TechnoPro Group Financial Results for the 3rd Quarter of FYE June 2018

TechnoPro Holdings, Inc.

April 27, 2018

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* KPI excludes 'Other' business.

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FY2018 Q3 Overview

- **Revenue and OP grew more than 10% as expected despite fewer working days (down 1.27 days YOY for Q3 period)**
- Consolidated earnings of PROBIZMO since February 2018. Revenue and profit of two subsidiaries (Helius and Techno Live), acquisition announced in March, to be consolidated from April
- Reaffirms full year FY2018 guidance February 2; earnings contribution from three subsidiaries mentioned above are still under consideration

(JPY in millions)

	Quarterly							Full Year		
	YTD Q3 FY2017 (Actual)	Progress	YTD Q3 FY2018 (Actual)	Progress	YOY	Q3 FY2018 (Actual)	Progress	Full Year FY2017 (Actual)	Full Year FY2018 (Guidance)	YOY
Revenue	74,141	*74%*	84,344	*76%*	*+13.8%*	28,943	*+14.3%*	100,095	111,500	*+11.4%*
Gross profit (GP)	17,447	*74%*	21,388	*78%*	*+22.6%*	7,624	*+28.5%*	23,435	27,541	*+17.5%*
GP margin	*23.5%*		*25.4%*			*26.3%*		*23.4%*	*24.7%*	
SG&A expenses	10,110	*73%*	12,596	*77%*	*+24.6%*	4,533	*+31.5%*	13,872	16,391	*+18.2%*
Ratio on revenue	*13.6%*		*14.9%*			*15.7%*		*13.9%*	*14.7%*	
Operating profit (OP)	7,407	*77%*	8,647	*78%*	*+16.7%*	3,093	*+23.5%*	9,647	11,100	*+15.1%*
OP margin	*10.0%*		*10.3%*			*10.7%*		*9.6%*	*10.0%*	
Profit before income taxes	7,341	*77%*	8,560	*78%*	*+16.6%*	3,056	*+23.1%*	9,559	11,000	*+15.1%*
Net profit**	5,873	*76%*	6,437	*79%*	*+9.6%*	2,298	*+29.5%*	7,717	8,100	*+5.0%*

* 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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[Special Notes]

(1) Account classification change

Transferred a certain amount of cost of goods (CoGs) to selling, general and administrative expenses (SG&A) due to the account classification change in consolidated subsidiaries.

In consequence, SG&A increased JPY 580 million (ratio to revenue up 0.7%), gross profit increased JPY 580 million (ratio to revenue up 0.7%) for year-to-date Q3 FY2018.

The following table illustrates the financial results excluding the effect of classification change.

Ratio of gross profit to revenue improved 1.2%. Ratio of SG&A to revenue increased 0.6%.

	YTD Q3 FY2017	YTD Q3 FY2018	Classification Change Adj.
Gross profit (GP)	17,447	21,388	20,801
GP margin	*23.5%*	*25.4%*	*24.7%*
SG&A expenses	10,110	12,596	12,009
Ratio on revenue	*13.6%*	*14.9%*	*14.2%*

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

(2) Revision of seasonal incentives/performance-based incentives amount (excludes expenses increased along with new engineer hiring)

Estimated fewer working days (down 2.1 days) in the second half FY2018 compared to the first half, projecting to have an impact on full year gross profit.

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)

