# TechnoPro Group Financial Results for the 2nd Quarter of FYE June 2018

TechnoPro Holdings, Inc.

February 2, 2018

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* KPI excludes 'Other' business.

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# FY2018 Q2 Overview

- **Achieved as planned more than 10% growth both in revenue and operating profit**
- Revised full year earnings guidance upwards (see p.3)

(JPY in millions, except per share amounts)

| | Quarterly | | | | |
|---|---|---|---|---|---|
| | First Half FY2017 (Actual) | First Half FY2018 (Actual) | *YOY* | Q2 FY2018 (Actual) | *YOY* |
| Revenue | 48,811 | 55,401 | *+13.5%* | 28,674 | *+15.4%* |
| Gross profit (GP) | 11,515 | 13,763 | *+19.5%* | 7,422 | *+23.9%* |
| *GP margin* | *23.6%* | *24.8%* | | *25.9%* | |
| SG&A expenses | 6,663 | 8,062 | *+21.0%* | 4,221 | *+25.2%* |
| *Ratio on revenue* | *13.7%* | *14.6%* | | *14.7%* | |
| Operating profit (OP) | 4,902 | 5,554 | *+13.3%* | 3,042 | *+15.3%* |
| *OP margin* | *10.0%* | *10.0%* | | *10.6%* | |
| Profit before income taxes | 4,858 | 5,504 | *+13.3%* | 3,014 | *+15.2%* |
| Net profit** | 4,097 | 4,139 | *+1.0%* | 2,259 | *+2.1%* |

* 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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# FY2018 Upwards Guidance

- Committed full year earnings guidance upwards to reflect contributions from two new subsidiaries (Boyd & Moore Executive Search K.K. and EDELTA Co., Ltd.) acquired during FY2018 first half period, in addition to strong momentum in engineer staffing and R&D contracting business
- Currently reviewing earnings contribution from PROBIZMO Co., Ltd.(acquisition announced on January 12, 2017), including its PPA†

(JPY in millions, except per share amounts)

| | Full Year FY2017 (Actual) | <Original guidance> Full Year FY2018 (Guidance) | YOY | <Revised guidance> Full Year FY2018 (Guidance) | YOY |
|---|---|---|---|---|---|
| Revenue | 100,095 | 109,000 | *+9%* | 111,500 | *+11.4%* |
| Gross profit (GP) | 23,435 | 25,600 | *+9%* | 27,541 | *+17.5%* |
| *GP margin* | *23.4%* | *23.5%* | | *24.7%* | |
| SG&A expenses | 13,872 | 15,300 | *+10%* | 16,391 | *+18.2%* |
| *Ratio on revenue* | *13.9%* | *14.0%* | | *14.7%* | |
| Operating profit (OP) | 9,647 | 10,600 | *+10%* | 11,100 | *+15.1%* |
| *OP margin* | *9.6%* | *9.7%* | | *10.0%* | |
| Profit before income taxes | 9,559 | 10,500 | *+10%* | 11,000 | *+15.1%* |
| Net profit** | 7,717 | 7,600 | *(2%)* | 8,100 | *+5.0%* |
| Net profit per share | *225.58* | 222.05 | – | 236.53 | – |
| Dividend per share (forecast) | 112.79 | 113.00 | – | 118.30 | – |
| Engineers（year end） | 14,346 | 15,400 | *+7%* | 16,000+ | *11.5%+* |
| Utilization rate | 95.3% | 95 - 96% | – | 95 - 96% | – |

* Amounts are rounded down to the nearest unit.

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

† PPA (Purchase Price Allocation): An operation allocating the purchase price to the assets and liabilities of the acquired company at fair value in the acquirer's consolidated balance sheet

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# [Special Notes]

**(1) Account classification change**

Changed account classification related with several consolidated subsidiaries as of Q1 FY2018, therefore transferred a certain amount of cost of goods (CoGs) to selling, general and administrative expenses (SG&A).
In consequence, SG&A increased JPY 390 million (ratio to revenue up 0.7%), and gross profit increased JPY 390 million (ratio to revenue up 0.7%) in the first half FY2018.
The same classification change will also be applied in the second half.

The following table illustrates the financial results excluding the effect of classification change.
Ratio of gross profit to revenue improved year on year, while ratio of SG&A to revenue was controlled to equivalent level.

| | First Half FY2017 |
|---|---|
| Gross profit (GP) | 11,515 |
| *GP margin* | *23.6%* |
| SG&A expenses | 6,663 |
| *Ratio on revenue* | *13.7%* |

| First Half FY2018 | Classification Change Adj. |
|---|---|
| 13,763 | 13,373 |
| *24.8%* | *24.1%* |
| 8,062 | 7,672 |
| *14.6%* | *13.8%* |

(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 (excludes expenses related with hiring new engineers)**

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

(JPY in millions)

*Earnings guidance revised upward on February 2, 2018 includes effects from (1) and (2).

