TechnoPro Group Financial Results for the 3rd Quarter of FYE June 2016

TechnoPro Holdings, Inc.

April 28, 2016

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* KPI excludes 'Other' business.

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Q3 FY2016 Overview

- Annual forecast made public on July 31, 2015 remains unchanged

(JPY in millions, except per share amounts)

	Quarterly							Full Year		
	Q1-Q3 Total FY2015 (Actual)	Progress	Q1-Q3 Total FY2016 (Actual)	Progress	YOY	Q3 FY2016 (Actual)	YOY	FY2015 (Actual)	FY2016 (Forecast)	YOY
Revenue	60,467	*74%*	67,013	*76%*	*+10.8%*	23,023	*+11.7%*	81,241	88,000	*+8.3%*
Gross profit (GP)	14,310	*75%*	15,991	*76%*	*+11.7%*	5,550	*+13.8%*	19,081	21,000	*+10.1%*
GP margin	*23.7%*		*23.9%*			*24.1%*		*23.5%*	*23.9%*	
SG&A expenses	8,465	*72%*	9,349	*72%*	*+10.4%*	3,196	*+11.3%*	11,797	12,900	*+9.3%*
Ratio on revenue	*14.0%*		*14.0%*			*13.9%*		*14.5%*	*14.7%*	
Operating profit (OP)	5,872	*81%*	6,679	*82%*	*+13.7%*	2,335	*+15.2%*	7,283	8,100	*+11.2%*
OP margin	*9.7%*		*10.0%*			*10.1%*		*9.0%*	*9.2%*	
Profit before income taxes	5,526	*81%*	6,437	*84%*	*+16.5%*	2,259	*+17.5%*	6,832	7,700	*+12.7%*
Net profit	5,325	*77%*	6,225	*82%*	*+16.9%*	2,135	*+19.5%*	6,875	7,600	*+10.5%*
Net profit per share	156.28		182.11		–	62.29	–	201.76	222.86	–
Dividend per share	–		–		–		–	100.88	111.52	–

* Amounts are rounded down to the nearest unit.

** Income tax expense in the cumulative Q3 result is calculated, based on the effective corporate tax rate to be estimated after the capital increase by the third party allotment on April 18, 2016.

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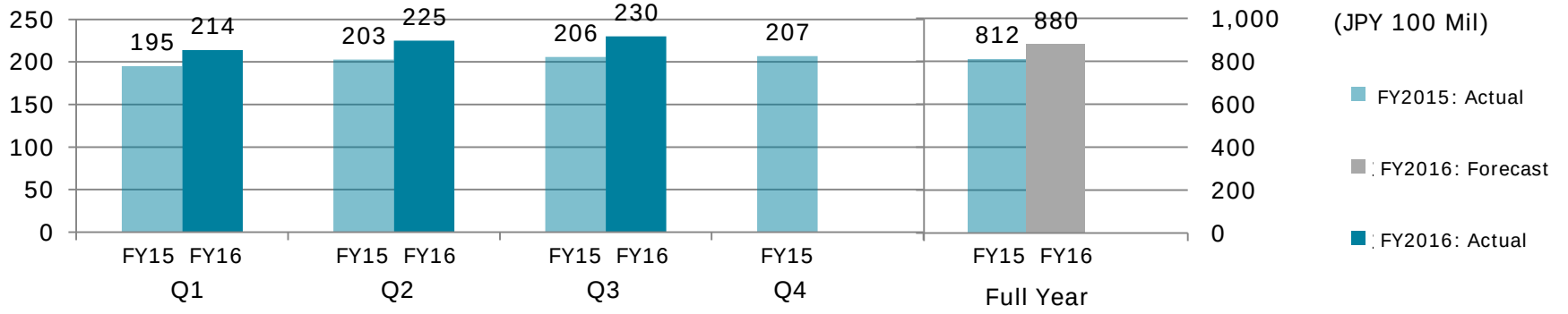
Quarterly Performance

