TechnoPro Group Financial Results for the 1st Quarter of FYE June 2018

TechnoPro Holdings, Inc.

October 31, 2017

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* KPI excludes 'Other' business.

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FY2018 Q1 Overview

- **Revenue and operating profit grew more than 10% as planned despite increased expenses spent to launch several initiatives in line with new strategic framework (cf. page 3)**
- Expecting acquisition of EDELTA CO. LTD.(announced on Oct. 31, 2017) to contribute revenue of JPY 1 billion and OP of JPY 80 million for FY2018 results (as of November 2017), although no revision made to previously announced guidance as this transaction will not have material impact

(JPY in millions, except per share amounts)

	Quarterly					Full Year		
	Q1 FY2017 (Actual)	*Progress*	Q1 FY2018 (Actual)	*Progress*	*YOY*	Full Year FY2017 (Actual)	Full Year FY2018 (Guidance)	*YOY*
Revenue	23,961	*24%*	26,726	*25%*	*+11.5%*	100,095	109,000	*+9%*
Gross profit (GP)	5,524	*24%*	6,340	*25%*	*+14.8%*	23,435	25,600	*+9%*
GP margin	*23.1%*		*23.7%*			*23.4%*	*23.5%*	
SG&A expenses	3,291	*24%*	3,841	*25%*	*+16.7%*	13,872	15,300	*+10%*
Ratio on revenue	*13.7%*		*14.4%*			*13.9%*	*14.0%*	
Operating profit (OP)	2,263	*23%*	2,511	*24%*	*+11.0%*	9,647	10,600	*+10%*
OP margin	*9.4%*		*9.4%*			*9.6%*	*9.7%*	
Profit before income taxes	2,240	*23%*	2,489	*24%*	*+11.1%*	9,559	10,500	*+10%*
Net profit**	1,885	*24%*	1,879	*25%*	*(0.3%)*	7717	7,600	*(2%)*
Net profit per share	–	–	–	–	–	225.58	222.05	–
Dividend per share (forecast)	–	–	–	–	–	112.79	113.00	–

* Amounts are rounded down to the nearest unit.

** Net profit attributable to owners of the parent company after deducting non-controlling interests

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Adjustments with New Strategic Framework Launch

(except increase of ordinary expenses along with engineer hiring)

(1) Account classification change

Transferred a certain amount of cost of goods (CoGs) to selling, general and administrative expenses (SG&A) reflecting increasing importance of internal transaction with consolidated subsidiaries (mainly Pc Assist, TechnoPro Smile [special subsidiary company for disabled persons]) resulting from the progress of M&A.
In consequence, SG&A increased JPY 190 million (ratio to revenue up 0.7%) , and gross profit increased JPY 190 million (ratio to revenue up 0.7%).

The following table illustrates the financial results excluding the effect of classification change.
Ratio of gross profit to revenue slightly declined (impacted by *(2) Incentive revision for better engineer treatment*) year on year, while ratio of SG&A to revenue was controlled to equivalent level.

	Q1 FY2017	Q1 FY2018	Classification Change Adj.
Gross profit (GP)	5,524	6,340	6,150
GP margin	*23.1%*	*23.7%*	*23.0%*
SG&A expenses	3,291	3,841	3,651
Ratio on revenue	*13.7%*	*14.4%*	*13.7%*

(JPY in millions, amounts are rounded down to the nearest unit)

(2) CoGs increase due to revision of seasonal incentives / performance-based incentives amount to improve engineer treatment

First Half (Q1, Q2)	up approx. JPY 600 million
Second Half (Q3, Q4)	(down approx. JPY 500 million)
Full Year Total	up approx. JPY 100 million

(JPY in millions)

*Earnings guidance announced on July 31, 2017 does not include both (1) and (2).