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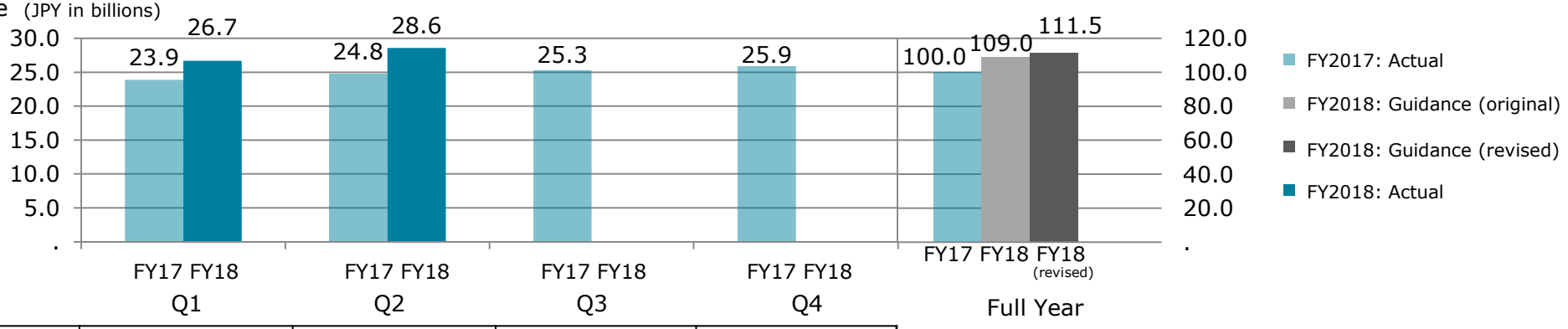
# Quarterly Performance

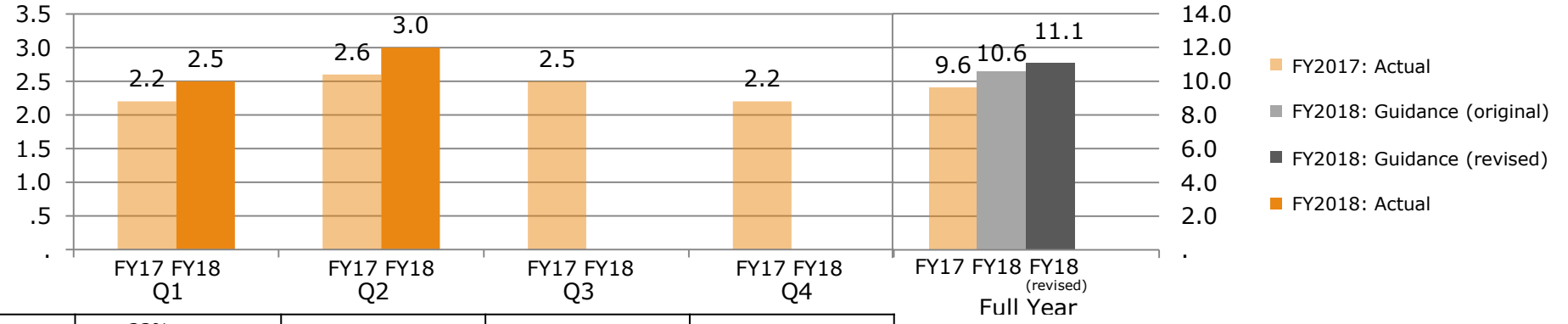
- Maintain the same progress level year on year; 50% for revenue, 50% for operating profit

Revenue (JPY in billions)




| | | | | | |
|---|---|---|---|---|---|
| Composition % | 24% 24% | 25% 26% | 25% | 26% | |
| YOY | 11.5% | 15.4% | - | - | - |

Operating Profit (JPY in billions)




| | | | | | |
|---|---|---|---|---|---|
| Composition % | 23% 23% | 27% 27% | 26% | 23% | |
| OP ratio | 9.4% 9.4% | 10.6% 10.6% | 9.9% | 8.6% | 9.6% 10.0% |
| YOY | 11.0% | 15.3% | - | - | - |

* Amounts are rounded down to the nearest unit.