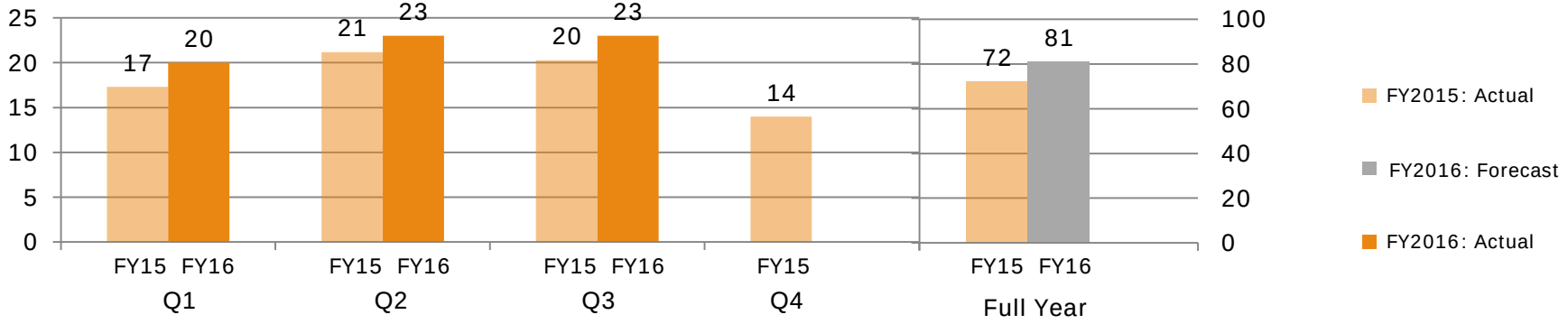
- Progress rates against annual forecast are 76% on revenue and 82% on OP, slightly faster development compared to previous year

Revenue



Composition %	24% 24%	25% 26%	25% 26%	26%	
YOY	9.7%	11.0%	11.7%		

Operating Profit



Composition %	24% 25%	29% 29%	28% 29%	19%	
OP ratio	8.9% 9.4%	10.4% 10.4%	9.8% 10.1%	6.8%	9.0% 9.2%
YOY	15.9%	10.5%	15.2%		

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* Amounts are rounded down to the nearest unit.

Impacted by payroll/training expenditure for 360 new graduate engineers hired on April 2015.

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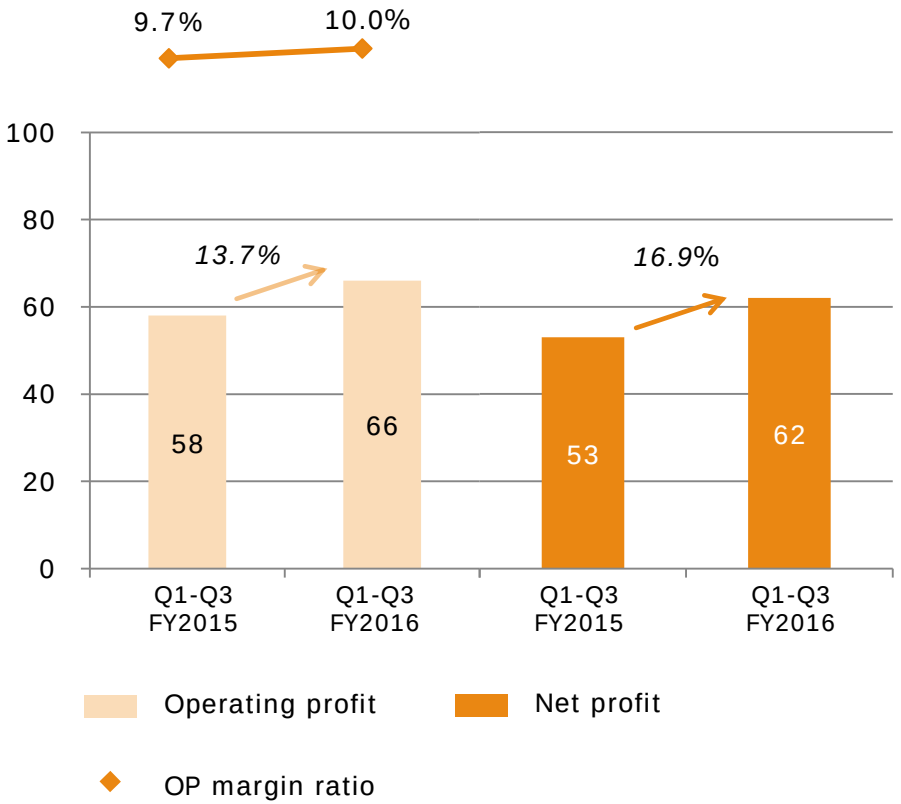
P&L Summary