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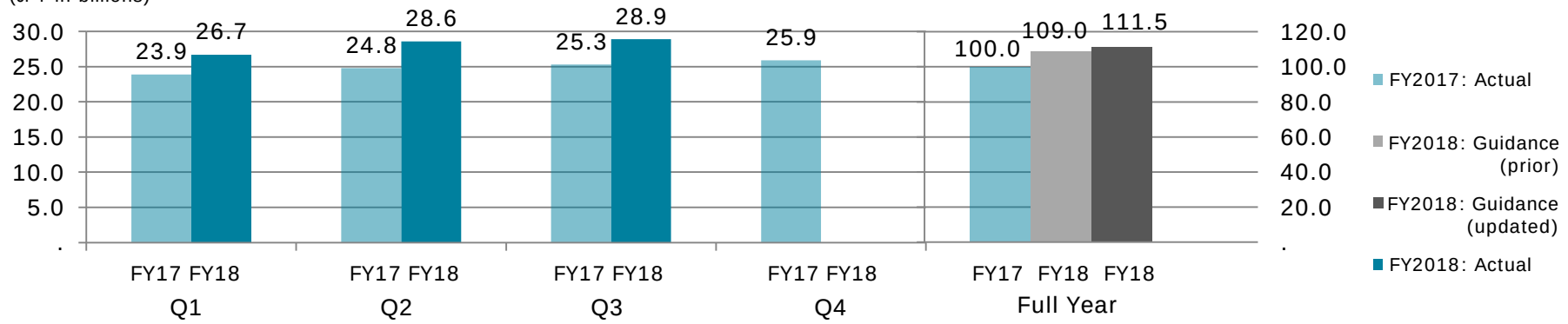
Quarterly Performance

- Progress on the updated full year guidance; 76% for revenue, 78% for operating profit

Revenue

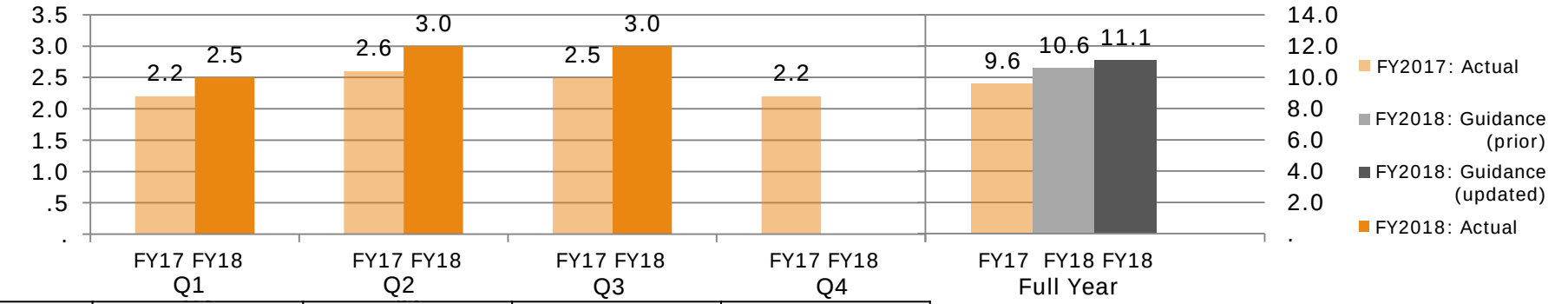
(JPY in billions)



Composition %	24%	24%	25%	26%	25%	26%	26%	
YOY	11.5%		15.4%		14.3%		-	-

Operating Profit

(JPY in billions)



Composition %	23%	23%	27%	27%	26%	28%	23%	
OP ratio	9.4%	9.4%	10.6%	10.6%	9.9%	10.7%	8.6%	9.6% 10.0%
YOY	11.0%		15.3%		23.5%		-	-

* Amounts are rounded down to the nearest unit.

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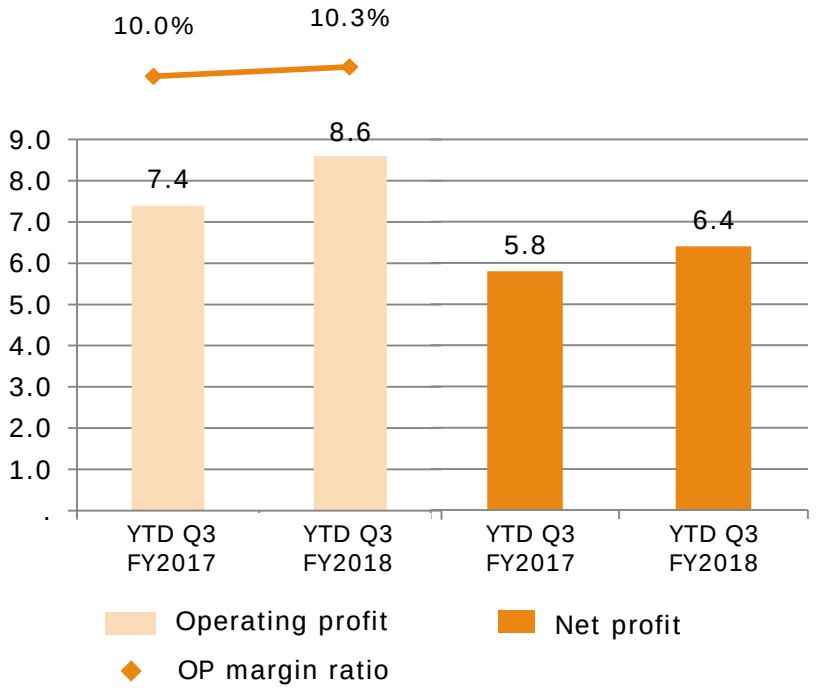
P&L Summary

