic shortage of construction management engineers

Client demand is expected to keep expanding

Clients' selection criteria	● Hiring capacity ● Response to large-scale changes	● HR training, retention (support in career formation) ● Nationwide management system

Regulatory environment: Positive for UT

The Revised Worker Dispatching Act provides growth opportunities to UT Group

The Revised Worker Dispatching Act has two key points. First is an aspect of a broader trend of deregulation. Before the revision, dispatched workers were utilized only on a temporary basis. After the revision, indefinite-term dispatch (regular employees) is allowed; an employment or assignment can be for an indefinite future period. Consequently, manufacturers and other companies have the new option of making more-flexible use of dispatched workers on a larger scale and based on the nationwide integrated administrative system. This should mean that orders will be concentrated in the hands of major dispatch agencies who can fulfill such needs.

Another aspect is enhanced regulation. The latest revision has been focused on improving the environment for dispatched workers. This means that dispatch agencies should now provide stable employment and career advancement opportunities for dispatched workers. Also, they are now obliged to obtain a license instead of just filing a notification of doing certain business. By creating a business environment that discourages participation by agencies that cannot cope with the new requirements, the law is intended for sound development of the dispatch industry. As UT Group has been organically promoting regular employee dispatch and career advancement support, we believe we can most benefit from the revised Worker Dispatching Act.

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Key points of the Revised Worker Dispatching Act

Deregulation → Expansion

- Abolition of 26 specified job categories.
- Three-year limit to fixed-term employment dispatch
- **No term limit to indefinite-term employment dispatch**

From a filing obligation to obtaining a license → Selection

- Dispatch companies are required to provide career building support and training programs to dispatch workers.
- Dispatch companies are **required to adopt measures to stabilize their employment** (introducing a workplace after contract expiry; making the worker to a regular employee).

UT Group's growth opportunities

Outsourcing of indefinite-term (regular) employees is UT's major competence.

Industry consolidation will lead to UT's share expansion and promotion of M&A activities.

In 2013 the Revised Labor Contract Law triggered a shift from contract workers to dispatched workers

Due to the Revised Labor Contract Law of 2013, fixed-term contract workers with contract periods of over five years in total are required to convert their employment contract to an employment contract without a definite period. In our view this has prompted companies to replace contract workers with dispatched workers in order to avoid an increase in costs.

In 2018 the stricter process of dispatch agency selection and a shift from contract workers to dispatched workers will likely grow stronger

In 2018, the transitional three-year period prior to enhanced regulation of the revised Worker Dispatching Act will expire and the revision will start to show its full impact. Moreover, in 2018 five years will have passed from the revised Labor Contract Law of 2013, suggesting a full shift of contract workers into indefinite-term (regular) employees. Due to these two developments, companies are likely to become increasingly strict in their selection of dispatch agencies and will shift from contract workers to dispatched workers in 2018.

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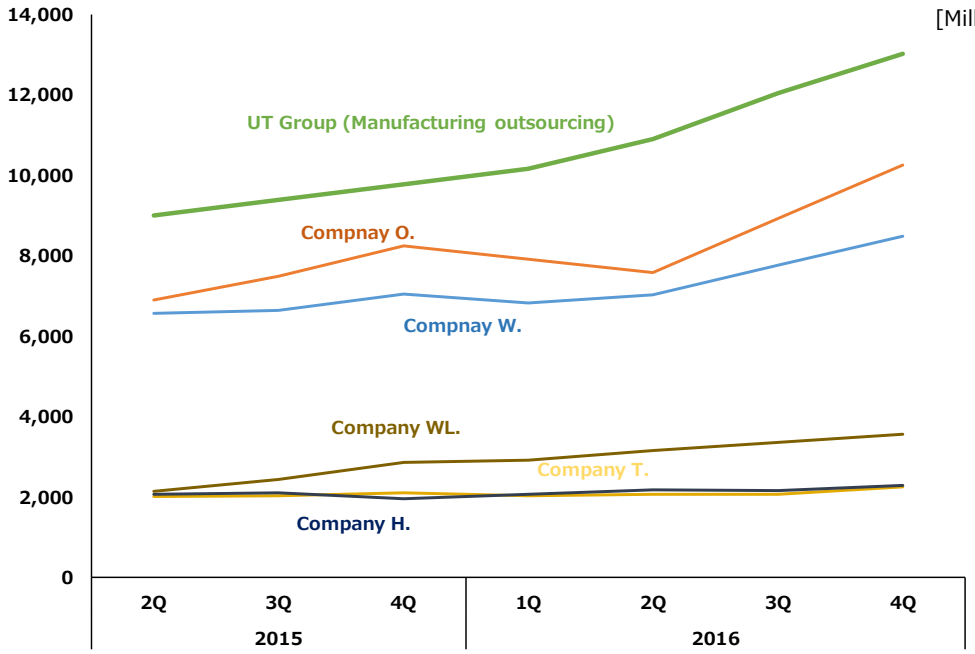
Competitive environment