(JPY 100 Mil)



(JPY 100 Mil)	Q1-Q3 FY2015	Q1-Q3 FY2016	Diff. YOY	YOY(%)
Revenue	**604**	**670**	**+65**	*+10.8%*
Impact by Engineer increase			+50	
Impact by unit sales price increase			+12	
Other			+4	
CoGs	**461**	**510**	**+48**	*+10.5%*
Ratio to revenue	***76.3%***	***76.1%***	***-0.2%***	
Impact by Engineer increase			+39	
Other			+10	
Gross profit	**143**	**159**	**+16**	*+11.7%*
Ratio to revenue	***23.7%***	***23.9%***	***+0.2%***	
SG&A	**84**	**93**	**+8**	*+10.4%*
Ratio to revenue	***14.0%***	***14.0%***	***-0.0%***	
Other income－Other expenses	**0**	**0**	**+0**	
Operating profit	**58**	**66**	**+8**	*+13.7%*
Financial income	**0**	**0**	**-0**	
Financial expenses	**3**	**2**	**-1**	
Net profit before income taxes	**55**	**64**	**+9**	*+16.5%*
Corporate / income taxes	**2**	**2**	**+0**	
Net Profit	**53**	**62**	**+8**	*+16.9%*

* Amounts are rounded down to the nearest unit.

** Income tax expense in the cumulative Q3 result is calculated, based on the effective corporate tax rate to be estimated after the capital increase by the third party allotment on April 18, 2016.

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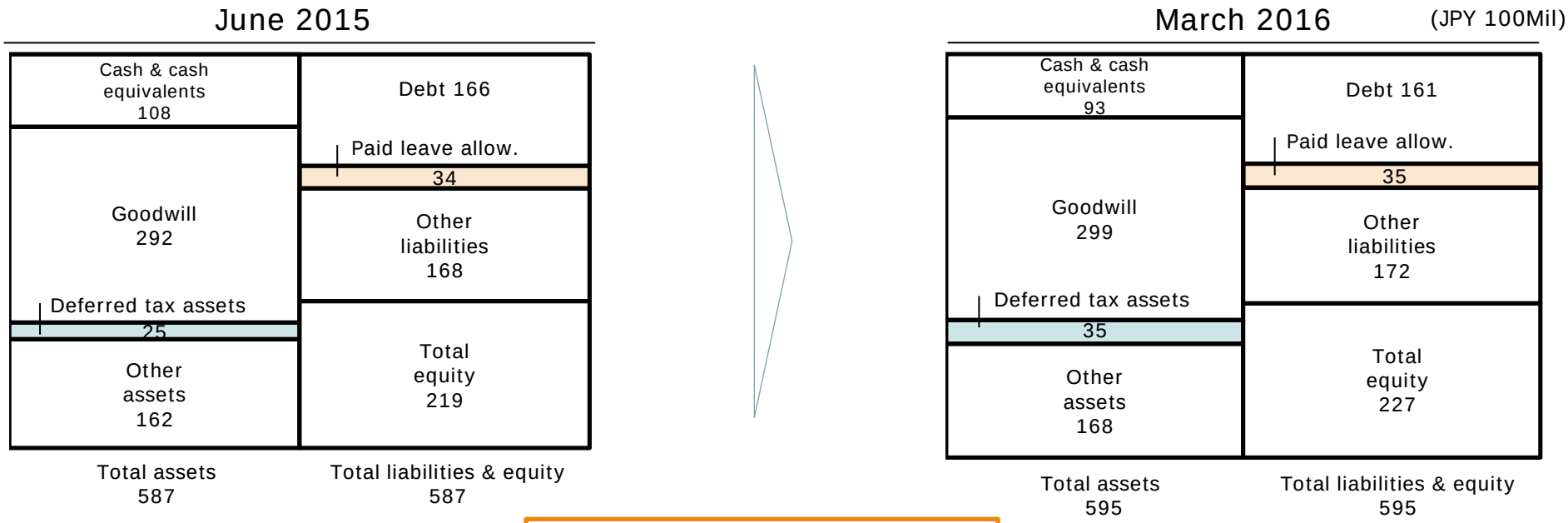
Balance Sheet & Cash Flow