(JPY in billions)



(JPY in billions)	YTD Q3 FY2017	YTD Q3 FY2018	Diff. YOY	YOY (%)
Revenue	**74.1**	**84.3**	**+10.2**	*+13.8%*
*Impact of Engineer increase***			**+7.4**	
*Impact of unit sales price increase***			**+0.4**	
M&A contribution, etc.			**+2.4**	
CoGs	**56.6**	**62.9**	**+6.2**	*+11.0%*
Ratio to revenue	***76.5%***	***74.6%***	***(1.8pt)***	
Gross profit	**17.4**	**21.3**	**+3.9**	*+22.6%*
Ratio to revenue	***23.5%***	***25.4%***	***+1.8pt***	
Impact of account classification change			***+0.7pt***	
Impact of utilization rate rise			***+0.4pt***	
Others (other than engineer staffing)			***+0.7pt***	
SG&A	**10.1**	**12.5**	**+2.4**	*+24.6%*
Ratio to revenue	***13.6%***	***14.9%***	***+1.3pt***	
Impact of account classification change			***+0.7pt***	
Others (M&A related expenses)			***+0.6pt***	
Other income−Other expenses	**0**	**(0.1)**	**(0.2)**	
Operating profit	**7.4**	**8.6**	**+1.2**	*+16.7%*
Financial income	**0**	**0**	**+0**	
Financial expenses	**0**	**0**	**+0**	
Net profit before income taxes	**7.3**	**8.5**	**+1.2**	*+16.6%*
Corporate / income taxes	**1.4**	**2.1**	**+0.6**	
Net Profit	**5.8**	**6.4**	**+0.5**	*+9.6%*

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

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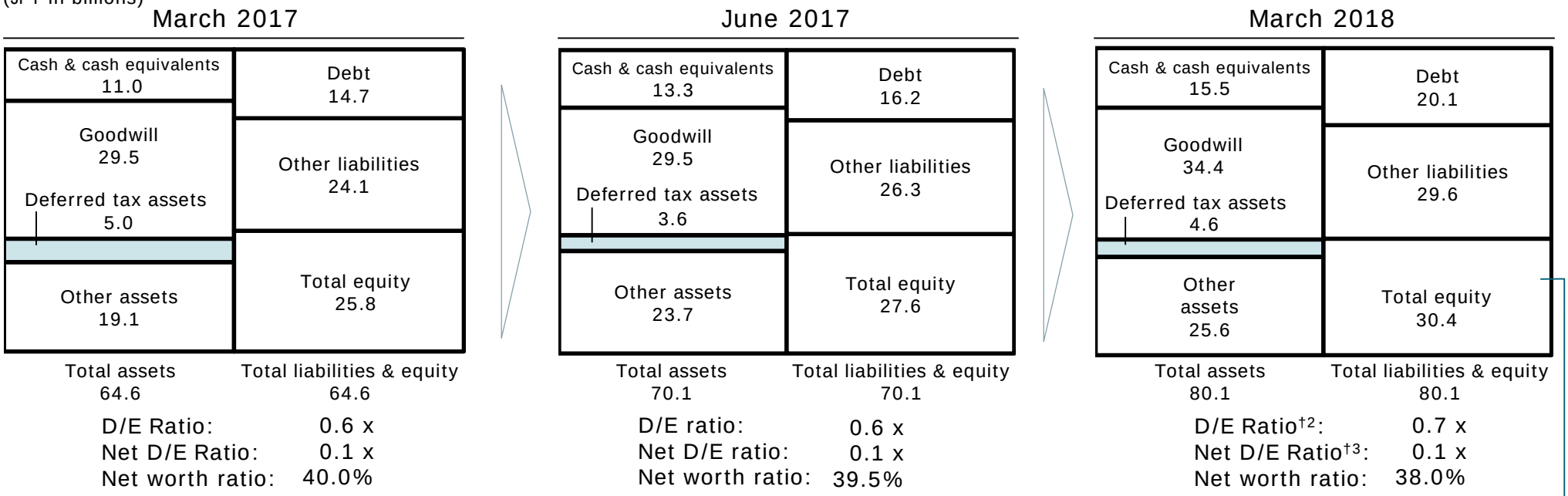
Balance Sheet & Cash Flow