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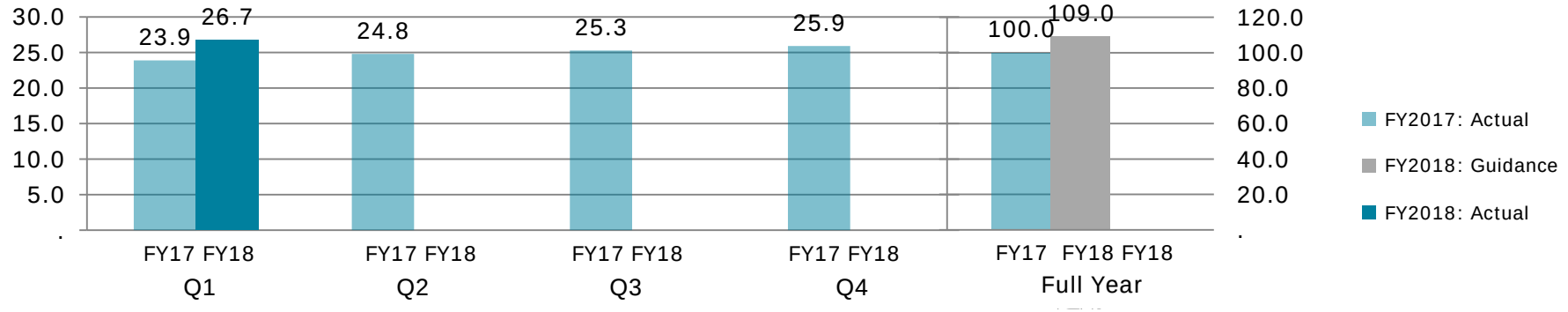
Quarterly Performance

- Solid growth, maintaining the same progress level year on year; 25% for revenue, 24% for operating profit

Revenue

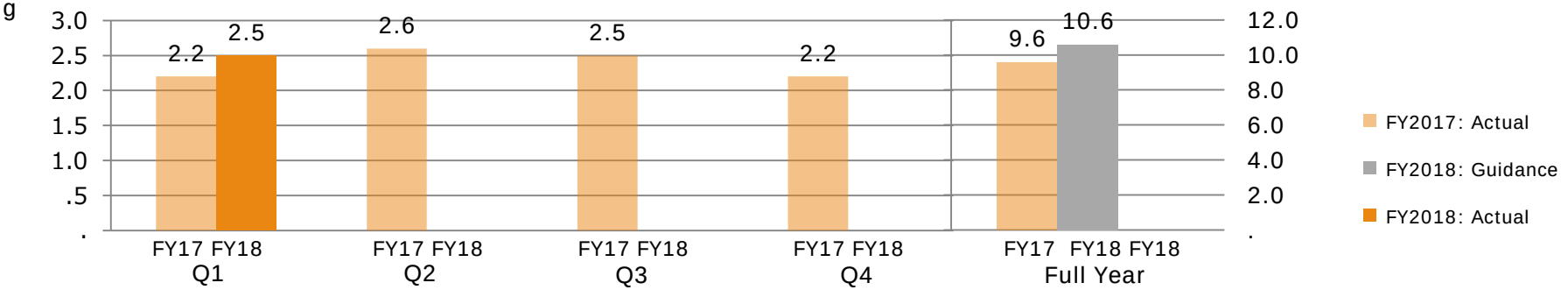
(JPY in billions)



Composition %	24% 25%	25%	25%	26%	
YOY	11.5%	-	-	-	-

Operating Profit

(JPY in billions)



Composition %	23% 24%	27%	26%	23%	
OP ratio	9.4% 9.4%	10.6%	9.9%	8.6%	9.6% 9.7%
YOY	11.0%	-	-	-	-

* Amounts are rounded down to the nearest unit.