Manufacturing outsourcing business: No. 1 in scale and growth

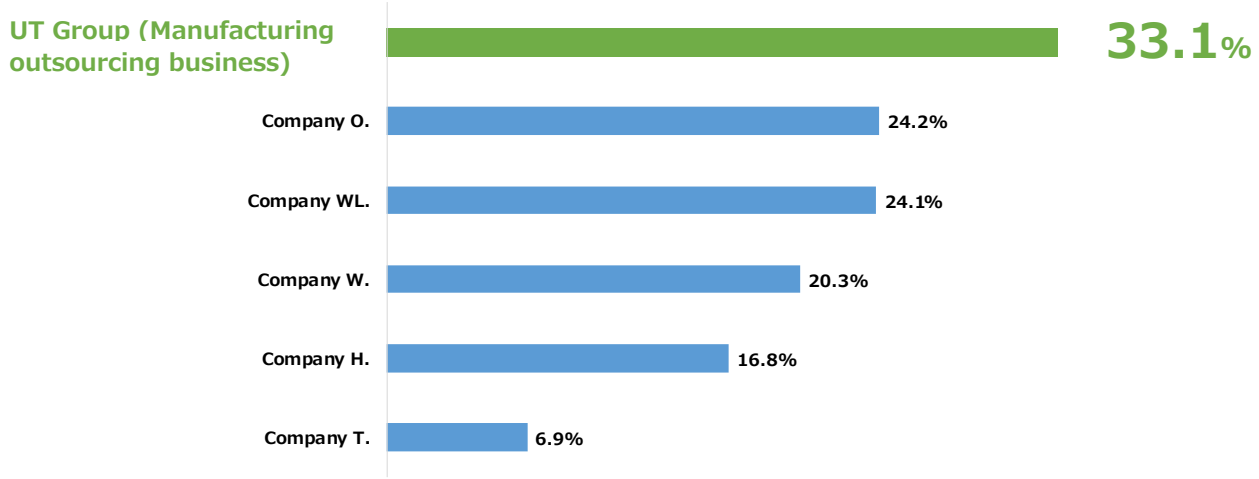
Concerning manufacturing outsourcing business, the recent sales trend for major listed companies and their y-o-y sales growth rate for the October-December quarter of 2016 are shown below. These graphs indicate that UT Group has achieved the largest sales and the fastest growth among the listed companies in the business, proving how favorable the competitive environment has been for us. Our monthly sales per worker in manufacturing outsourcing services for the same quarter amounted to ¥370,000, up about 5% from ¥350,000 a year ago. This means that the business environment is favorable for UT Group, as it is realizing stronger growth than its peers, although we have been raising the unit price to clients.

Comparison of major listed companies: sales for domestic manufacturing dispatch / outsourcing business (for most recent fiscal year)



(Source) Financial results of each company

Comparison of major listed companies: sales growth for domestic manufacturing dispatch/ outsourcing business (for Oct.-Dec. 2016, y-o-y)