- Financing cash outflows of JPY 900 million due to dividend payment of JPY 3.8 billion. Cash & cash equivalents increased JPY 2.1 billion
- Consolidated Helius on balance sheet at the end of March. Increased equity aggregated through ABB carried out on March 22 to be consolidated
- PPA†1 for four subsidiaries acquired during YTD FY2018 period is still under the review of outside party

(JPY in billions)



Q3 FY2018 Cash Flow

・Operating CF	7.8
・Investing CF	(4.7)
・Financing CF	(0.9)
Net CF	2.1

FCF 3.1

JPY 12.3 billion
Capital increase in April 2018

†1 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

†2,3 Including non-controlling interests

* Amounts are rounded down to the nearest unit.

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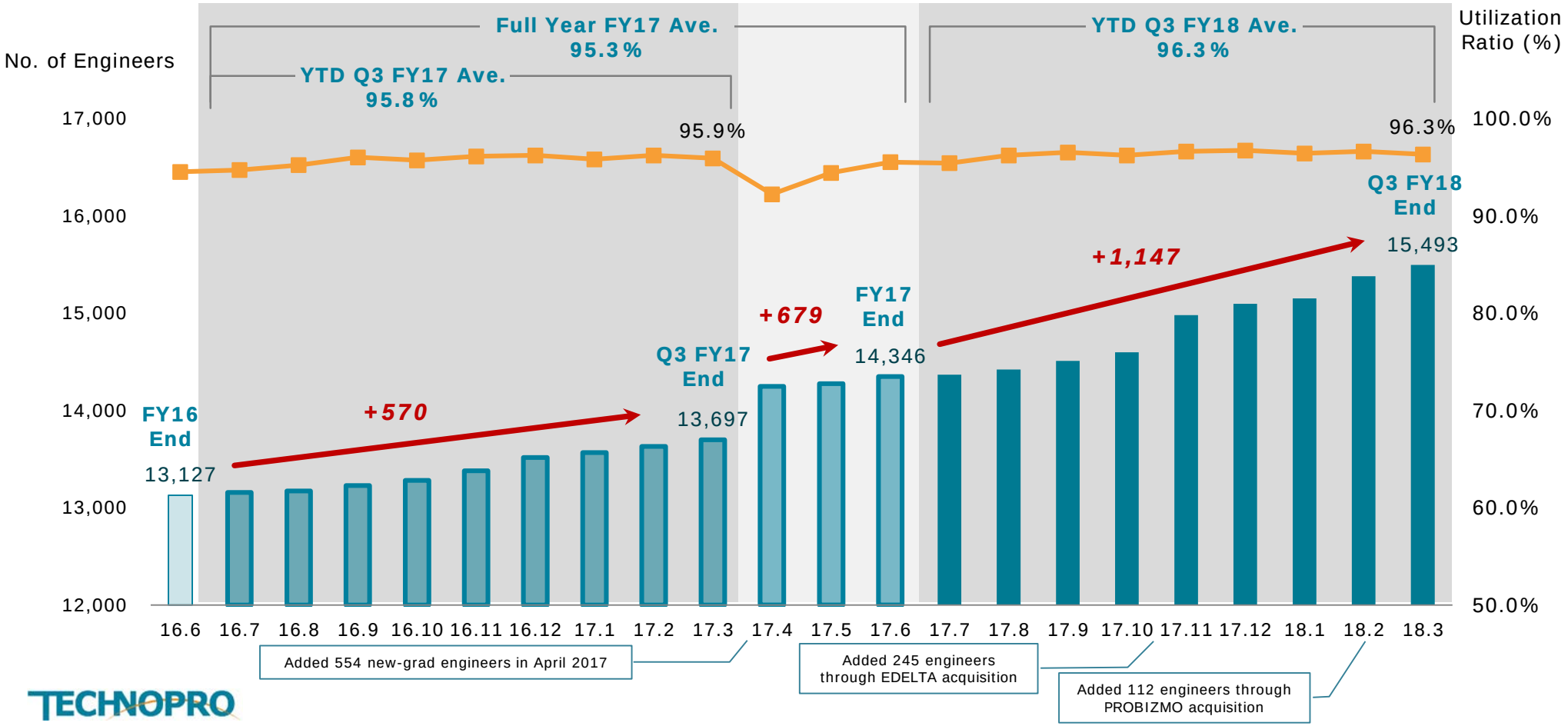
Number of Engineers & Utilization Rate