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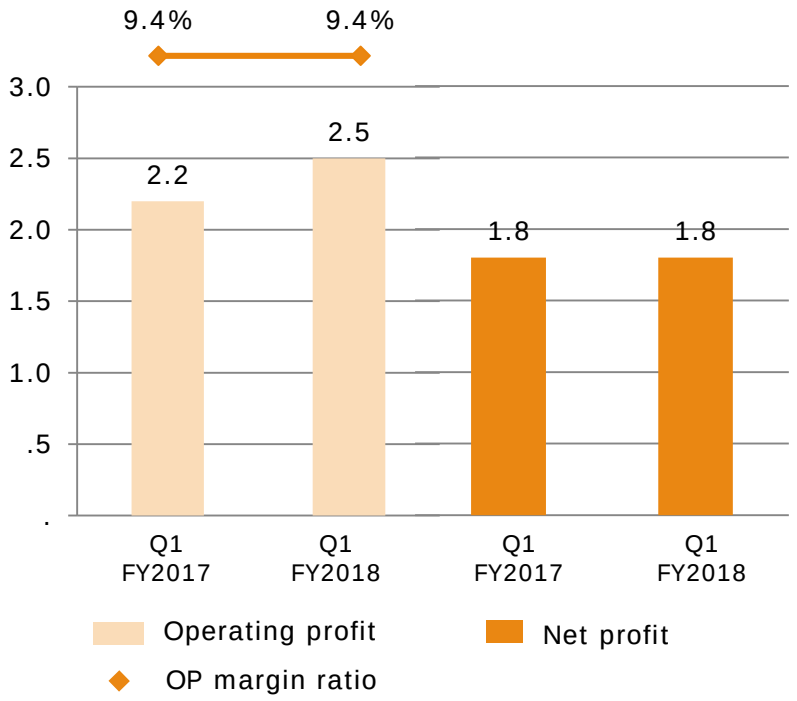
P&L Summary

(JPY in billions)



(JPY in billions)	FY2017 Q1	FY2018 Q1	Diff. YOY	YOY (%)
Revenue	**23.9**	**26.7**	**+2.7**	*+11.5%*
*Impact of Engineer increase***			***+2.3***	
*Impact of unit sales price increase***			***+0.1***	
Others			***+0.3***	
CoGs	**18.4**	**20.3**	**+1.9**	*+10.6%*
Ratio to revenue	***76.9%***	***76.3%***	***(0.7pt)***	
*Impact of Engineer increase***			***+1.7***	
Others			***+0.2***	
Gross profit	**5.5**	**6.3**	**+0.8**	*+14.8%*
Ratio to revenue	***23.1%***	***23.7%***	***+0.7pt***	
SG&A	**3.2**	**3.8**	**+0.5**	*+16.7%*
Ratio to revenue	***13.7%***	***14.4%***	***+0.6pt***	
Other income－Other expenses	**0**	**0**	**(0)**	
Operating profit	**2.2**	**2.5**	**+0.2**	*+11.0%*
Financial income	**0**	**0**	**+0**	
Financial expenses	**0**	**0**	**+0**	
Net profit before income taxes	**2.2**	**2.4**	**+0.2**	*+11.1%*
Corporate / income taxes	**0.3**	**0.6**	**+0.2**	
Net Profit	**1.8**	**1.8**	**(0)**	*(0.3%)*

* Amounts are rounded down to the nearest unit.
** Includes figures of TechnoPro, Inc. and TechnoPro Construction, Inc.

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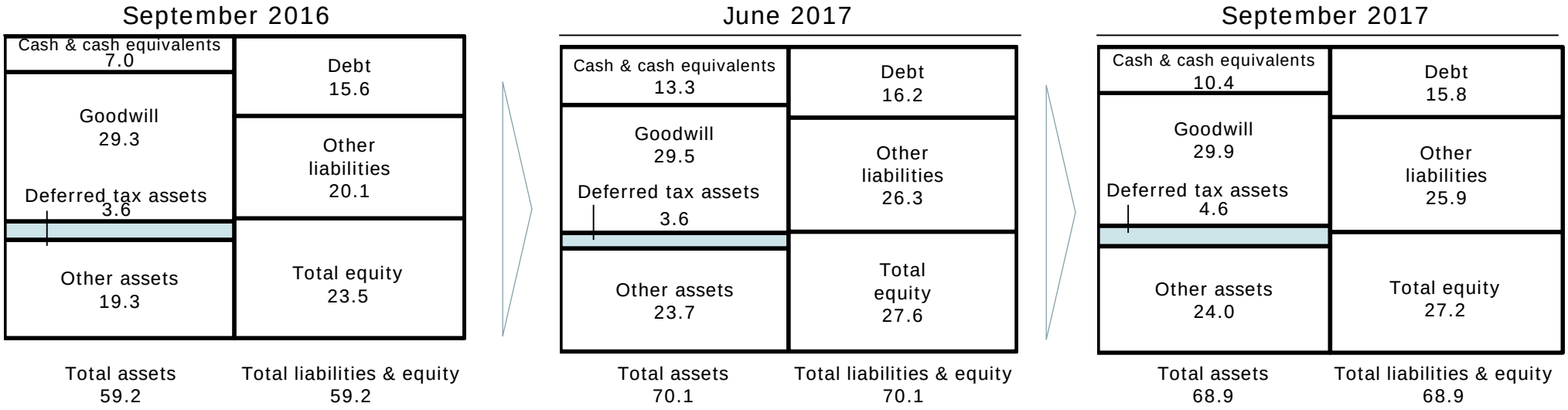
Balance Sheet & Cash Flow