(Source) Financial results of each company

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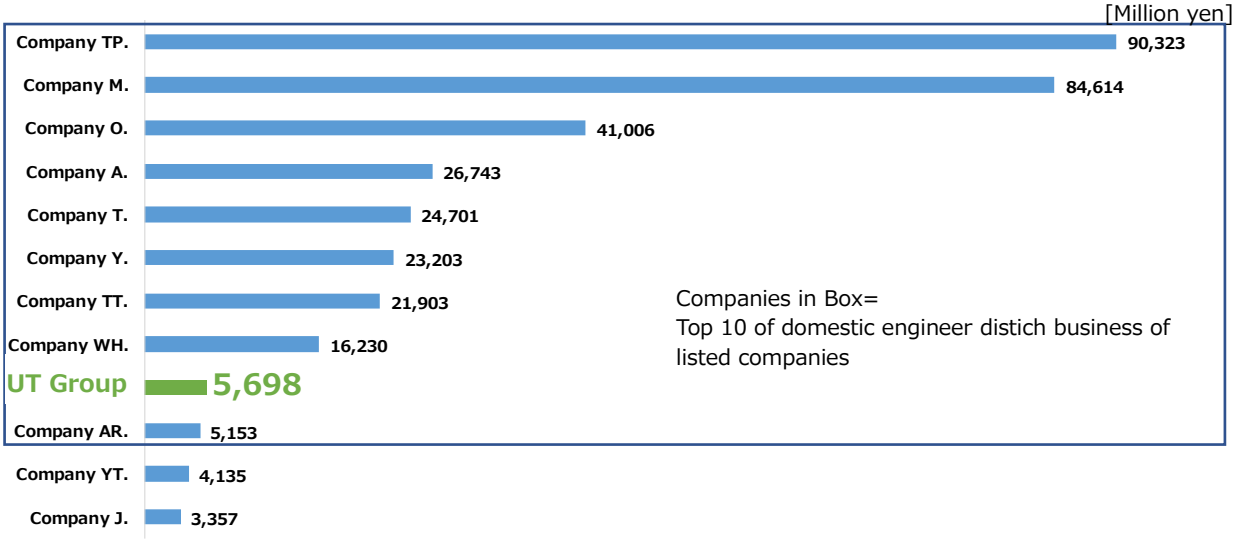
Engineer outsourcing business: Top 10 in scale and No. 1 in growth

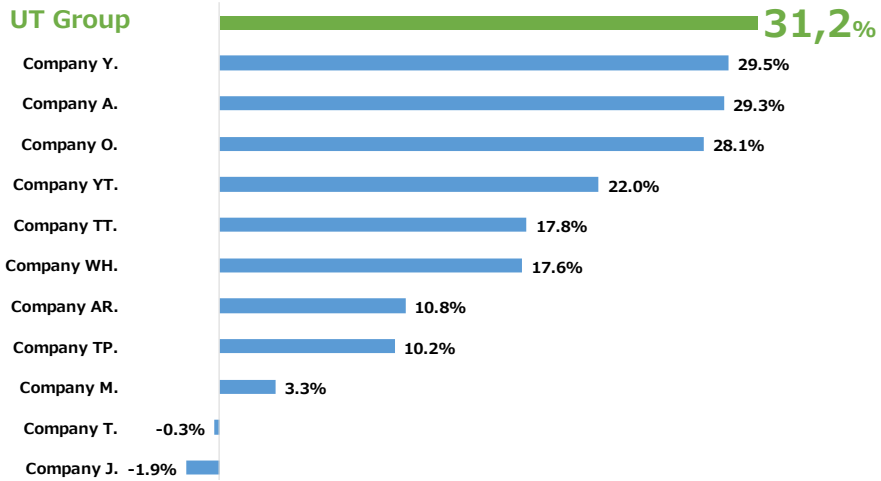
Concerning the engineer outsourcing business in Japan, the major listed companies' sales for the most recent year and y-o-y sales growth for the October-December quarter of 2016 are shown below. These graphs show that UT Group is included among the top dozen companies and is at the highest level in terms of growth rate.

Comparison of major listed companies: sales for domestic engineer dispatch business (for most recent fiscal year)



(Source) Financial results of each company

Comparison of major listed companies: sales growth for domestic engineer dispatch business (for Oct.-Dec. 2016, y-o-y)



(Source) Financial results of each company

The engineer outsourcing business is facing a chronic shortage in manpower and is at the phase of being able to grow in sales only if the worker-supplying companies can hire more personnel. Unlike the manufacturing outsourcing business, important competitive advantages for the engineer outsourcing business lie in the capability to hire and develop personnel, rather than the scale of business. We believe we can be competitive if we use our strength and help our manufacturing dispatched workers to become engineers to be outsourced. In FY3/2018, we plan to hire 500 new graduates and to transfer around 200 dispatched workers to engineers via the One-UT career change program. With our capability to hire and generate personnel within the group, we aim to achieve the industry's highest growth rate.
Some engineers, transferred from manufacturing dispatch operators, have increased their annual earnings by close to 45%. By accelerating such moves, we believe we can enhance our capability to supply engineers and raise our market share.

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4. Medium-term business plan

Create jobs nationwide in Japan

In the new medium-term business plan UT Group aims to become a leading company in the employment service industry, dedicated to a new vision, to "create jobs nationwide in Japan." Our mission, to "Create vigorous workplaces empowering workers" means we wish to realize vigorous workplaces for everyone and at the same time to help make Japanese industries vigorous through our value-added employment services.