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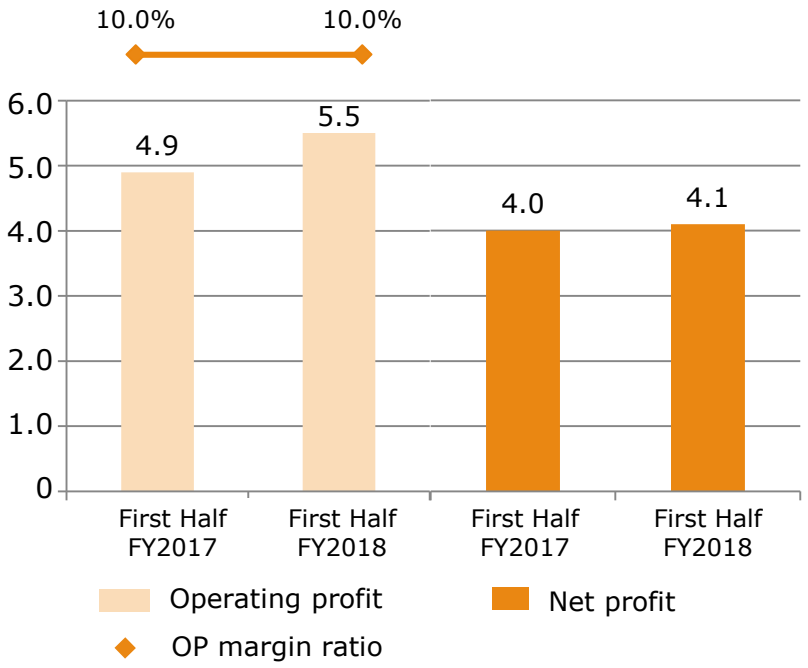
# P&L Summary

(JPY in billions)




| (JPY in billions) | First Half FY2017 | First Half FY2018 | Diff. YOY | YOY (%) |
|---|---|---|---|---|
| **Revenue** | **48.8** | **55.4** | **+6.5** | *+13.5%* |
| *Impact of Engineer increase*** | | | **+4.8** | |
| *Impact of unit sales price increase*** | | | **+0.5** | |
| *Others* | | | **+1.2** | |
| **CoGs** | **37.2** | **41.6** | **+4.3** | *+11.6%* |
| *Ratio to revenue* | ***76.4%*** | ***75.2%*** | ***(1.3pt)*** | |
| **Gross profit** | **11.5** | **13.7** | **+2.2** | *+19.5%* |
| *Ratio to revenue* | ***23.6%*** | ***24.8%*** | ***+1.3pt*** | |
| *Impact of account classification change* | | | ***+0.7pt*** | |
| *Impact of utilization ratio increase* | | | ***+0.5pt*** | |
| *Others* | | | ***+0.1pt*** | |
| **SG&A** | **6.6** | **8.0** | **+1.3** | *+21.0%* |
| *Ratio to revenue* | ***13.7%*** | ***14.6%*** | ***+0.9pt*** | |
| *Impact of account classification change* | | | ***+0.7pt*** | |
| *Others* | | | ***+0.2pt*** | |
| **Other income－Other expenses** | **0** | **(0.1)** | **(0.1)** | |
| **Operating profit** | **4.9** | **5.5** | **+0.6** | *+13.3%* |
| **Financial income** | **0** | **0** | **+0** | |
| **Financial expenses** | **0** | **0** | **+0** | |
| **Net profit before income taxes** | **4.8** | **5.5** | **+0.6** | *+13.3%* |
| **Corporate / income taxes** | **0.7** | **1.3** | **+0.6** | |
| **Net Profit** | **4.0** | **4.1** | **+0** | *+1.0%* |

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

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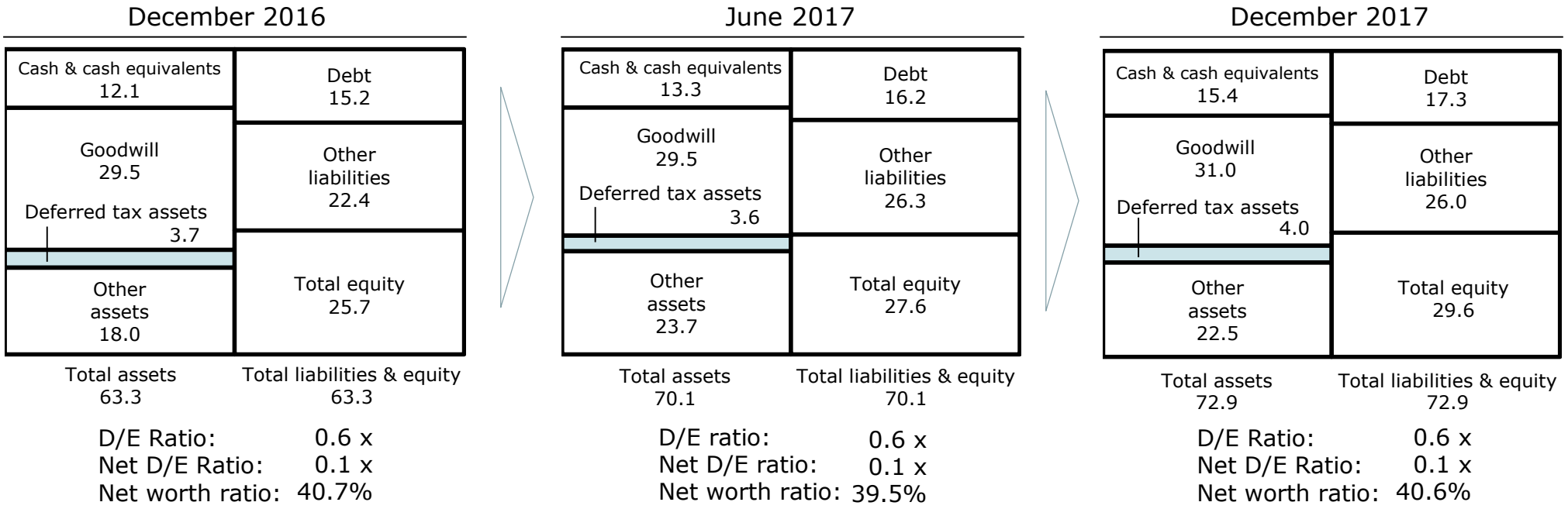
# Balance Sheet & Cash Flow