- Cash & cash equivalents amounted to an outflow of 1.5 billion yen, reflecting dividend payment of 5.1 billion yen, repayment of borrowings of 1.15 billion yen and expenses to acquire new subsidiaries, etc.
- Goodwill increased by two new subsidiaries
- Net worth ratio improved to 38.3%

(JPY 100Mil)



D/E ratio : 0.8 x
Net D/E ratio : 0.3 x
Net worth ratio : 37.4%

Q1-Q3 FY2016 CF

・Operating CF	55
・Investing CF	(7)
・Financial CF	(62)
Net CF	(15)

FCF 47

Both PCA and ON THE MARK which acquired in this financial year are included above the Balance Sheet as consolidated companies.

D/E ratio : 0.7 x
Net D/E ratio : 0.3 x
Net worth ratio : 38.3%

* Amounts are rounded down to the nearest unit.

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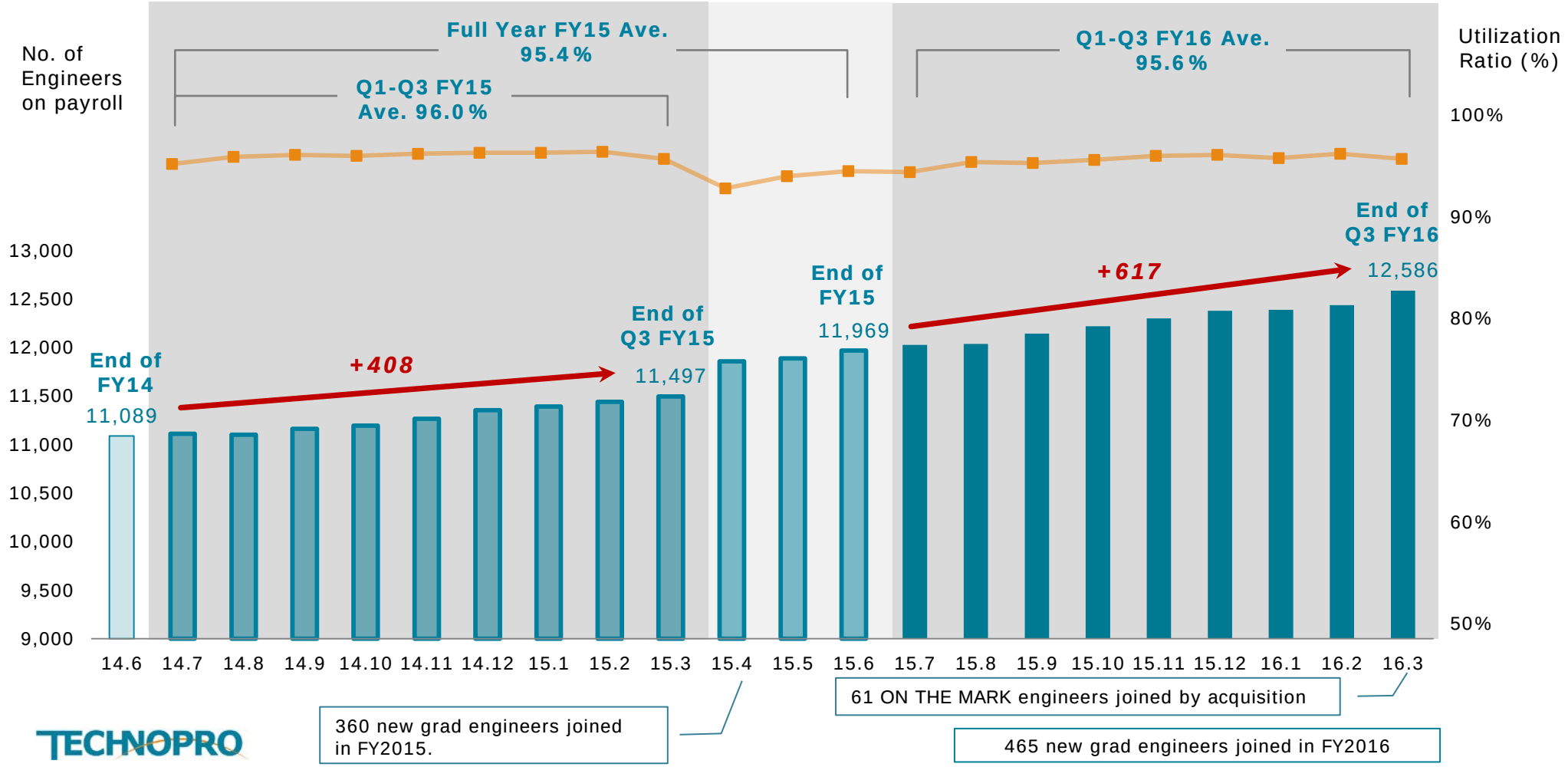
No. of Engineers & Utilization Rate