Under the previous business plan, we substantially expanded our client base and became bigger in scale. We achieved this in order to fulfill needs of more clients in keeping with the mission to "Become Japan's No. 1 outsourcing provider in quality and volume." This is, in a sense, a prerequisite for our new vision. Our integrated sales, hiring, and administrative organization in regions spanning Japan has enabled us to hire as many as 500 employees each month and to become one of the largest companies in the business, with over 10,000 employees in manufacturing dispatch and outsourcing services.

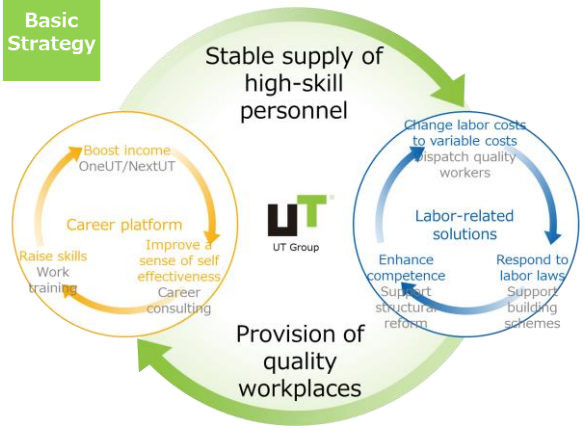
Target to grow three times in 5 years by expanding scale, functions, and scope

Our vision to "Create jobs nationwide in Japan" in the new business plan shows our commitment to make use of the business base established in the previous business plan and fulfill needs of both job seekers and employers which seek outside manpower, in order to realize this Group mission. There are three basic strategies: (1) to grow in scale to become the No. 1 employment service provider in the Monozukuri field; (2) to strengthen functions to refine our capability to support career advancement of employees, an area of our strength; and (3) to diversify in various dimensions, including client industries, regions, personnel, and work criteria, in order to create vigorous workplaces in a more broad range of business areas and become a leading company in the employment service industry. Our targets for FY3/2021, the final year, are growth of about three times in sales and the number of technical employees and growth of over three times in operating profit.

Outline of the new medium-term business plan (FY3/2017-3/2021)

New Vision Create jobs nationwide in Japan

Basic Strategy



Numerical targets

	FY3/2016 (Actual)	**FY3/2021 (targets)**	CAGR
Net sales	¥44 bill.	**¥145 bill.**	30%
EBITDA	¥2.57 bill	**¥10.00 bill**	30%
Operating income	¥ 2.46 bill	**¥ 8.20 bill**	25%
Net profit attributable to owners of parent	¥ 1.49 bill	**¥ 5.50 bill**	30%
EPS	¥40.40	**¥157.40**	30%
Technical employees	10,926	**29,000**	3,200/ year

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How achievable is the medium-term business plan and what is the upside potential?

Additional 3,600 employees per year to achieve the medium-term business plan targets

Enhanced hiring capacity and career consulting will increase UT's net hiring capacity to 3,600 a year

In FY3/2017, UT is expecting to record sales of ¥55.0 billion and operating profit of ¥3.1 billion, while the number of technical employees is projected to exceed 15,000 due to an annual increase of over 3,000 (monthly increase of 750) in hiring from the previous year and an increase of 1,600 from acquisition of companies. In FY3/2018, we are building a system to increase hiring to 3,600 per year. This pace of internal hiring means an increase of 14,400 over the next four years on top of the present workforce of 15,000, totaling 29,000, a target for the medium-term business plan.

A cyclical factor and three structural factors will sustain net additional 3,600 workers a year over the next four years

We expect a net addition of 3,600 workers a year over the next four years is likely to be sustainable due to the following three structural demand factors, on top of a cyclical factor of an extremely high jobs-to-applicants ratio of 1.4 times.

Structural demand factor (1): Increase in indefinite-term employment (regular employees) dispatch, driven by deregulation

The Revised Worker Dispatching Act, enacted in September 2015, has abolished 26 specified job categories and has put a three-year limit to the fixed-term dispatch contract and abolished term limits for indefinite-term employment (regular employees) dispatch. The revised law significantly deregulated dispatch of regular employees, which is a special area of strength for UT, and we expect to see a shift from fixed-term dispatch and other types of non-regular employment.