- Cash & cash equivalents decreased JPY 2.9 billion due to payment of dividends and income tax etc.
- Net worth ratio of 39.5%

(JPY in billions)



Q1 FY2018 Cash Flow

・Operating CF	0.4
・Investing CF	(0.7)
・Financial CF	(2.5)
Net CF	(2.9)

FCF (0.3)

* Amounts are rounded down to the nearest unit.

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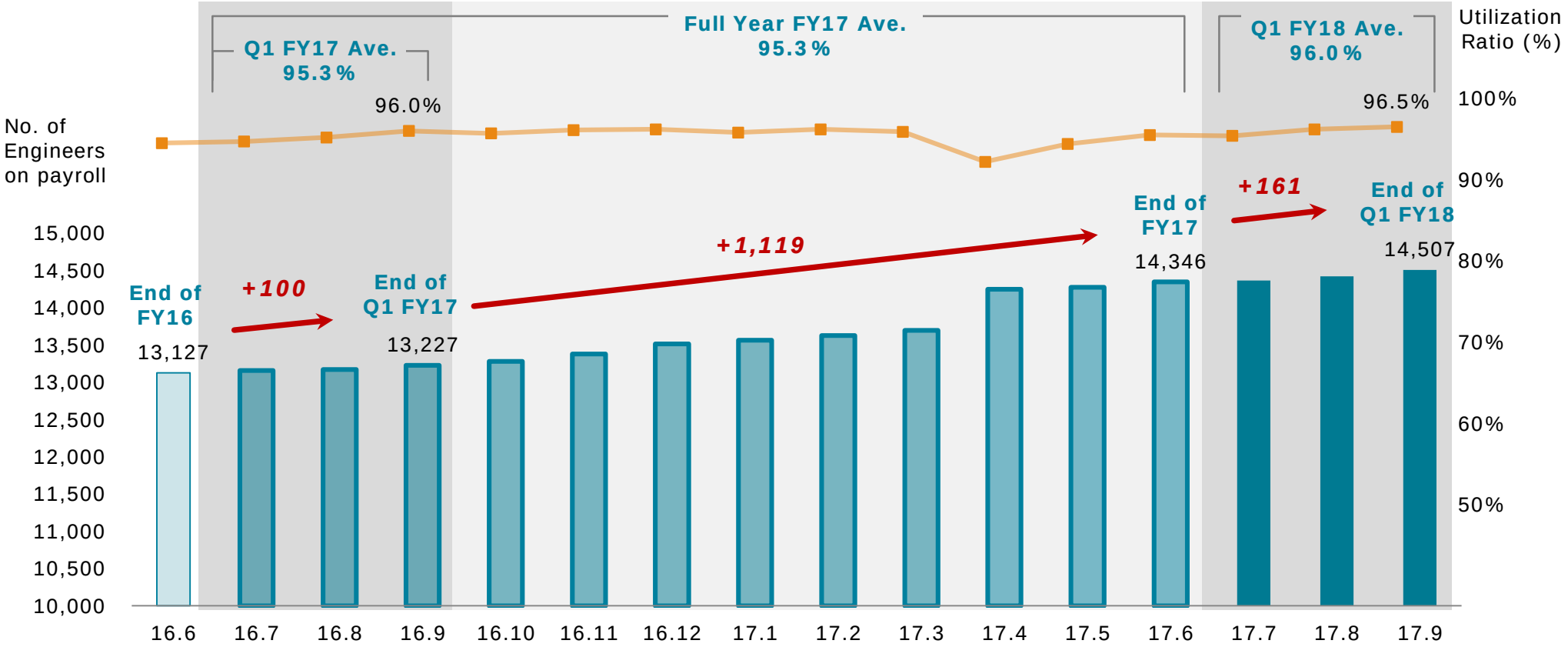
Number of Engineers & Utilization Rate

