

Q&A Summary from the Analyst & Individual Investor Joint Briefing for FYE2022 Financial Results and the Medium-Term Management Plan

This is a summary of the question-and-answer session from the analyst and individual investor joint briefing about our financial results for the full FYE2022 and medium-term management plan that was held on May 18, 2022. To make it easier to understand, we have changed, revised and amended the summary of the question-and-answer session.

Q: Are there any plans to consider introducing shareholder incentives?

A: Shareholder returns, which we consider to be one of the important management issues, are given based on dividends. Other returns will be reviewed and any changes will be disclosed promptly.

Q: You said that you are aiming for sales of ¥40 billion in FYE2027, the final year of the medium-term management plan, but is there a market capitalization target at that time?

A: If we can achieve sales of ¥40 billion and non-GAAP operating profit of ¥5 billion, which are the performance targets for the final year of the medium-term management plan, even if the current stock price valuation such as PER does not change, we believe that we can meet market capitalization of ¥10 billion or more for outstanding shares, which is criteria for a Prime listing that the Company doesn't yet meet.

In addition, showing the growth strategy in the medium-term management plan, if we achieve the performance targets for each fiscal year, we think there is a likelihood that the performance targets set forth in the medium-term management plan will be recognized, and the stock price valuation will be revised.

Q: What is the current status regarding the acceptance of foreign human resources?

A: In 2021, we established COPRO Vietnam as a local business corporation and have been preparing for the past year. While overseas travel has been restricted due to the novel coronavirus pandemic, internal preparations are steadily progressing locally. Specifically, we are approaching the final stage of concluding a contract with a local educational institution. After the contract is signed, we collaborate with the institution closely to start recruiting and educating engineering students who wish to work in Japan.

Q: It seems that the low retention rate for dispatched construction and plant technicians is an issue. Please tell us what kind of measures you are considering for the future.

A: For our Company, which provides human resource services, human capital is the basis of our corporate value, so our growth depends on how long the technicians stay to demonstrate their abilities. In the future, as we aim to grow our business results by increasing the number of technical employees, it is necessary to increase the hiring of not only technicians with industry experience, which is a tight market for recruiting, but also those who are inexperienced in our industry who are considering changing jobs from other industries, and new graduates from universities and vocational schools.

However, it is not easy for inexperienced people and new graduates to build a long to medium term career at construction sites that they are not familiar with; therefore, we are in a

situation where they resign soon after joining the Company unfortunately. Thus, in the recently announced medium-term management plan, we aim to actively support them in forming their career paths, which until now has largely been left to the initiative of the engineers and technicians themselves. We name this career support system as "Technician Support Platform". With this platform, while presenting goals that are a step ahead of the engineers and technicians, we will provide a training system and consider the next destination for them to be dispatched to regarding their career development.

We would like to provide both technicians and client companies with service value that is in line with the Group's purpose of having "The Best Work Style. The Best Workers.", which was set out in the medium-term management plan.

Q: I have a question about the recruitment plan for the construction and plant technician dispatching business for FYE2023. You have set a high target of 1.8 times the number of hires compared to the previous fiscal year, but how do you think you will achieve that?

A: From the time we were founded, as the cost to hire one technician, recruitment per head (PH) has been set as an important benchmark for recruitment activities. Until the previous fiscal year, for our internal criteria, we set the recruitment PH at nearly half the level compared to the same industry. We have been working toward high-quality recruitment activities that keep costs down. However, in the previous fiscal year, the number of hires slowed as the rigid internal standard delayed investment in flexible recruitment costs.

For FYE2023, while maintaining cost-effective recruiting activities, which is our strength, we plan to raise the internal criteria for recruitment PH and increase hiring costs by about 2.5 times compared to the previous fiscal year. While the promotion of sales reform has been successful, it has achieved certain effects such as a significant increase in the number of orders received from client companies during EYE 2022. However, there have not been enough human resources to match the projects received as we failed to hire. Overcoming the current situation of losing out to others in the area of hiring, we will increase the number of people assigned.

