

Conversation with the President



By helping protect the safety and security of society,
we will improve ALSOK’s corporate value.

Yukiyasu Aoyama
President and Representative Director
Chief Operating Officer (COO)



Takayuki Yamamoto
Executive Officer
Head of Business Development Department
Development Bank of Japan Inc.

In May 2015, ALSOK received first prize in the 1st Social Value and Capital Formation M&A Awards sponsored by Development Bank of Japan Inc. This award was presented to the Company out of recognition of the superior potential for social value and capital to be generated through ALSOK’s acquisition of HCM Corporation. We invited Takayuki Yamamoto, executive officer and head of the Business Development Department at Development Bank of Japan, to discuss the type of social value and capital that ALSOK creates with Company president Yukiyasu Aoyama.



Takayuki Yamamoto
Executive Officer, Head of Business Development Department
Development Bank of Japan Inc.
Mr. Yamamoto joined the Japan Development Bank (currently Development Bank of Japan Inc.) in 1983. There he served as general manager of the International Strategy & Coordination Department and general manager of the Tokai Branch before being appointed to his current position in 2014. He now oversees domestic and overseas M&A advisory services.
He previously graduated from the Faculty of Law at the University of Tokyo and acquired a Master of Laws at Georgetown University in the United States.

Yamamoto: ALSOK acquired HCM Corporation in 2015. As this acquisition was determined to contribute to improved social value, Development Bank of Japan chose to present ALSOK with first prize in the 1st Social Value and Capital Formation M&A Awards. What sort of challenges did you face in acquiring this business and in working to expand into a new field?

Aoyama: We have been expanding our business scope since 2014 with the acquisition of companies operating long-term care businesses, namely HCM Corporation, ALSOK Care & Support Co., Ltd., and Wisnet Co., Ltd. These three companies continue to be led by the individuals that served as their respective presidents prior to the acquisitions. I also attend their monthly board of directors’ meetings as a director of each company. Furthermore, we provide a forum for the presidents of each company to gather once a month to talk about common issues they face, such as those related to costs, and their future business development plans. Currently, the long-term care business remains the center of conversations. In the future, however, I hope that we will be able to move on to discuss the creation of hybrid businesses that combine long-term care services with security services. HCM has numerous fee-based, long-term care facilities and in-home care service bases in the Tokyo, Nagoya, Osaka, and Tohoku regions. Meanwhile, Wisnet operates approximately 40 fee-based, long-term care facilities and around 80 group homes. We therefore plan to begin by expanding the breadth of these operations. At the same time, we will gradually branch out into new fields, including those related to security services, long-term care services, and healthcare.

Yamamoto: ALSOK’s performance is most impressive, with six straight years of increased sales and income and an ordinary income margin of 8%. What challenges have you faced in achieving this performance and what are your plans for future business development?

Aoyama: I think we have our customers to thank for our strong performance, and I am most appreciative of their support. Through M&A activities, we were able to incorporate Japan Facilio Co., Ltd., ALSOK Souei Co., Ltd., and Nippon Building Maintenance Co., Ltd., into the Group. As a result, we are now capable of providing services that offer a full line of support including security, equipment, and installation. These new inclusions to the Group have also brought great benefits in allowing us to approach new customers as the Group grows. In recent years, there has been a trend toward companies opting to focus as much as possible on their core business, choosing to outsource security and other functions to service providers that can deliver these functions with high quality. Event security is one example of such functions that are outsourced to ALSOK. We also receive outsourcing work from banks and other financial institutions. While we were previously mainly contracted to manage ATMs located outside of bank premises, clients are now asking us to even manage ATMs installed inside of banks. In the future, we also plan to develop a comprehensive cash management business that caters to demand from retailers for our Cash Deposit and Dispenser Machine On-line System, point of sales (POS) cash registers, and other such systems. I suspect that such a business would be able to provide safety and security at an affordable price while contributing to the smoother circulation of cash within Japan. In addition, we have begun providing new services that target inbound tourists to Japan, such as supplying foreign currency exchange machines.

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Yamamoto: The outlook for the global economy is unclear given the sluggish conditions in the economies of China and other emerging countries as well as developments such as the United Kingdom's decision to withdraw from the European Union and the presidential election in the United States. This situation has made it even more important to keep in step with the times. How is ALSOK approaching this situation?

Aoyama: Economic and political conditions are undergoing great change both inside and outside of Japan, necessitating that we prepare solutions to respond to various risks. For example, around 2025 Japan's post-World War II baby boom generation will be roughly 75 years of age, resulting in the ongoing growth of the long-term care market. Meanwhile, the unsustainability of government finances will create numerous opportunities for private-sector companies to step in to replace public-sector organizations. At ALSOK, we hope to provide a unique brand of long-term care services that invigorate users and help them live healthily and happily for as long as possible. We expect that the population decline will lead to labor shortages in both the security services and the long-term care services fields. Even if labor is scarce, we must avoid situations in which services cannot be procured to address people's needs for safety and security. Preventing such a situation will require us to make the most of our limited personnel or, from a broader meaning, require us to further utilize AI, big data, IoT, robots, and other technologies as well as improve the capabilities of the security guards that use these technologies.



Yamamoto: Some speak of the concept of creating shared value or, in other words, finding a way to create social value through a company's business. Do you see this concept as being highly compatible with ALSOK's business?