- Financing cash outflows totaled JPY 1.9 billion due to dividend payment of JPY 2.1 billion and others. Cash & cash equivalents increased JPY 2.0 billion since the end of prior fiscal year
- PPA for increased goodwill is currently under review
- Net worth ratio of 40.6%

(JPY in billions)




| First Half FY2018 Cash Flow | |
|---|---|
| ・Operating CF | 5.1 |
| ・Investing CF | (1.1) |
| ・Financing CF | (1.9) |
| Net CF | 2.0 |

FCF 4.0

* Amounts are rounded down to the nearest unit.

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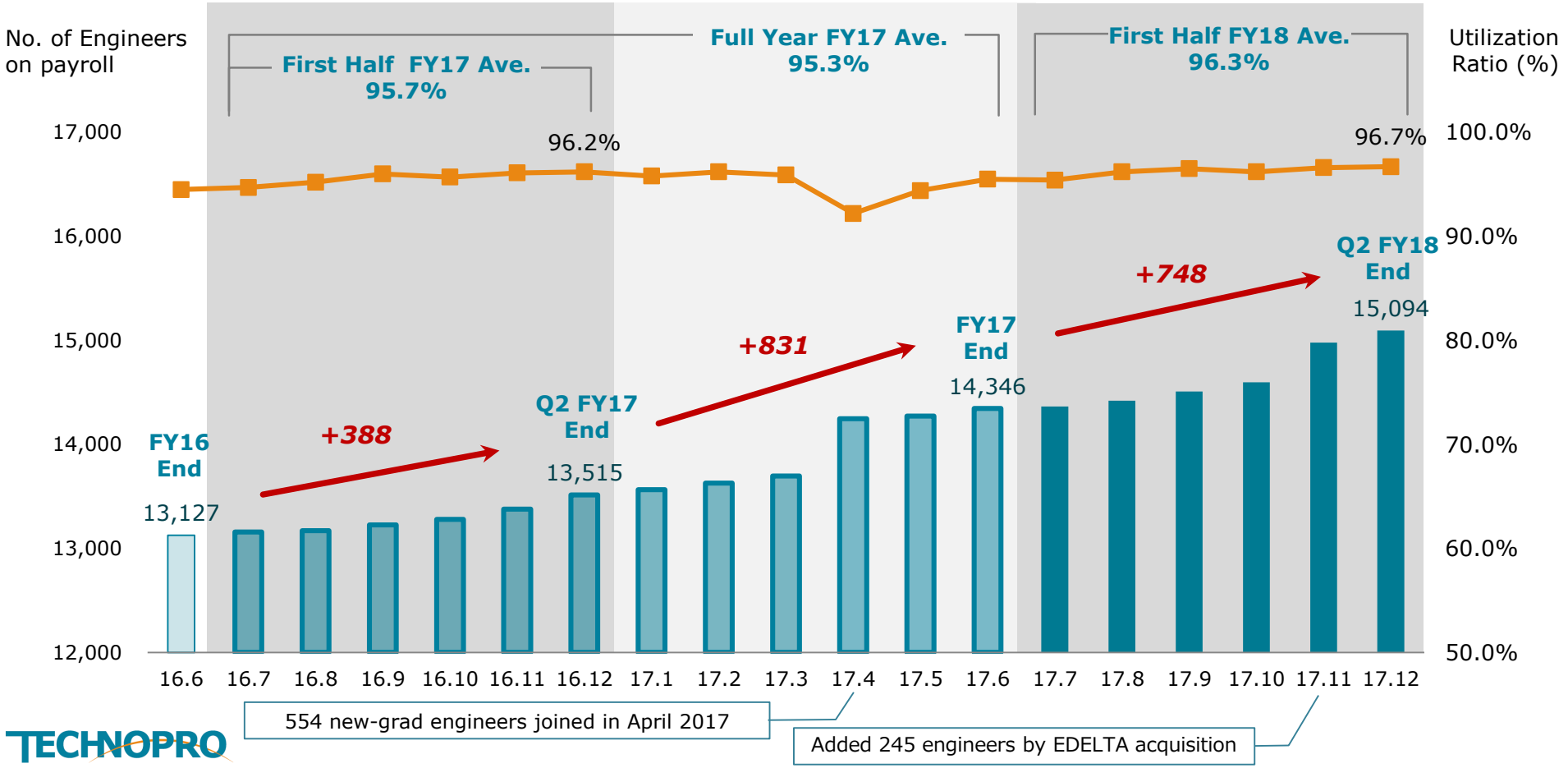
# Number of Engineers & Utilization Rate (Japan)