Q: Regarding the construction and plant technician dispatching business, please tell us about the impact of the current coronavirus pandemic, such as customer deals and the hiring aspect.

A: In the previous fiscal year, due to the impact of the coronavirus pandemic, orders were temporarily reduced due to the postponement of construction work, mainly by major general contractors. However, at present, the sales reforms that have been promoted within the Company are beginning to take effect, and the number of orders received exceeds 2,000 per month, so it can be said that demand is brisk. As mentioned earlier, the challenge is to secure human resources that match the orders received, so for FYE2023, we will secure excellent human resources by actively investing in hiring costs.

Q: I have a question about the recruitment plan for the mechanical design and development engineer dispatching business for FYE2023. Eighty-five people are expected to be recruited, mainly mid-career hires, but please tell us about the current situation. In particular, mid-career hiring is difficult, and I get the impression that the cost of hiring human resources is increasing. Also, do you think the demand for mechanical design and development engineers will be strong for some time?

A: ATMOS Co., Ltd., which operates a mechanical design and development engineer dispatching business, has been improving their internal systems since joining the Group via M&A in June 2021. Regarding recruitment, before they became a part of the Group, there was no new hiring for the purpose of increasing the number of employees, but from the third quarter of the previous fiscal year, we started activities with a hiring manager.

As a result, the number of hires in the fourth quarter was 15, which is a significant increase

from three in the third quarter and two in the second quarter. As with construction, there is a shortage of engineers in the field of mechanical design and development, and the demand for temporary staff engineers is high. In FYE2023, while further strengthening recruitment activities, and promoting the hiring of expert human resources from manufacturers, our policy is to enhance the training system and increase the number of young people hired.

Q: Compared to the competition, please tell us the competitive advantage of COPRO.

A: Since the human resources business is a business that deals with people, we value being close to each engineer and technician. Therefore, since our founding, dispatching engineers and technicians is not the end, and we have put emphasis on following up after they are dispatched. Even after dispatching the engineers and technicians, the sales staff in charge of matching them visit the site they have been dispatched to, and there is close communication to find out whether they are worried about anything, or are there any problems in the work environment.

However, the human resources business is also an industry where it is difficult to differentiate. As explained earlier, in order for engineers and technicians and client companies to choose COPRO over other companies, in the medium-term management plan we just announced, we aim to build a "Technician Support Platform" and strive to differentiate the human resources service itself.

Q: Is my understanding correct that the main factor behind the forecast for a profit decline in FYE2023 is the increase in recruitment costs? Also, is it expected that hiring costs will increase in the next fiscal year and beyond?

A: In FYE2023, we anticipate an increase in sales and a decrease in profits due to an increase in selling and administration expenses, mainly due to the aggressive investment in recruitment costs. From FYE2024 onwards as well, recruitment costs are expected to increase in proportion to the number of hires because we will increase the number of hires toward the target of 6,200 group engineers and technicians for FYE2027, the final year of the medium-term management plan. However, the decrease in profit due to upfront costs will be until FYE2023, and from FYE2024 we would like to create a trend of increasing sales and profits.

Q: As for the future direction of the business, please tell us whether you will continue to strengthen the labor-intensive business model or gradually break away from it.

A: Since temporary staffing is a labor-intensive business, how to maximize the productivity of sales and recruiters is important for the business. For this reason, we are advancing various initiatives with the aim of creating a system in which everyone can perform above a certain standard due to individualistic methods where sales staff and recruiters who have excellent individual skills only produce results.

In the previous fiscal year, the sales reform efforts that were part of this began to be effective, and by the end of the fiscal year, we received more than double the number of orders from customers than the beginning of the fiscal year. In FYE2023, we will apply the best practices of sales to recruitment activities, and will improve productivity.

Q: Can we think of your Company as improving working conditions, such as the working environment and salaries of engineers and technicians, and creating an environment where they can work with peace of mind? Could you please tell us about specific initiatives?