- Total engineers on payroll at the end of Q3 FY2016 were 12,586, with net increase of 617 from previous year end (+51.2% YOY)
- Utilization rate in cumulative Q3 FY2016 was 95.6%, maintaining eligible 95% range



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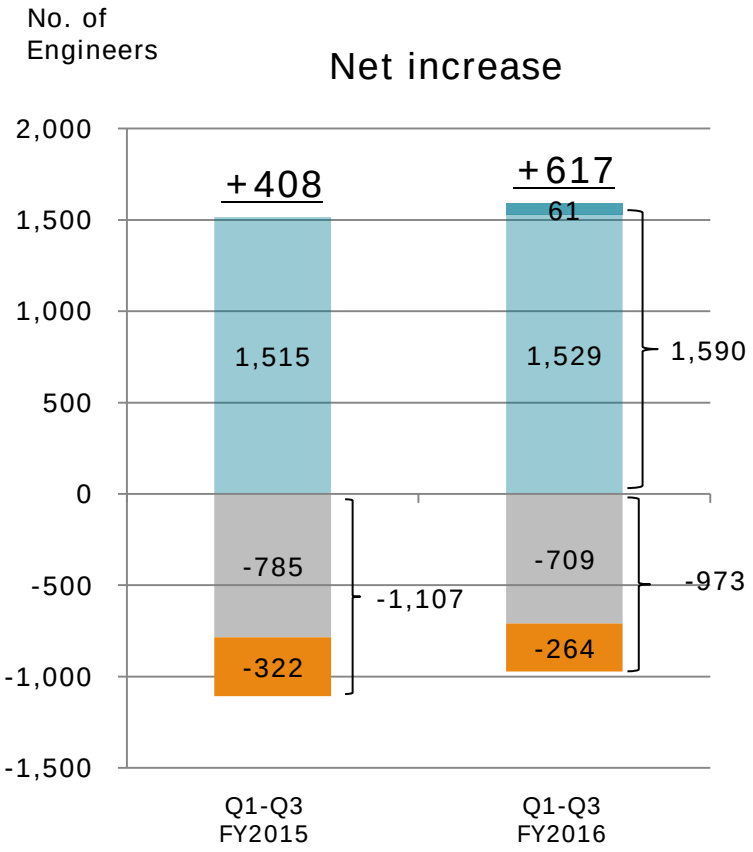
Recruitment / Turnover

- Newly hired engineers were 1,529 (+0.9% YOY)
- Turnover rate was 7.7%, contributed to net increase of engineers as well as robust recruiting



(Difference / % YOY)

ON THE MARK Co., Ltd. 61
(became consolidated subsidiary on March 2016)

Hired 1,529 (+ 14 / + 0.9%)

Turnover 709 (-76 / -9.7%)
Turnover ratio decreased to 7.7% compared with the previous year (9.3%)

Contract terms matured, others 264 (-58 / -18.0%)