- Total engineers on payroll were 14,507 at Q1 FY2018, with net increase of 161 from the end of previous fiscal year
- Average utilization rate was 96.0% for Q1 FY2018 (+0.7pt YOY); accelerate recruiting activity in order to leverage strong demand from customer



554 new-grad engineers joined in April 2017

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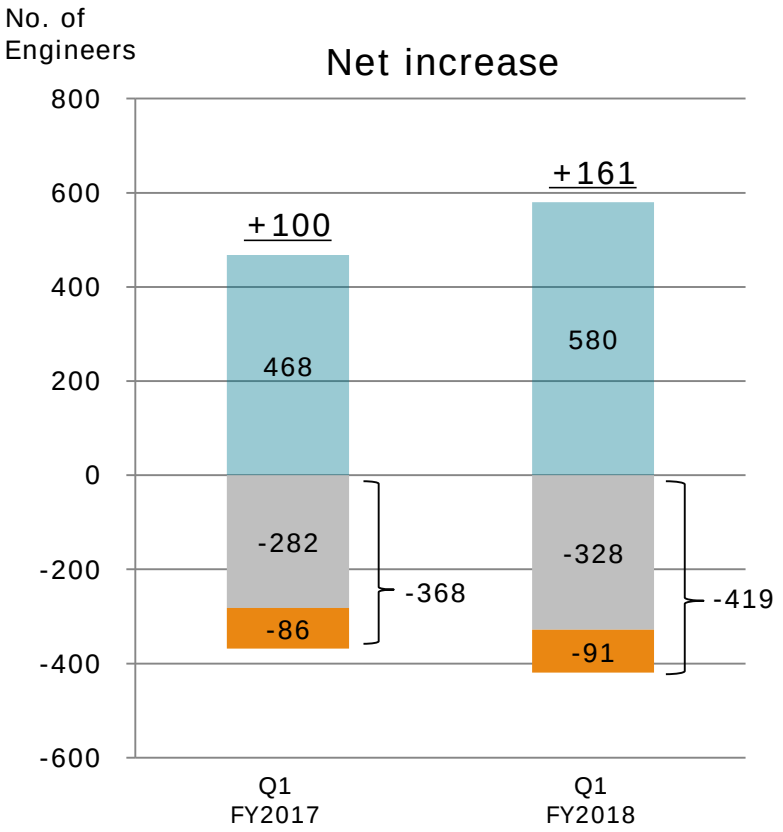
Recruitment / Turnover

- Hired 580 engineers (up 23.9% YOY)
- Turnover rate (full-timers): 9.1% (FY2017 Q1: 8.6%)



(Difference / % YOY)

Hired	580	(+112 / +23.9%)
Turnover (full-timers)	328	(+46 / +16.3%)
Contract terms matured, others	91	(+5 / +5.8%)