- Total engineers on payroll were 15,094 at Q2 end, with net increase of 748 for six months ended
- Average utilization rate of 96.3% (+0.6pt YOY) for first half FY2018; making further effort on recruiting activity in order to leverage strong demand from customer

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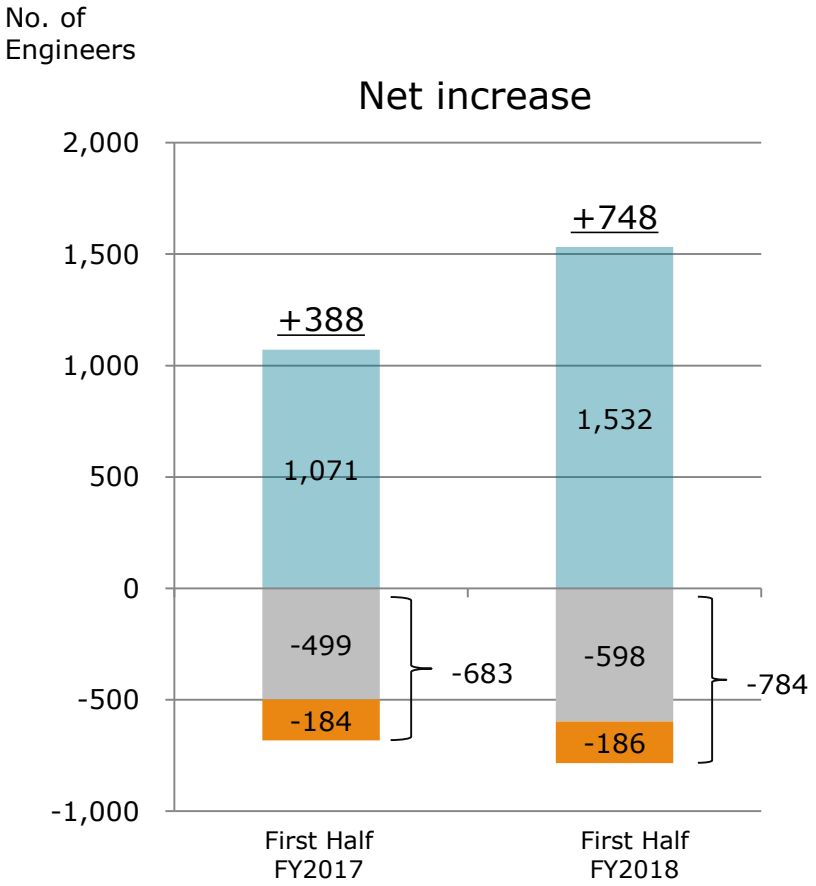
# Recruitment/Turnover

- Hired 1,532 engineers (up 43.0% YOY)
- Turnover rate (full-timers): 7.2% for Q2, 8.1% for first half (FY2017 first half: 7.5%)




(Difference / *% YOY*)

Hired 1,532 (+461 / *+43.0%*)

- Includes 245 engineers added through EDELTA acquisition
- PROBIZMO to be consolidated as of February 2018

Turnover (full-timers) 598 (+99 / *+19.8%*)

Contract terms matured, others 186 (+2 / *+1.1%*)