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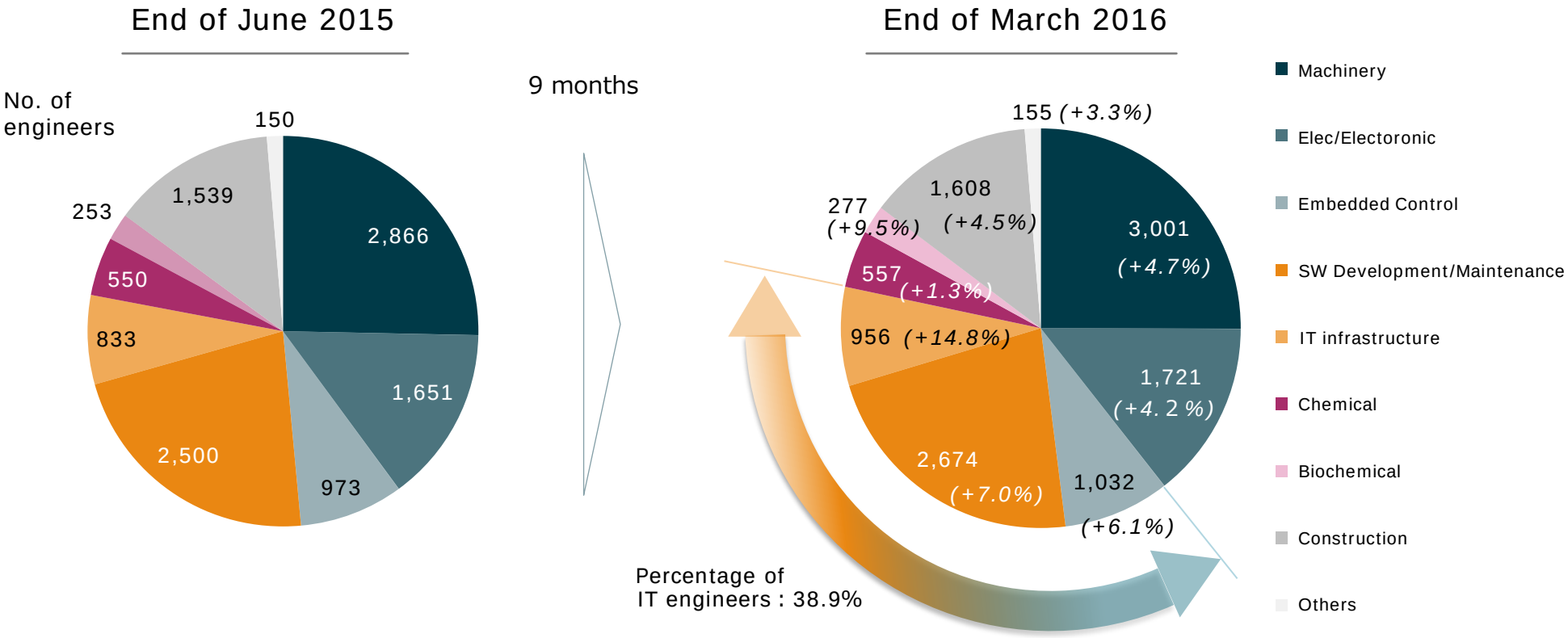
Assigned Engineers by Technology

- Number of assigned engineers* increased in all technology
- Shortfall of IT engineers remains obvious in the market, and the assigned engineers posted a major growth in IT sector such as IT infrastructure



* Figures indicate assigned engineers at the end of month (not including ON THE MARK engineers).
** Figure in parenthesis indicates % change.

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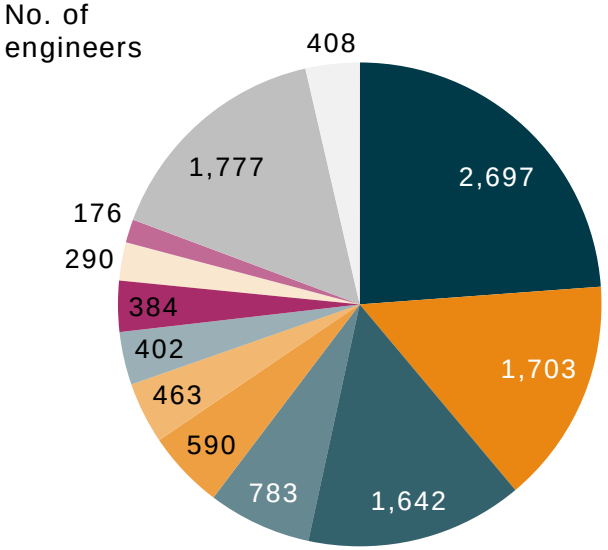
Assigned Engineers by Industrial Sectors