Structural demand factor (2): Selection of dispatch companies that can respond to stricter regulation and compliance requirements

The September 2015 Revised Worker Dispatching Act has also obliged dispatch companies to provide career building support and training programs to dispatched workers, and to adopt measures to stabilize their employment. In addition, major clients in manufacturing business have been requiring dispatch companies to strictly adhere to compliance requirements. As a result, major companies that can respond to such requirement are becoming more favored by companies in need of dispatched workers.

Structural demand factor (3): A virtuous cycle to create demand based on strong hiring capability

We are highly evaluated by clients for our capability to hire 250 workers a month and receive more large-scale exclusive orders by making a commitment to fulfill such needs. Commitment to the number of persons hired raises our negotiation power for unit price, which tends to lead to higher unit prices, and then the high unit price conditions facilitate our hiring activities. As a result, we have established a virtuous cycle to create demand.

Five upside potentials to further boost earnings

The following five factors provide UT Group with upside potential vis-a-vis the medium-term business plan. If these factors are realized, we believe our medium-term business plan targets can be revised upward.

Accelerating M&A activities

We have acquired four companies in the past five years: two companies with a workforce of 1,000-1,500 each and the remaining two with a smaller workforce of 100-200 each. We have thereby added about 3,000 workers from these companies. Going forward, in light of continued shakeout of firms in our lines of business, M&A opportunities are likely to increase. Additional acquisitions, if we decide to realize them, will mean justification for higher estimates of future earnings.

Companies acquired in the past five years

July 2013	Acquired an 81% equity stake of Panasonic Battery Engineering Co., Ltd., made it a subsidiary, and renamed it to UT Pabec Co., Ltd.
March 2015	Acquired shares of System Revolution Co., Ltd. and made it a subsidiary, UT System Co., Ltd. at present.
May 2016	Acquires shares of Atex Co., Ltd. and made it a subsidiary.
March 2017	Acquired shares of Tight Work, K.K. and made it a subsidiary.

Issues related to foreign technical trainees

UT Global Co., Ltd. is creating a business plan in this field. The Japanese Government's Training Program for Foreign Workers allows technical intern trainees to acquire and master the skills of Japanese industries and professions through an employment relationship for a maximum period of three years. Trainees are mainly from China, Vietnam, Philippines, and Brazil. Under the

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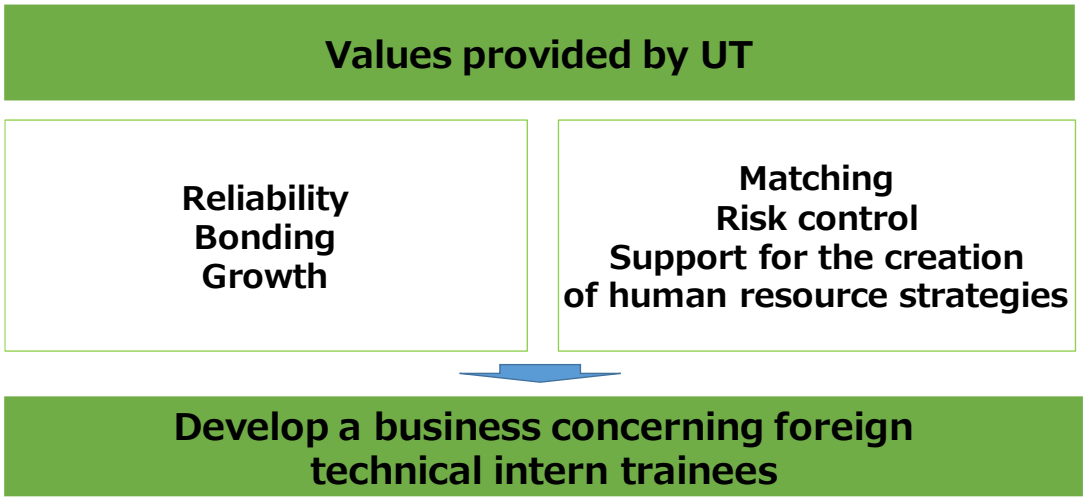
regulations, non-profit organizations (Supervising Organizations), such as “commerce and industry associations” and “small business associations” mainly accept trainees, while their member companies (Implementing Organizations) provide technical intern training. According to filing of the foreign employment report to the Ministry of Health, Labour and Welfare, the number of trainees was 211,000 as of October 31, 2016, up 25% from 168,000 as of October 31, 2015. We estimate that, by capturing some share of this labor pool, we may potentially grow this business to involve as many as 10,000 trainees. Our idea is to cooperate with some Supervising Organizations that accepts trainees and to provide services including managerial agency services, with an emphasis on compliance. By comprehensive provision of management capability from UT’s nationwide network and compliance capability, we plan to develop distinctive business by providing safe, reliable, closely-connected, growth opportunities to foreign technical intern trainees. For companies which accept foreign trainees, we intend to offer value in matching, risk control, and support to their human resource strategy planning.