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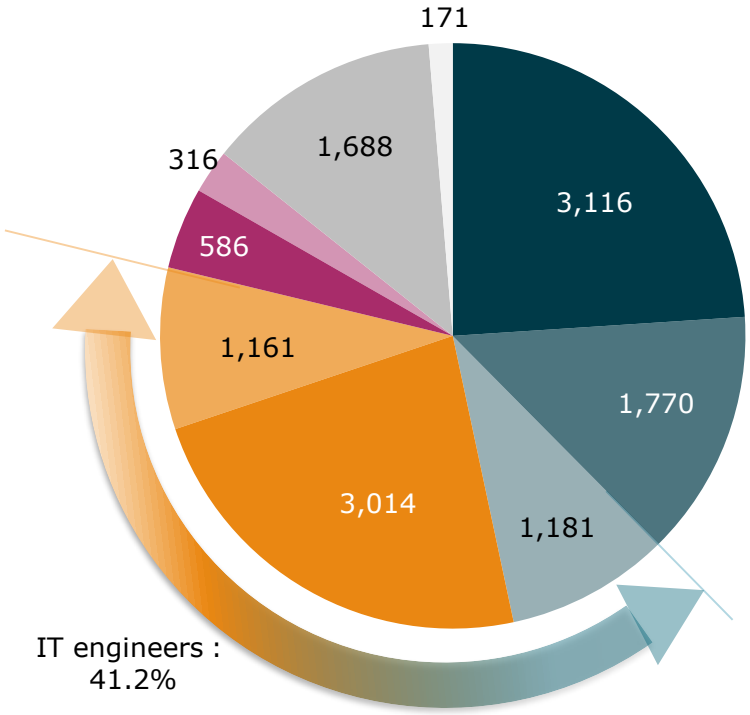
# Assigned Engineers by Technology

- Number of assigned engineers* increased in all technologies
- Strong demand for IT engineers continues
- Software development engineers increased through EDELTA Co., Ltd. acquisition