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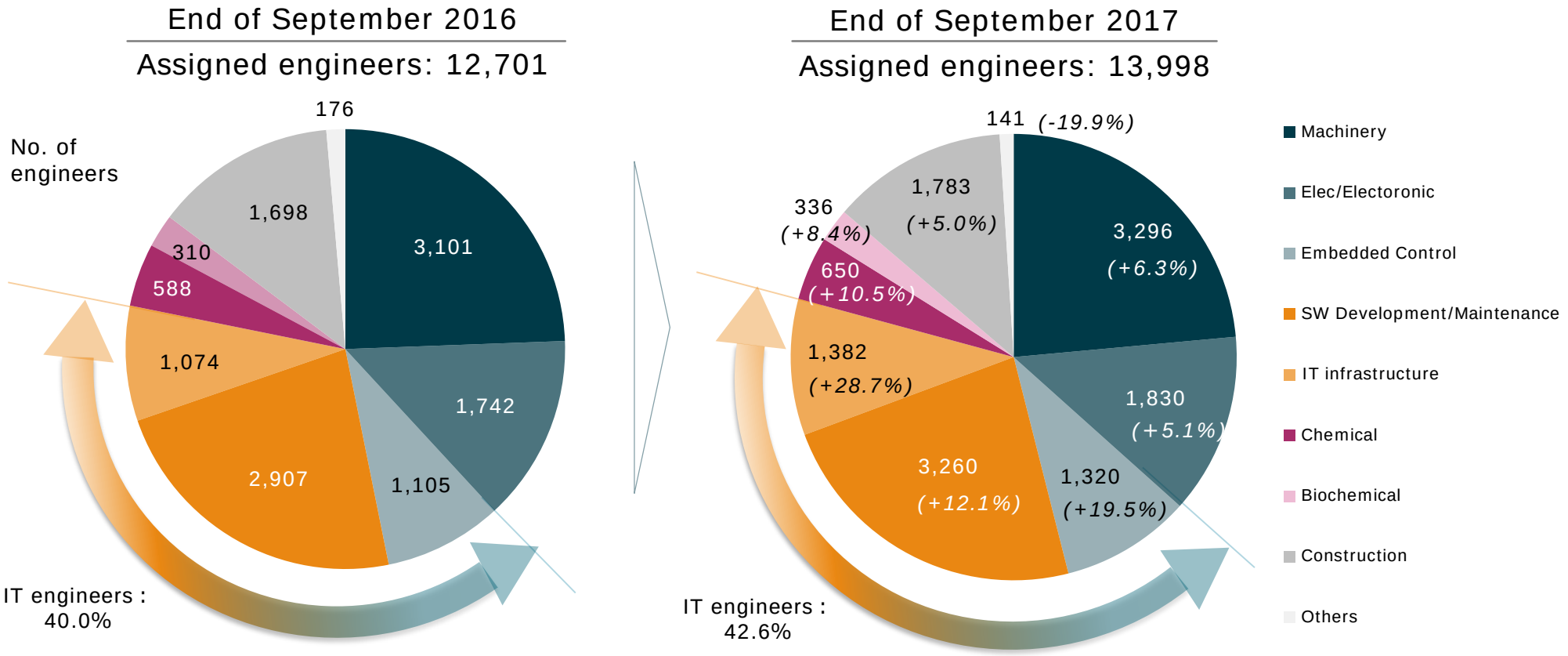
Assigned Engineers by Technology

- Number of assigned engineers* increased in all technologies
- Strong demand for IT engineers continues



* Figures indicate assigned engineers at the end of month.
** Figure in parenthesis indicates % change.