- Number of assigned engineers increased in all industrial sectors

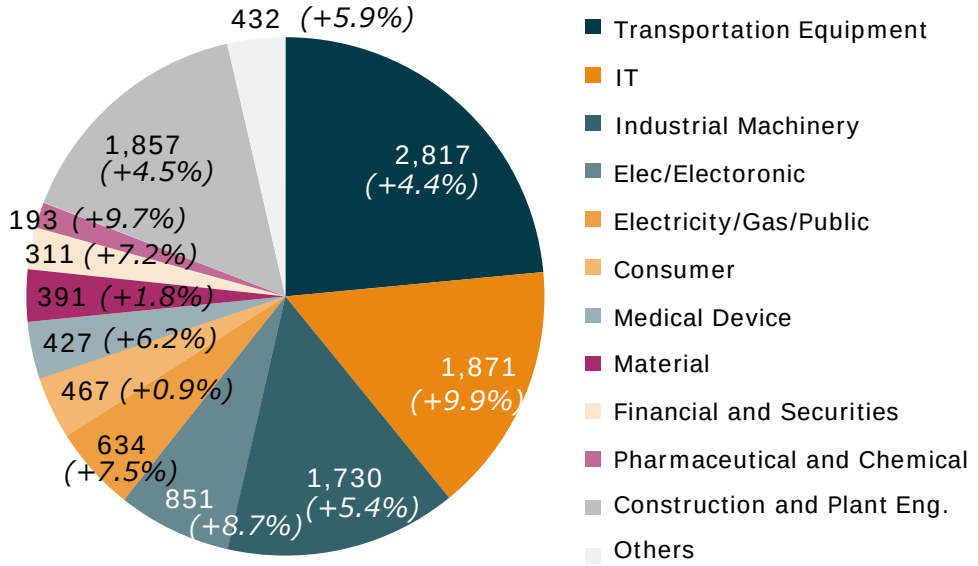
End of June 2015

No. of engineers



9 months

End of March 2016



* Figures indicate assigned engineers at the end of month (not including ON THE MARK engineers).
** Figure in parenthesis indicates % change.

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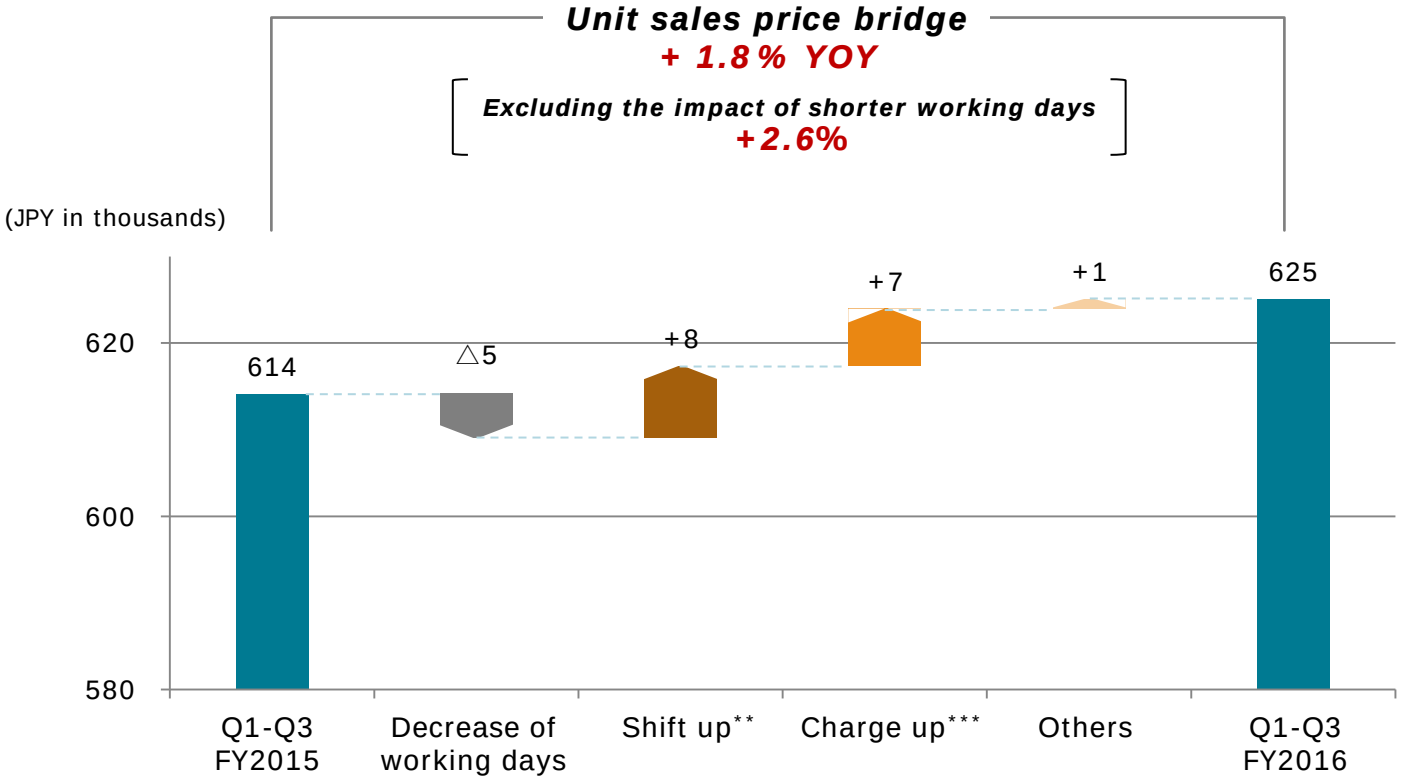
Unit Sales Price