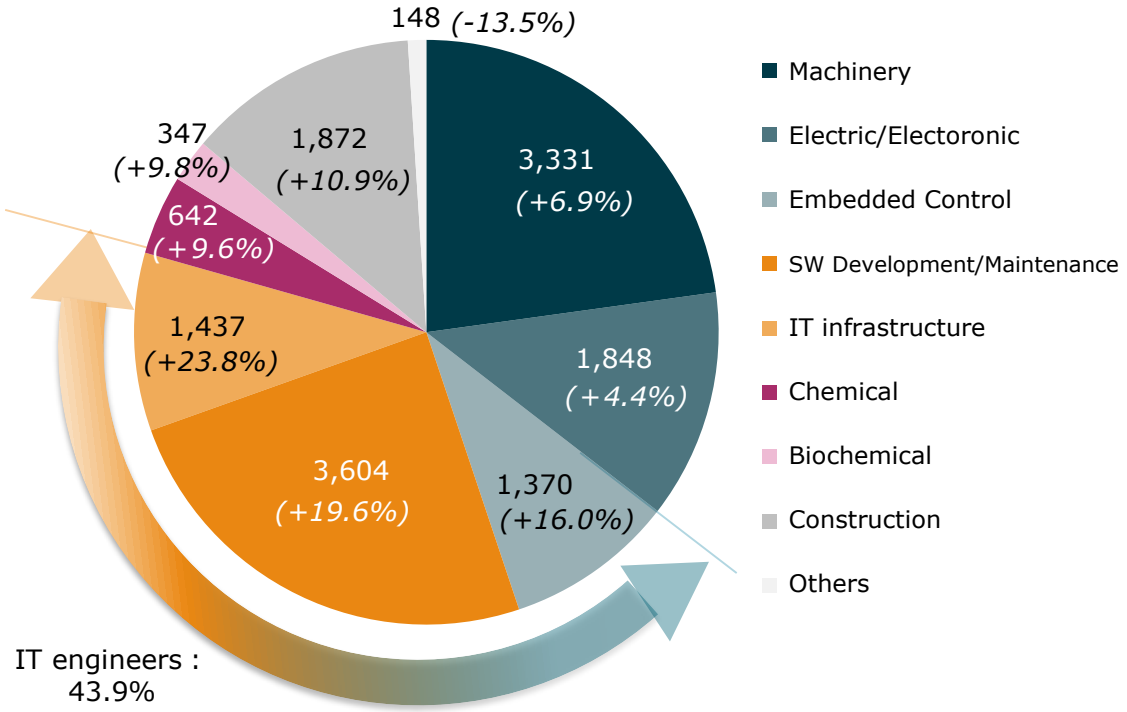
End of December 2016

Assigned engineers: 13,003




End of December 2017

Assigned engineers: 14,599




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

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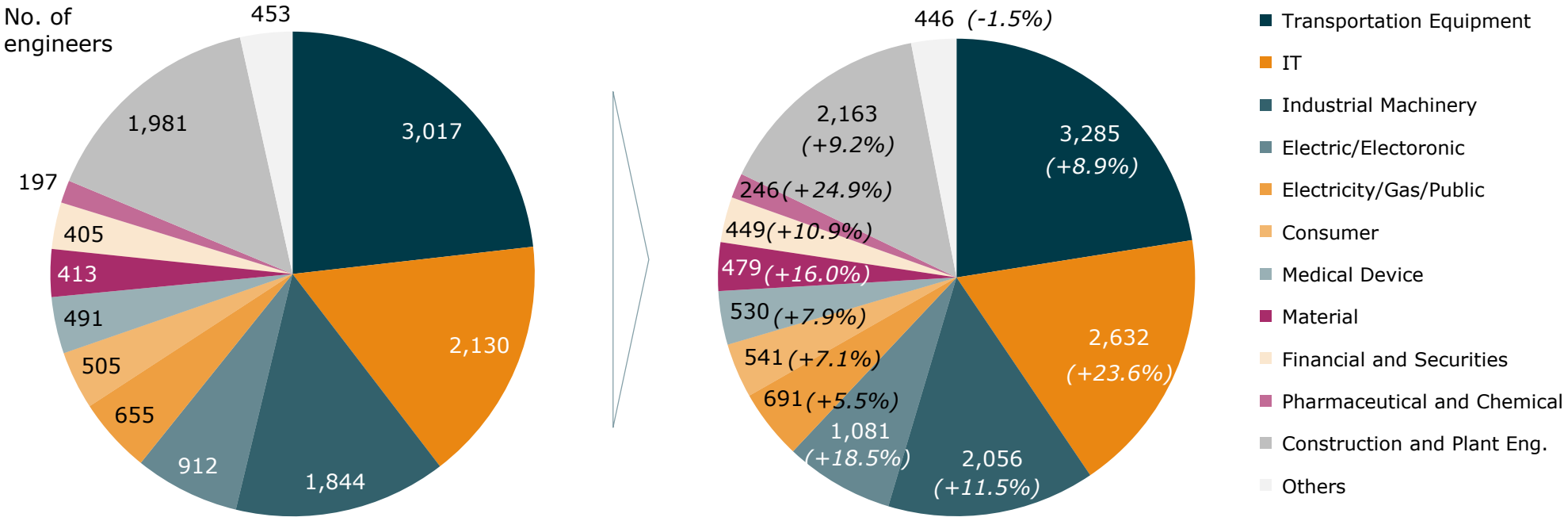
# Assigned Engineers by Industrial Sectors

- Number of assigned engineers* increased in all industrial sectors

End of December 2016
Assigned engineers: 13,003

End of December 2017
Assigned engineers: 14,599




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

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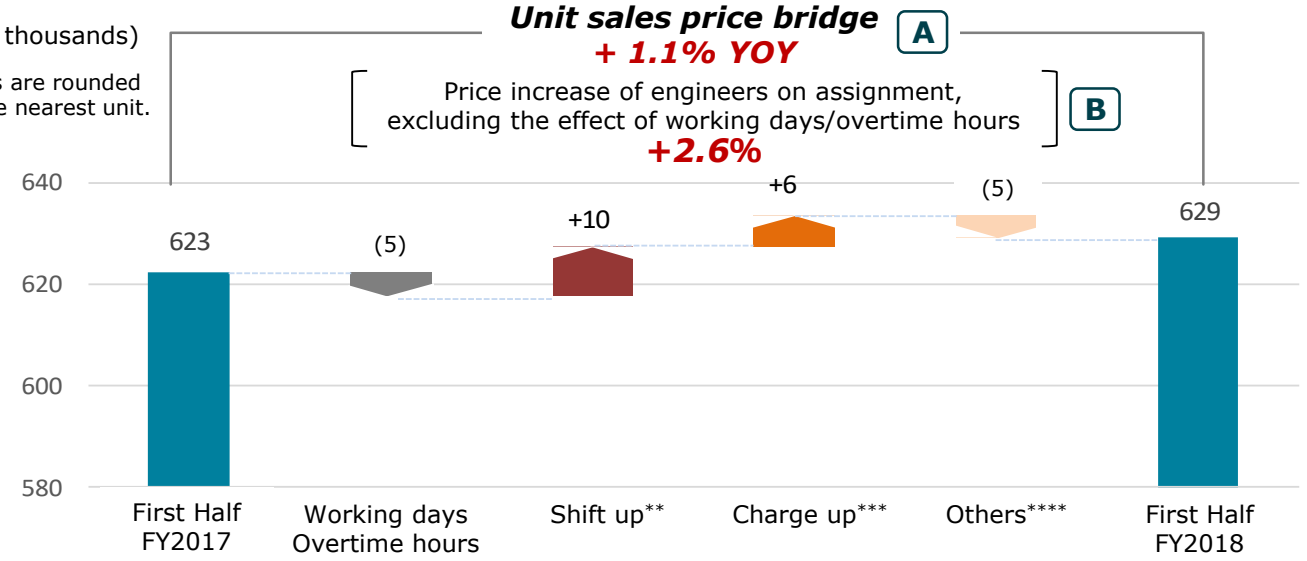
# Unit Sales Price

