

Conversation with the President

Seeking to become a service provider that offers comprehensive support for the safety and security of society, ALSOK will continue to create new value together with its customers.

We arranged for a discussion between President Yukiyasu Aoyama and Yusuke Kawamura, deputy chairman of the institute at Daiwa Institute of Research Ltd. Mr. Kawamura is highly knowledgeable of the securities markets of Japan and other parts of Asia as well as of finance and economics, and he is currently playing a central role in promoting the “Cool Japan” strategy of the Japanese government. The topic of this discussion was the recent course of ALSOK’s business expansion and ideal form of the Company’s business in the future.

Kawamura It has been 15 years since ALSOK was listed on the stock exchange. I have been watching the stock market for many years, and I have not seen many companies that have succeeded in achieving significant performance growth after becoming listed. ALSOK, meanwhile, has been able to grow its sales for seven consecutive years and increase its income for five consecutive years. This incredibly impressive performance demonstrates ALSOK’s exceptional ability to utilize equity financing. What is the secret behind ALSOK’s success?

Aoyama After becoming listed on the stock exchange, we proceeded to install internal controls and otherwise solidify our operating foundations. It was only five or six years ago when we began growing consolidated sales and diversifying our product and service lineup primarily through M&A activities while drastically reforming corporate structures to cut Groupwide costs. These efforts are steadily beginning to produce results in the form of the performance you speak of.

Kawamura So in other words, the ALSOK Group expanded itself in a quantitative manner as a conglomerate that offers comprehensive support for safety and security. The recent decline in the birthrate is said to herald the end of economies in rural areas. However, I see ALSOK as having significant potential to grow against this backdrop. By this, I mean that ALSOK is doing a good job at developing operations in areas where customers look to outsource their business processes.

Aoyama The business process outsourcing needs of customers can vary greatly based on their business model. When deciding in what areas ALSOK will develop its own business, we return to the basic perspective on which our business is founded: protecting the safety and security of customers by determining the areas in which they are troubled with this regard and providing services to address these troubles. Customer needs extend beyond security at their facilities. They also



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need means of safely transporting cash and other valuables and of inspecting facilities and combating fires and other disasters. We have thus been expanding the scope of our business based on the idea of providing services that respond to the safety and security needs of individual customers.

Kawamura I understand that ALSOK has recently been acquiring long-term care companies. I would not have seen a connection between security services and long-term care. What led you to pursue this course of action?

Aoyama As we develop our home security operations, we have been seeing an increase in cases of emergency reports from senior citizens living alone. This trend inspired us to start offering services in which we dispatch security guards in times of emergency to confirm the safety of senior citizens. After that, municipal governments began developing projects for protecting senior citizens by installing emergency reporting systems in their homes. Meanwhile, security services companies offering round-the-clock, nationwide dispatch services similar to ALSOK’s started assisting in these projects as subcontractors. Senior citizens have diverse needs, with some being completely independent and some requiring constant care. Considering that the aforementioned government projects were services aimed at

independent individuals, we turned our attention to the services that are needed by individuals requiring care. We thus chose to enter into the visit-based care service business five years ago. Our first step was to establish our own company for this purpose. However, we later decided to utilize the resources of existing companies through M&A activities, adapting them to fulfill our mission of protecting customers. Today, our long-term care services business is conducted by subsidiaries HCM Corporation, ALSOK Care & Support Co., Ltd., and Wisnet Co., Ltd. With annual sales in the area of ¥25.0 billion, this business provides both in-home and in-facility care services, which have come to be used by around 12,000 individuals.

Kawamura I would like to ask about ALSOK’s overseas operations. I understand that you are currently developing operations centered on Southeast Asia. There are two main patterns through which Japanese companies expand overseas. One pattern is when manufacturers and other companies establish manufacturing bases overseas. The other pattern is when other companies provide services to support Japanese companies in operating overseas manufacturing bases. Am I correct in assuming that your overseas operations started with offering support services, namely security services, to other Japanese companies?

Aoyama You are essentially right. The start of our overseas operations actually came quite a bit before we commenced a full-fledged overseas business. Specifically, this start was in 1980, when we dispatched members of our staff to implement security measures at an overseas branch of Japan’s Ministry of Foreign Affairs. Providing security for this facility and the Japanese citizens that staffed it was the first instance of our exercising the spirit of protecting companies and people, which we have held since our founding, overseas. We later launched a full-fledged overseas business with the intent of utilizing the insight gained through this undertaking to protect the safety and security of Japanese companies developing operations overseas.

It was in 2007, when we established a subsidiary in Thailand, that we first began providing security services to Japanese companies overseas under the ALSOK brand. Our business currently extends to nine countries in Southeast Asia and other areas where many Japanese companies are developing operations. However, the regulations imposed on the security services industries in such countries can make it difficult for us to play a direct role in developing security guards and in establishing and operating security services companies. For this reason, our overseas operations largely consist of security consulting services through which we help customers by formulating security plans, introducing local security services partners, and managing security squads. Nonetheless, our Thai subsidiary has grown to possess a staff of approximately 700 security professionals over the past decade. These employees provide Japanese companies expanding overseas with ALSOK brand electronic security and stationed security services. In addition, we acquired companies offering security services in Indonesia and Vietnam in 2016, and our combined security staff in these two countries now totals roughly 3,000 individuals.