Our conceptual image of developing a business concerning foreign technical intern trainees



Higher unit price driven by career advancement of employees

UT Group has had success in raising the salary of some employees by close to 45%, as mentioned above. We will strive to achieve similar salary increase for all 15,000 employees. In order to do so, we plan to make all managers acquire qualification as career counselors and thoroughly support career building of their junior staff. An increase in employees’ salary tends to improve the company’s gross margin, and ultimately profit margin. Career counseling has also been effective in lowering the employee turnover rate. In the past 12 months, the monthly turnover rate dropped by about 1%. The annual drop of about 12% in turnover rate means that, supposedly out of 10,000 employees, 1,200 workers decide not to quit. Based on conservative estimate of ¥100,000-200,000 per person in cost of hiring per worker, this translates into a saving of ¥100-200 million (profit).

Employee introduction business

As a part of career advancement opportunities, we are creating a business to make our employees to be hired as permanent employees of our clients. While an introduction fee from the client company tends to be less than the profit earned from outsourcing revenue, this presents an additional career-building objective to our employees and thus contributes to more active hiring prospects to UT by increasing our attractiveness as an employer, especially if we can systematize the business of introducing our employees to client companies. At present, given the importance of “workstyle innovation” and the “promotion of dynamic engagement of all citizens” in Japan, we firmly believe that Japan’s productivity can be enhanced over time by making workplaces for non-regular employees more attractive, working together with client companies toward that objective. It appears that such need will steadily expand, as improvement in the labor environment is highly desired.

Labor solution service to large companies

We believe there will be the possibility that we receive hundreds and thousands of employees of large companies, as stated earlier.

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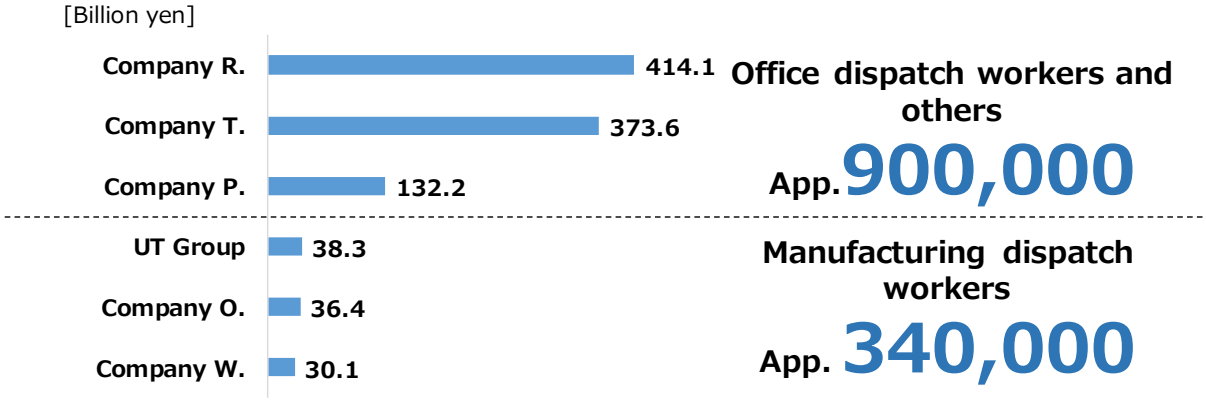
5. Long-term outlook: Consolidation and the 4th Industrial Revolution

The wave of consolidation that hit dispatch business in the office work area is now hitting the manufacturing work area

The graph below compares the size of major players in office dispatch and manufacturing dispatch business in Japan for the most recent fiscal year.

Business size comparison of office and other dispatch and manufacturing dispatch from major players' recent business results



(Source) Financial statements and other materials. Labor Force Survey (January 2017)

The office dispatch companies are concentrated in big cities, and their competitive advantage is driven by IT investment in capability to match job seekers and employees in the densely populated areas. This has led to consolidation into major three companies. In contrast, for manufacturing dispatch, less-populated non-urban regions tend to have high demand and investment in matching capability is not a key for competitiveness. Consequently, major manufacturing dispatch companies have remained smaller in size. However, going forward, clients are likely to be more selective, which we believe could lead to more consolidation of manufacturing dispatch agencies over time. This should be a boost for us, the leading company in the sector, and we aim at achieving a long-term growth.