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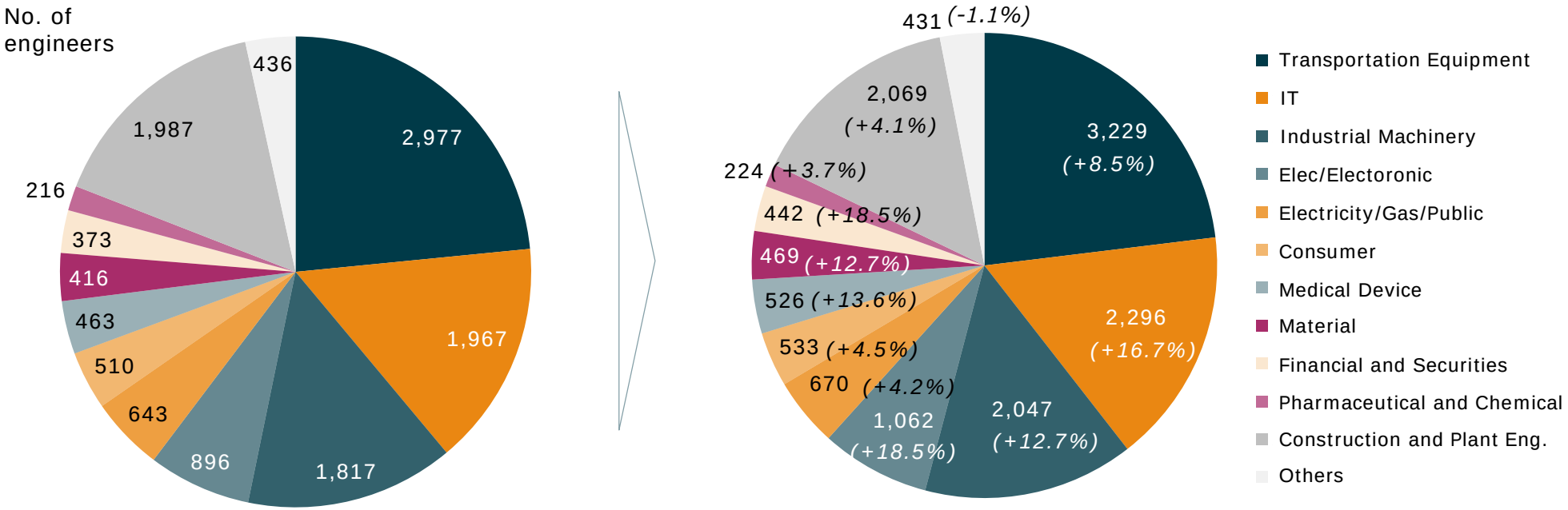
Assigned Engineers by Industrial Sectors

- Number of assigned engineers* increased in all industrial sectors

End of September 2016
Assigned engineers: 12,701

End of September 2017
Assigned engineers: 13,998



* Figures indicate assigned engineers at the end of month.
** Figure in parenthesis indicates % change.

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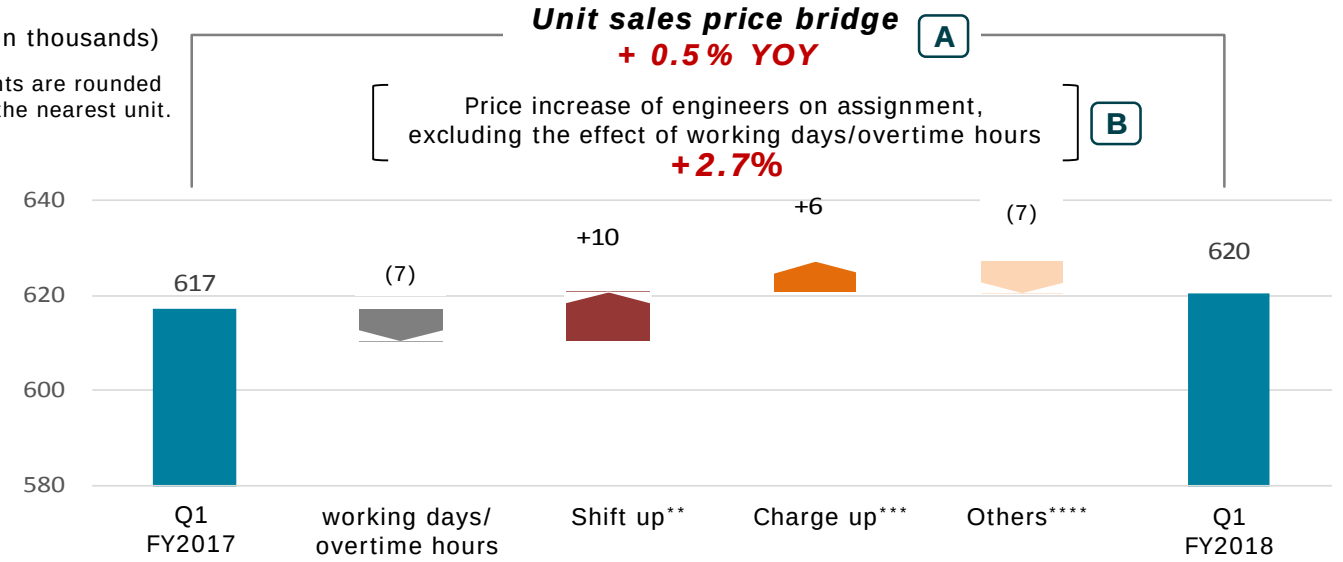
Unit Sales Price

Engineer Staffing Companies: TechnoPro, Inc., TechnoPro Construction, Inc.