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Kawamura Looking ahead, Japan is scheduled to host international sporting events including the 2019 Rugby World Cup and the Olympic and Paralympic Games Tokyo 2020. If we turn our eyes to the past, we will see that it was similarly large events, most notably the Olympic Games Tokyo 1964 and Expo '70 in Osaka, that have stimulated rapid growth in private-sector security services companies. Do you expect these upcoming events to once again serve as catalysts for growth in the security services industry?

Aoyama I expect that the upcoming events will indeed stimulate our growth. ALSOK founder Jun Murai was appointed to Deputy Secretary-General on the organizing committee for the Olympic Games Tokyo 1964, and this experience led him to establish the Company in the following year of 1965. Expo '70, held in Osaka in 1970, proved to be a national undertaking of similar scale to the Olympics, becoming the largest international expo ever at that point in time. I feel great pride in our ability to continue in this tradition by once again helping to ensure the safety and security of major international events. In fact, I see this as part of ALSOK's mission. Providing security at these events will be massive undertakings that will test Japan's security services industry as a whole, requiring that the industry address tasks such as securing, educating, and training an incredible amount of security guards and utilizing cutting-edge technologies. Through our participation in these events, I hope to show the world a new form of security services that take advantage of the IoT, AI, robots, and other technologies.

Kawamura On the topic of new forms of security services, information and communications technologies, or ICT, and IoT technologies are progressing constantly and it can be expected that these technologies will evolve into something completely new over the next several years. ALSOK is a forerunner in the field of smart security services, developing businesses using drones and employing robotics technologies in its security services. How would you describe the Company's R&D and marketing systems?

Aoyama We advance research and development in collaboration with partner manufacturers, coordinating closely with them. However, this process requires time. Conditions inside and outside of the Company, meanwhile, change at breakneck speed. For example, if incidents of stalking and other reprehensible crimes emerge, there is an immediate need to deploy products and services for combating these crimes. Ideally, we would like to conduct research and development with an eye to three to five years down the line, but it can be difficult to accurately predict future crisis management needs. Nonetheless, we recognize that history repeats itself. We are therefore currently focused on working together with manufacturers to develop systems that effectively use cameras to identify the precursors of crimes and accidents and to detect suspicious activities and to link these systems to our security services. In the future, there will be a need to more efficiently position security guards and to compensate for labor shortfalls, including those resulted from the declining birthrate and aging population. The collection of big data and the utilization of AI, the IoT, new sensors, and robots will be crucial to accomplishing these objectives.



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Mr. Kawamura joined Daiwa Securities Co., Ltd., after graduating from the Faculty of Law at Tokyo University in 1977. Later, he acquired a Master of Laws from the University of Washington in 1981, before becoming a professor at the Faculty of Economics and the Graduate School of Economics of Nagasaki University in 2000 and then Senior Counselor of Daiwa Institute of Research in 2010 and eventually assuming his current position in 2012. In this position, he has also served concurrently as a member of the Ministry of Finance's Fiscal System Council and the Financial Services Agency's Business Accounting Council, an expert advisor to the Steering Committee of the Cabinet Secretariat's Assembly of Cabinet Ministers Related to Promoting Public-Private Fund Usage, and an outside director at Cool Japan Fund Inc. and Mitsui Sugar Co., Ltd.



Kawamura The Sustainable Development Goals, commonly known as the SDGs, were adopted at the United Nations General Assembly session held in September 2015. In addition, the Japan Securities Dealers Association started encouraging companies to join the effort to accomplish the SDGs in the fiscal year ending March 31, 2018. ALSOK has already joined this effort, as seen in its initiatives for supporting the contributions of female employees, among others. What inspired this preemptive action?

Aoyama ALSOK's business has always been to protect safety and security, and the point of departure for this business is to contribute to society. We have recently been engaging in CSR activities focused on environmental, social, and governance, or ESG, concerns. Accordingly, we had a strong recognition of the fact that the accomplishment of the SDGs would be crucial to the sustainable growth of companies. ALSOK aims to ensure safety and security in the lives of all people in its capacity as a provider of a form of social infrastructure that supports safety and security. To fulfill this role, we will broaden our perspective from beyond the conventional scope of the security services industry, focusing our eyes on the future. With this view, we will advance a full-out pursuit of innovation to create value for protecting safety and security in the present and in the future.

Kawamura In Europe and the United States, whether or not a company is contributing to the accomplishment of the SDGs has already become an important indicator for institutional investors. I too think it is necessary for Japan, as a whole, to join this movement as a member of the international society and to increase its presence in the global financial market. I plan to pay attention to the efforts of companies, ALSOK included, with this regard going forward.

Lastly, I would like to ask you about a corporate management topic that has been garnering a great deal of attention in recent years: the reinforcement of corporate governance. A couple of years ago, the Tokyo

Stock Exchange formulated Japan's Corporate Governance Code. This code encourages companies to increase their number of outside directors and to practice effective governance. What are your thoughts with this regard?

Aoyama Listed companies are supported by their relationships with various stakeholders. In order for a company to grow while gaining the full understanding of these stakeholders, it must have various check systems in place with regard to its management policies to maintain transparency and practice appropriate accountability. What is important is to prevent the form of governance systems from being made into the end goal. The construction of frameworks that cannot actually function is a backwards approach. There is an inherent importance to management policies and the concept of management ethics with regard to the best way to exercise accountability. I therefore want to focus on creating systems that enable these concepts to be discussed and to permeate the entire organization.

Kawamura That's why the *arigato no kokoro* and *bushi no seishin* principles described in ALSOK's management philosophy are also important to corporate governance, or, in other words, that a company must put its heart into its governance efforts. Thank you for inviting me to speak with you today.

Aoyama Thank you for joining us today.

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