A: Under the principle of equal pay for equal work, the Company has signed a labor-management agreement with representatives of a majority of our employees. It sets out wages, such as basic salary, and conditions other than wages. We guarantee wages equal to or higher than the average wages of ordinary workers stipulated by law, and raise wages annually based on our evaluation standards. Regarding conditions other than wages, we are actively working to switch

from fixed-term employment contracts to indefinite-term employment contracts for the purpose of stabilizing employment and raising an awareness of belonging.

Also, during the monthly trust activities, we listen to the voices of various technical employees, and work to eliminate anything that is unreasonable. We are working to create a comfortable working environment where it is easy to work. At the same time, we have opened a support center and set up a place to listen to the voices of technical employees in addition to the trust activities. While we cannot currently hold meetings due to the novel coronavirus pandemic, there are safety conferences with technical employees in each area to share information on occupational accidents and health management.

Since fiscal 2017, we have formulated a "long working hours reduction plan" to promote employee health management and working style reforms. The target is achieved every year, and the target for this fiscal year is the same upper limit as the revised Labor Standards Law that will be applied from 2024. As measures against the novel coronavirus, we actively recommend vaccinations, such as allowing vaccinations during working hours, and setting up special paid leave for the coronavirus and support influenza vaccinations, and the distribution of heat stroke prevention items.

We will continue to work closely with technical employees to create a comfortable working environment in terms of wages and other conditions.

Q: In FYE2023, while it is expected that the ratio of operating profit to sales will fall to 7.5% due to the increase in recruitment costs, please tell us your expectations for hiring costs and the ratio of operating profit to sales from FYE2024 onwards.

A: With regards to recruitment costs from FYE2024 onwards, just like in FYE2023, we assume a sales ratio of from 3% to 4%. For the ratio of operating profit to sales, we aim to recover to 10% or more during the medium-term management plan period.

Q: With regards to charging up negotiations (the negotiations to revise the contract unit price for engineers and technicians), is there still room to improve the cost of sales ratio?

A: Due to the structure of the human resources business, it is difficult to significantly reduce the cost rate. Therefore, while maintaining the cost rate by charging up, we will boost management efficiency by controlling selling and administration expenses through improving productivity while increasing sales.

Q: What measures are you taking to prevent the turnover of engineers and technicians?

A: At our Company, sales visit engineers and technicians to ask about their employment status and future wishes, which is called trust activities. Since our founding, we have put effort into following up after they are assigned. Once a month we visit the sites they have been dispatched to, and communicate closely with the engineers and technicians.

Q: Selecting the Standard Market, isn't there an option to actively buy back shares?

A: Due to the reorganization of the Tokyo Stock Exchange market segments, our Company selected the Prime Market, and we changed markets on April 4, 2022. In order to meet the standards to maintain a Prime listing, we aim to meet the "market capitalization of ¥10 billion or more for outstanding shares" standard which we currently do not conform to.

Q: Is your earnings forecast for FYE2023 bullish? Or is it conservative?

A: While we have no intention of making a conservative plan, it is a level that can be fully achieved. In addition to promoting medium-term strategies in order to realize the medium-term management plan, we would like to tackle current issues such as sales and hiring, and do our utmost to achieve the earnings forecast.

Q: With regards to losing out to competitors in the area of hiring, is it because you did not spend money on recruitment costs?

A: With regards to losing out in hiring, we do not mean we have lost out to a specific competitor. We meant that the fact that the recruitment department could not secure new employees to meet the demand of the increasing job offers. Since the recruitment market in Japan is extremely tight against the backdrop of a decline in the working population, it is a struggle to get excellent human resources regardless of the industry. From FYE2023, we would like to properly strengthen recruitment, while expertly controlling hiring costs.

Q: You explained that you are aiming for the highest profit in FYE2024, but Isn't there a possibility that profits will decline after FYE2024 due to leading investments?

A: Since the number of engineers and technicians could not be increased as expected in the previous fiscal year, the reason for a forecast of declining profits in FYE2023 is that the increase in hiring costs cannot be absorbed by the increase in the top line. If, during FYE2023, we can build up the number of engineers and technicians, from the next fiscal year onwards, we believe that we will be able to create a trend for higher sales and profits as is characteristic of an accumulative business model that can be expected to stably expand profits.

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