- Unit sales price* was JPY 625,000 (+JPY 11,000/month YOY), increased by +1.8% YOY
- Main components are (1) decrease of JPY 5,000/month comparing to the previous year, due to 3.1 shorter working days, (2) increase of JPY 8,000/month by shift up**, and (3) JPY 7,000/month by charge up***



Amounts are rounded off to the nearest unit.

* Unit sales price
Average sales per engineer per month, which includes contract price, overtime charges and others.

** Shift up
increase unit sales prices through changes in place of assignment

*** Charge up
increase unit sales prices at the time of contract renewal at the same place of assignment

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Dividend Forecast

- Consolidated dividend payout ratio is 50% and dividend forecast is JPY 111.52/share Company's earnings forecast previously announced remains unchanged
- Estimated dividend yield based on the closing price of April 22, 2016 (JPY 3,195), is 3.49%

(JPY/share)

	June 2016
Interim dividend (paid)	50.00
End-term dividend (forecast)	61.52
EPS (forecast)	222.86
Payout ratio	50%

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Financing Summary (announced on April 1st, 2016)

<Purpose/Effect>

①Financing for M&A to further **accelerate growth**

② **Strengthening balance sheet** (promoting net asset increase to exceed the size of goodwill)

③ **Leveling corporate tax expense** during mid-term management plan period

	Third party allotment of new shares (issued)	Target Issue Program ("TIP" subject to Issuer's approval for exercise)		Total
		1st tranche	2nd tranche	
Issue/strike price	JPY 3,073	JPY 3,450	JPY 4,500	-
Funds to be raised	JPY 430mn	JPY 6,900mn	JPY 2,925mn	JPY 10,255mn
Number of new shares	140,000	2,000,000	650,000	2,790,000
Tenor	-	2 years		-
Dilution	0.4%	5.9%	1.9%	8.2%
Cancellation rights		Can repurchase and cancel with 1 month prior notice to warrant holder		-
Permission based exercise		Warrant holder can only exercise warrants upon issuer's permission		-

[Precondition]

Avoid the deterioration of existing shareholders' interest (minimizing the impact of dilution)

- Aim continuing EPS growth
- Dilution will occur only when share price rise
  - We give permission to exercise the right only when our share price is sufficiently and stably above the strike price

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TIP Details

Facts about TIP

- Only third party allotment of new shares **had been carried out**
  - 140,000 shares/dilution rate: **0.4%**

- Both **"stock price sufficiently and stably above the strike price"** and **"permission from TechnoPro"** are required to exercise the warrants

- Dilution rate will be **8.2%** at a maximum.
- Warrant holder is **incentivized** for higher stock price
- We can designate to whom warrant holders sell its holding shares after exercise of warrants

- TIP's **flexibility** expands our financing option.
  - We can repurchase and cancel existing warrants at issued price without any penalty
    - ➢ Instead we can choose borrowing which is favorable terms and conditions as a financing option

Common questions and misperception

"Dilution occurs all at once"

"Dilution inevitably occurs as soon as the share price reach the strike price"

"The strike price, 3,450 yen, will become a upside resistance level"

"TIP cannot be cancelled"

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