Develop human resources in need in the 4th Industrial Revolution and aim at long-term dynamic growth

Manufacturing is expected to change drastically in the 4th Industrial Revolution. Design and development, preproduction, plant design and operation, as well as supply chain information and operation will be all digitalized and connected online.

The physical space of production sites is optimized based on simulation of virtual space using computer software. In order to succeed in such digital manufacturing, it is indispensable to develop personnel who have advanced know-how on operations in both virtual space and physical space. At the UTACC, UT Group, with its strength in personnel in manufacturing production sites, is collaborating with Siemens, which is one of front runners in digital manufacturing. We are developing personnel who are skilled in simulation as well as equipment and instrument in production sites.

The 4th Industrial Revolution's key points and challenge, and UT's strategy

The 4th Industrial Revolution

- **Production process and supply chain information are digitalized and connected online.**
- **Simulation in the virtual space on the computer**
- **Use of the above results to optimize the physical space in manufacturing production sites**

Challenge

- **Develop personnel who have advanced know-how on operations of both the virtual space and the physical space**

UT's strategy

- **Develop personnel in collaboration with Siemens in Germany, a world leading company in digital manufacturing**

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6. Strategy for corporate value creation, capital policy, and return to shareholders

High profitability enables to realize sustainable corporate value creation

Maintaining 8% effective operating margin and 2% for forward investment

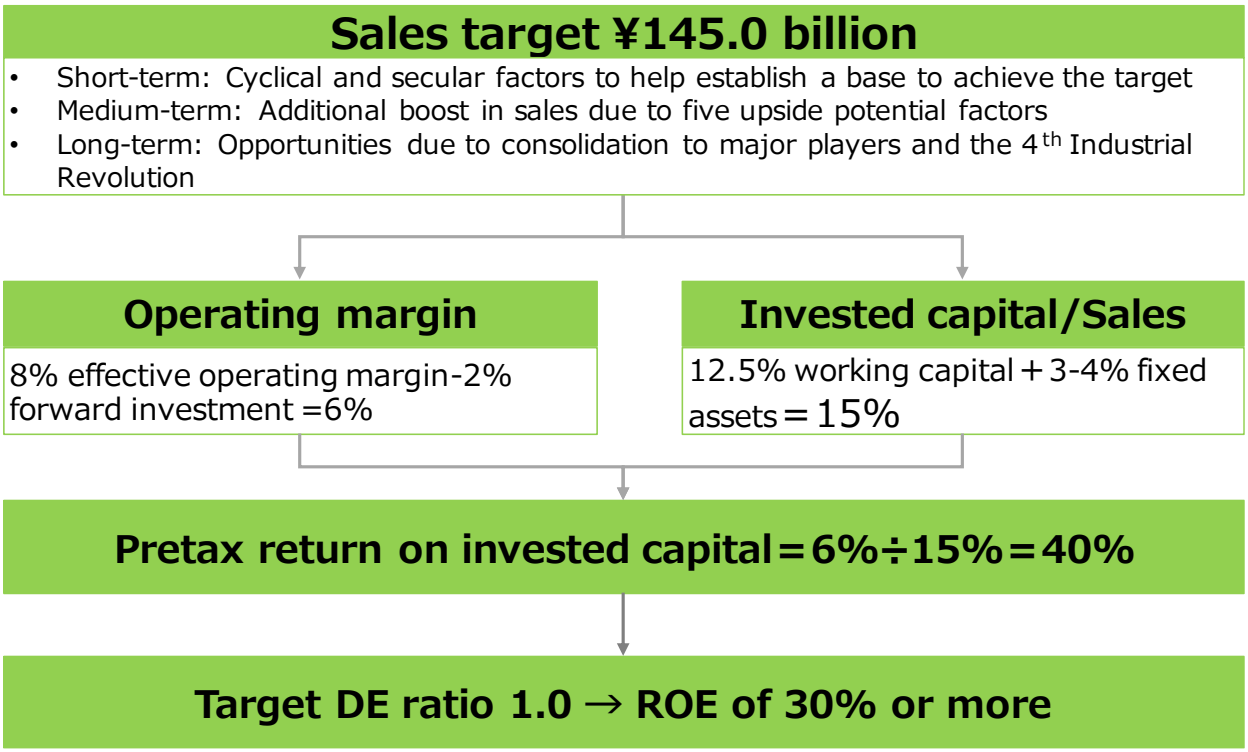
UT Group's operating margin is expected to be 5.6% in FY3/2017. Excluding forward investment, the operating margin could have been be around 8%. The difference of around 2% represents forward investment in areas such as system development, personnel development, and business infrastructure enhancement. Through such investment, we believe we can realize sustainable corporate value creation for many years.