Aoyama: As a security services company, we play a complementary role in protecting people's safety and security. For example, should a person fall ill, they will, in the end, receive treatment from a hospital or doctor. However, there are actually a lot of needs to be addressed before this treatment can be received. To help cater to these needs, ALSOK takes advantage of its nationwide network, which allows a security guard to rush to the scene should a report of an issue be received in some form, whether that be via telephone, camera, or sensor signal. In managing the facilities of buildings and offices, meanwhile, stationed security guards are able to provide first-response services by inspecting equipment and our first-response network can also be utilized to quickly dispatch security guards to address equipment malfunctions. I believe that this business model is very closely linked to the concept of creating shared value.

Yamamoto: ALSOK will celebrate the 55th anniversary of its founding in the year of Olympic and Paralympic Games Tokyo 2020. What are your thoughts with regard to the massive undertaking that will be managing security for this major event?

Aoyama: ALSOK's founder Jun Murai played a central role in running Olympic Games Tokyo 1964, and it is now ALSOK's turn to contribute to the Olympics in a security capacity. The entirety of Japan's security services industry is united in their commitment to ensuring the security of this event, and I hope that we will be able to guarantee its success. Furthermore, given Japan's reputation as the safest country in the world, we aim to deliver services that will make the attendees feel that Japan's security services are truly a cut above the rest. In order to accomplish this goal, we will need to further develop our ALSOK Zone Security Management service, which guards against terrorist attacks and other crimes by utilizing face-recognition systems to recognize changes in facial expressions and by picking up temperature changes and unusual smells in areas to detect suspicious activity before a crime is committed. Another task to be addressed is education. We will thus strive to create frameworks for developing highly capable human resources. These frameworks will not only be created and used by ALSOK but will also be crafted together with affiliates, business partners, and industry organizations. Furthermore, our relationships with relevant institutions will also be important. Olympic Games Tokyo 2020 will span a period of approximately two months, necessitating that we act effectively while pursuing coordination within the Company and with external organizations, such as the Tokyo Organising Committee of the Olympic and Paralympic Games, government agencies, the

police, fire departments, and managers of event sites. As we advance these efforts, we will develop appropriate combinations of education programs and software to ensure that attendees are impressed with the impeccable quality of Japanese security services.

Yamamoto: If you are able to develop such skills and expertise, do you agree that it would be possible to incorporate these capacities into a business model that can be exported overseas?

Aoyama: Yes, and while there may be limits with regard to directly applicable labor, I certainly feel that it should be possible to export the business model portion of our operations. I would like ALSOK to become able to make security proposals when large events take place overseas. We are also thinking of ways we can help address aging infrastructure.

Yamamoto: I look forward to seeing those plans become a reality. In Japan as well, there is a need to provide security and long-term care for senior citizens, which represent a large portion of the population in certain regions, and to watch over these individuals. The need to inspect facilities in relation to aged infrastructure is also present. In addition, there is a need to support reconstruction after natural disasters, such as the 2016 Kumamoto earthquake. Do you feel that such needs will increase the range of fields in which ALSOK can contribute?

Aoyama: I believe that this will be the case. Measures for addressing aging government and private infrastructure are at the core of national resilience improvement plans. At the same time, the role of security guards is not limited to preventing crimes. They can also be dispatched to perform repairs when machinery malfunctions and otherwise support the public sphere by helping resolve aging infrastructure issues. I first hope that we will be able to help ensure the success of Olympic Games Tokyo 2020 and that our employees will learn from this experience, growing into the type of human resources that can think, plan, and propose the next step on their own. However, this does not free us from the need to think beyond 2020. A recession occurred in the year following Olympic Games Tokyo 1964. Looking past 2020, I feel that it will be important for ALSOK to be deeply rooted in the regions it serves. For this reason, we are currently examining means of developing frameworks for contributing to regional development.

Yamamoto: I suspect that reputation is incredibly important for a company like ALSOK. What daily measures are you implementing with regard to corporate governance, compliance, and other such concerns?



Aoyama: Even if a company adopts the principles of Japan's Corporate Governance Code, I feel that these efforts will be pointless if they are merely formulaic and the company does not put its heart into them. In ALSOK's case, I believe that if we maintain our emphasis on customers and act sincerely while exercising the *arigato no kokoro* and *bushi no seishin* principles described in our management philosophy, no major problems will occur. We have created a system to report customer complaints to management in real-time in order to check operations from the standpoint of customers and based on outside perspectives. We are also simulating communication between our two outside directors and three outside Audit & Supervisory Board Members and management. Furthermore, we value an open corporate culture and constant discipline, and members of management regularly visit branches and Group companies throughout Japan to talk with employees and confirm the workplace environment. In this manner, ALSOK is going beyond simply constructing systems, working on a daily basis to truly put its heart into its internal controls.

Yamamoto: It is my hope that ALSOK will continue to proliferate the *arigato no kokoro* and *bushi no seishin* principles described in its management philosophy, which is truly the DNA of the Company, while growing and succeeding by addressing the ever more demanding needs of society.

Aoyama: Thank you very much for giving us your time today. I hope that you will continue to offer ALSOK guidance and advice in the future.

* ALSOK is a Tokyo 2020 Official Partner [Security Services and Planning].