- Unit sales price* increased 0.5% (up JPY 3,100/month YOY) to JPY 620,000
  - Decreased JPY 7,000/month YOY due to fewer working days (down 0.1 days/month) and shorter overtime hours (down 0.1 hours/day)
  - Decreased JPY 7,000/month YOY due to accelerated hiring of new graduate/mid-career engineers
  - Increased JPY 10,000/month by shift up** and JPY 6,000/month by charge up***

(JPY in thousands)

Amounts are rounded off to the nearest unit.



[Price Development]

	FY2017			
	1Q	2Q	3Q	4Q
Unit Price (cumulative)	617	623	626	626
YOY (A)	*+0.1%*	*+0.4%*	*+0.1%*	*+0.6%*
Price increase of engineers on assignment (excluding the effect of working days/overtime hours) (B)	*+2.6%*	*+2.6%*	*+2.6%*	*+2.8%*

* Unit sales price
Average sales per engineer per month, which includes contract price, overtime charges and others. Excludes impact of outsourced development services

** 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

**** Others
Impact from other factors than engineers on assignment (e.g.: new graduate engineers, etc.)

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New Acquisition: EDELTA CO. LTD.

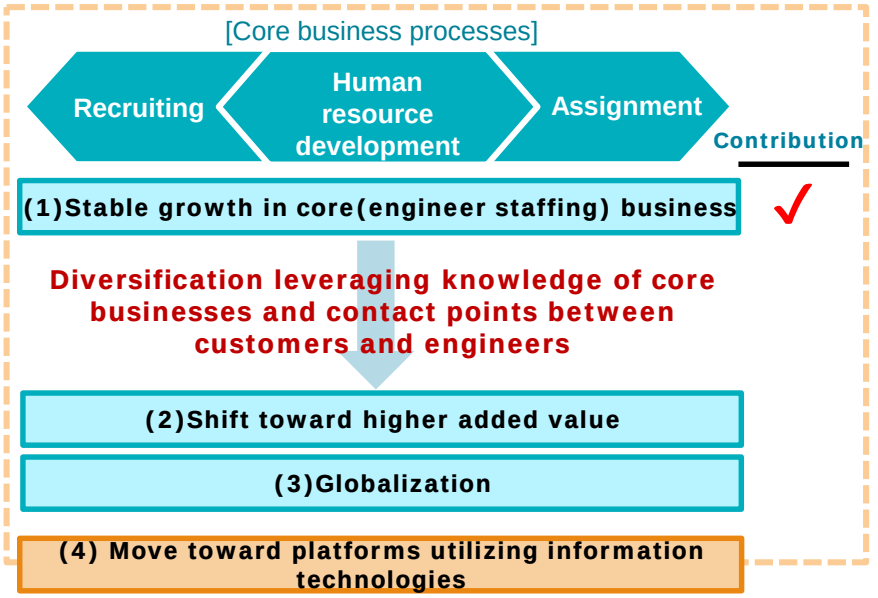
Company Overview

- System integrator based in Tokyo and Yokohama
- Established in 1984
- TechnoPro, Inc. acquired 100% shares from previous owner
- Revenue: JPY 2 billion
  Operating Profit: JPY 34 million
  (FY ended March 2017)
- Engineers: **240+**
- Average Age: **35**
- Unit Price: **640 million** /month

Expected Synergy

(1) **Acquire IT engineers** as growth driver

(2) **Improve profitability** to accelerate group performance; expecting contribution of JPY 1 billion revenue, JPY 80 million operating profit for FY2018



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Dividend Forecast

- 50% dividend payout ratio, anticipated annual dividend of 113.00 yen per share; maintaining earnings guidance announced previously
- 2.21% expected dividend yield, based on the closing price of October 27, 2017 (JPY 5,110)

(JPY/share)

	FY2018
Interim dividend (forecast)	50.00
Year-end dividend (forecast)	63.00
EPS (forecast)	222.05
Payout ratio	50%

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