Highly profitable structure: Pretax return on invested capital of 40% and ROE exceeding 30%

UT Group's invested capital required for business is about 16% of sales. UT's liquid assets is roughly at around 1.5 months of sales, roughly the same amount as current liabilities excluding short-term borrowings. Working capital, which, in general, tends to be funded from the capital market or internal reserve, is mostly funded cash and deposits, which is at 1.5 months of sales, or 12% of sales (1.5 months divided by 12 months). Fixed assets needed for business include investment in facilities and IT systems, and goodwill from acquisitions, representing 3-4% of sales. As a result, invested capital needed for business, or the sum of working capital and fixed assets, represents 15-6% of sales.

Assuming 6% operating margin, return on invested capital (ROIC) is 40% (6% divided by 15%). We aim that the long-term invested capital should consist of interest bearing debts and shareholders' equity at equal amount for each, suggesting that ROIC should exceed 30% over time. Our profit structure will allow us to achieve high return on invested capital and high return to shareholders, as well as long-term sustainable growth and improvement in corporate value. We will maintain this structure and keep expanding business.

UT Group's basic structure to create corporate value: Maintain high profitability



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Balance sheet structure

Based on the balance sheet structure as of December 31, 2016, invested capital needed for business can be calculated to be around ¥87 billion, assuming the amount needed for liquidity at hand being equivalent to 1.5 months of sales, which is expected to be ¥55 billion for FY3/2017. The amount of ¥87 billion represents 15.8% of sales expected for the year.

Structure of invested capital as of December 31, 2016

[Million yen]

	Dec. 2016 Actual
Current assets	16,625
Cash & deposits	7,824
Accounts receivable	7,732
Fixed assets	3,378
Tangible fixed assets	185
Intangible fixed assets	1,232
Long-term prepaid expenses	1,457
Investments and other assets	504
Deferred assets	8
Total assets	20,012
Current liabilities	10,396
Short-term borrowings	1,540
Other current liabilities	8,856
Long-term liabilities	4,363
Long-term debts	4,027
Net assets	5,251
Shareholders' equity	4,938
負債＋純資産	20,012
グロスDEレシオ	1.26

Liquid assets excl. cash & deposits
16.6-7.8＝¥8.8bln

Cash on hand in need
55.0÷12×1.5＝¥6.8bln
Excess cash of ¥1.0bln

Invested capital for business
＝68+19＝¥87bln

Fixed assets ¥1.9bln

Current liabilities excl. short-term borrowings ¥8.8bln

Offsetting

Capital policy and return to shareholders

UT Group believes that the total return ratio of 30% or more should be appropriate, given our return on capital and growth rates. As for capital policy, our target is to achieve a gross debt-equity ratio of 1.0 or less in FY3/2021, assuming 30% EBITDA growth rate on average for five years during the medium-term business plan.

Commitment

EBITDA growth rate: 30% or more

Total return ratio: 30% or more

Gross DE ratio: 1.0 or less

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Gross DE ratio is debt divided by equity. In general, the ratio of one or less is considered to show the company is financially sound. The total return ratio represents the proportion of shareholders return in net profit. Total return ratio = (Dividends paid and share buyback amount) / Net profits after tax

Policy on dividends and share buybacks

We believe that when our stock price is undervalued, long-term return to shareholders will be more if we reduce the number of shares mainly through share buyback and raise EPS, rather than we increase dividend payment. Given UT Group's growth rate and level of capital return, the PEG ratio of 2 times is a threshold in determining whether our stock price is undervalued or not.

Ratio of dividends vs. share buybacks

The proportion of dividends and the amount of share buybacks is determined by the level of UT Group's stock price

Base to determine the stock price is undervalued	Base to determine the stock price is overvalued
The PEG ratio＜1-2	The PEG ratio＞2

Based on the above basic policy, make comprehensive judgment and execute the most appropriate shareholder return

Stock price / EPS forecast ＝PER (Price Earnings Ratio)
PER / EPS growth rate＝PEG Ratio (Price Earnings Growth Ratio)

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Disclamer

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