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

- Unit sales price* increased 1.1% (up JPY 6,600/month YOY) to JPY 629,000
  - Decreased JPY 5,000/month YOY due to increased working days (up 0.1 days/month) and shorter overtime hours (down 0.1 hours/day)
  - 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 | | | | FY2018 |
|---|---|---|---|---|---|---|
| | | Q1 | Q2 | Q3 | Q4 | Q1 |
| Unit Price (cumulative) | | 617 | 623 | 626 | 626 | 620 |
| *YOY* | A | *+0.1%* | *+0.4%* | *+0.1%* | *+0.6%* | *+0.5%* |
| *Price increase of engineers on assignment* *(excluding the effect of working days/overtime hours)* | B | *+2.6%* | *+2.6%* | *+2.6%* | *+2.8%* | *+2.7%* |

* 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: PROBIZMO Co., Ltd.

## Company Overview

- Offering IT-related contracting services
- Revenue: JPY 1.2 billion
  Operating Profit: JPY 120 million
  (FY ended March 2017)
- Engineers: approx. **120**
- Average Age: **33**
- Locations: Shimane, Tokyo, Tottori, Osaka

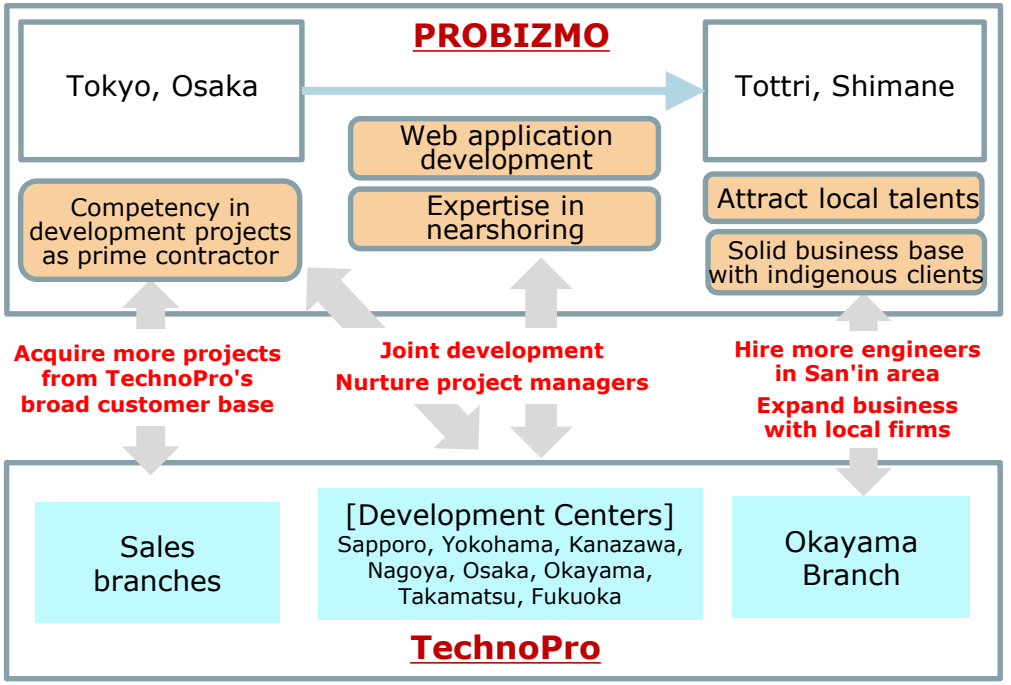
## Acquisition Summary

- TechnoPro, Inc. acquired 100% shares from previous owners
- Acquisition price: JPY 1,765 million

## Expected Synergy

(1) Expand web app development business by leveraging nearshoring hubs

(2) Contribution to consolidated earnings; expecting revenue of JPY 1.5 billion, operating profit of JPY 200 million in next fiscal year (FY2019)

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# Dividend Forecast

- 50% dividend payout ratio, anticipated annual dividend of JPY 118.30 per share
- 1.98% expected dividend yield, based on the closing price of January 31, 2018 (JPY 5,980)

(JPY per share)

| | FY2018 |
|---|---|
| Interim dividend | 50.00 |
| Year-end dividend (forecast) | 68.30 |
| EPS (forecast) | 236.53 |
| Payout ratio | 50% |

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