

# Q&A: Decline in Gross Margin Ratio

## FY 3/2023 2Q Non-consolidated Financial Results Highlights

### Net sales

Net sales increased by 14.4% due to an increase in the number of enrolled staff and an increase in billing unit-costs.

### Expenses · Profits

- The impact of reduced operations (number of working days, overtime hours, holiday work, etc.) due to parts shortages such as shortages of semiconductors in the automobiles-related industry, continued.
- Demand for manufacturing-related human resources was strong, and gross margin declined due to the strengthening of recruitment benefits (incentives).
- Continued investment in recruitment, including strengthening of promotions, increased SG&A expenses.

(Unit: Million yen)

	FY 3/2022 2Q		FY 3/2023 2Q		Year-on-Year	
	Results	% of Total	Results	% of Total	Increase (Decrease)	% Change
<b>Net sales</b>	<b>33,981</b>	100.0%	<b>38,875</b>	100.0%	<b>4,893</b>	14.4%
<b>Gross profit</b>	<b>5,780</b>	17.0%	<b>6,137</b>	15.8%	<b>356</b>	6.2%
<b>SG&amp;A expenses</b>	<b>4,917</b>	14.5%	<b>5,582</b>	14.4%	<b>664</b>	13.5%
<b>Operating profit</b>	<b>863</b>	2.5%	<b>554</b>	1.4%	<b>(308)</b>	(35.7%)
<b>Ordinary profit</b>	<b>888</b>	2.6%	<b>627</b>	1.6%	<b>(260)</b>	(29.3%)
<b>Profit</b>	<b>571</b>	1.7%	<b>385</b>	1.0%	<b>(186)</b>	(32.6%)

Copyright © 2022 NISSO CORPORATION All Rights Reserved

6

**Moderator:** We have questions that ask, "Will the burden of strategic costs, such as company-entrance benefits in the first half, continue to increase? The gross margin ratio decreased 1.1 percentage points year-on-year. What is the ratio of the impact of reduced hours, such as overtime, and strategic costs?"

**Shimizu:** As I explained earlier, the company-entrance benefits were 0.7% in total. However, I believe this operating situation is not favorable, which has had a significant impact on simulations.

The reason for this is the increase in the unit costs of orders, which is naturally reflected in the treatment of staff themselves, but simulations have shown that the gross profit margin will certainly increase more than before when operations return to normal.

There is no doubt that the rate of operational decline due to supply chain problems is high. However, the results can vary greatly depending on when the simulation is performed under normal conditions.

When we simulate the impact of reduced hours at a pre-COVID-19 pandemic average of 25 to

26 hours of overtime per month, which is not an excessive work level, we have the ability to generate figures that are higher than our original gross profit.

In addition, the continuation of company-entrance benefits is closely related to, among other things, the extent to which we can handle inquiries from auto body manufacturers. In this second quarter, we also actively worked to increase the number of staff with company-entrance benefits that are on par with other companies, in preparation for recovery production from the fall, but it probably won't continue for a long period.

In the future, if there are even stronger requests, mainly from auto body manufacturers, there is a slight possibility that we may provide equivalent company-entrance benefits.

## Q&A: Progress in the first half against the full-year forecast

### FY 3/2023 Full-year Consolidated Forecasts



In the full-year consolidated forecast, although NISSO expects the effects of semiconductor and parts shortages to continue to some extent, we expect both revenue and profits to increase.

■ FY 3/2023 Full-year Consolidated Forecast (April 1, 2022 ~ March 31, 2023)

(Unit: Million yen)

	FY 3/22 Results		FY 3/23 Forecast		Year-on-Year	
	Results	% of Total	Forecast	% of Total	Increase (Decrease)	% Change
Net sales	77,549	100.0%	88,600	100.0%	11,050	14.2%
Operating profit	2,087	2.7%	2,700	3.0%	612	29.4%
Ordinary profit	2,369	3.1%	2,700	3.0%	330	13.9%
Profit attributable to owners of parent	1,696	2.2%	1,800	2.0%	103	6.1%

Copyright © 2022 NISSO CORPORATION All Rights Reserved

27

**Moderator:** We have a question that asks, "Although you have left the full-year forecast unchanged, am I correct to assume that the first half went in line with your original plan?"

**Shimizu:** Although the first quarter was worse than initially planned, exceeded previous levels, and the second quarter was slightly below the initial plan.

The reason for this was that around July, I heard from clients, mainly automobiles

manufactures, that the operation rate might increase in line with the recovery of the supply chain from around the beginning of fall, so we responded to this by strongly promoting it and proactively offering company-entrance benefits.

In the second quarter, we made upfront investments ahead of the initial plan, so although sales were growing, profits were slightly below the plan.

## **Q&A: Outlook for the second half**

**Moderator:** We have a question that asks, "Although production is likely to return to some extent in the second half, mainly for automobiles, final demand is likely to weaken due to macroeconomic impact. What is your outlook for the second half?"

**Shimizu:** It's a very difficult question but let me give you the answer based on the information we have available. As you mentioned, on a macro level, semiconductors and other industries have been affected. We also expect automobiles to recover moderately and normalize from the beginning of next year. Although this current view remains unchanged, since we cannot predict everything that will happen in the future, it depends on how much the supply chain will recover.

**Our approach to profit is usually based on a profit structure of " first half 1: second half 2".** However, just to give you an idea, in terms of revenue, the simulation draws a rapid curve from approximately 800 million yen in the third quarter to 1.4 billion yen in the fourth quarter.

However, these figures are based on the current information we have and are not promises. As for sales, there is no doubt that we will make progress as planned as the situation normalizes.

## **Q&A: Trends in the number of enrolled staff and net sales**

**Moderator:** We have a question that asks, "I believe that the number of enrolled staff and net sales have exceeded the plan, but is this also on schedule?"

**Shimizu:** The number of enrolled staff and net sales have exceeded our expectations. In addition, I believe that the operating status and whether we can incorporate high value-added areas in the current fiscal year onward will lead to the results for the next fiscal year and the fiscal year after.

## **"Key points for achieving the Medium-term Management Plan" by Mr. Shimizu**

**Shimizu:** I would like to talk about some very important points for achieving our Medium-term Management Plan.

We expect a significant shortage of equipment maintenance personnel in industries such as semiconductor equipment manufacturers, semiconductor manufacturers, non-semiconductor component manufacturers, and automobiles manufacturers.

We are also promoting a human resources development model that emphasizes training rather than the traditional matching, even in dispatching. It is extremely important to differentiate ourselves from other companies and how we respond to the needs of our clients through these efforts in order to accomplish this Medium-term Management Plan.

Although this "investment for development" may seem like a less speedy initiative compared to other companies in the same industry, we are making this investment with the belief that we will definitely produce results in the medium to long term.