- Total engineers on payroll in Japan were 15,493 at the end of Q3 FY2018, with net increase of 1,147 from the end of previous fiscal year, including 700 non-Japanese engineers (up 150 YOY)
- Average utilization rate was 96.3% for YTD Q3 FY2018 (up 0.5% YOY)
- 889 new graduates joined in April 2018
- Employs 827 engineers at overseas subsidiaries (not included in numbers above)



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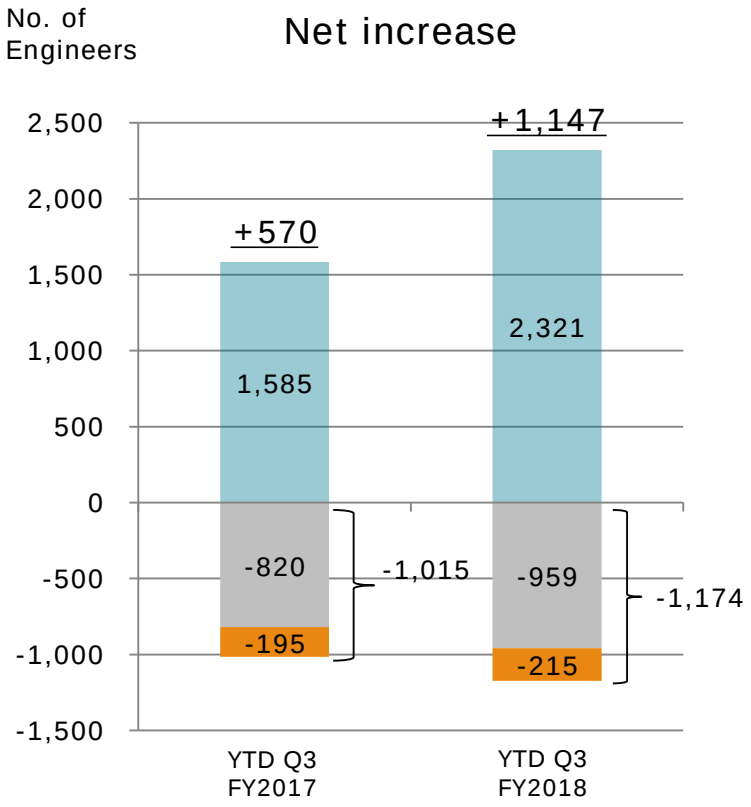
Recruitment / Turnover

- Hired 2,321 engineers (up 46.4% YOY)
- Turnover rate (full-timers): 8.5%



(Difference / % YOY)

■ Hired 2,321 (+736 / +46.4%)

Added 245 engineers through EDELTA acquisition
Added 112 engineers through PROBIZMO acquisition
Techno Live to be consolidated as of April

■ Turnover (full-timers) 959 (+139 / +17.0%)

■ Contract terms matured, others 215 (+20 / +10.3%)

<Turnover>

	FY2017				FY2018		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Quarterly	8.6%	6.5%	9.4%	8.0%	9.1%	7.2%	9.4%
Year-to-date	—	7.5%	8.2%	8.1%	—	8.1%	8.5%

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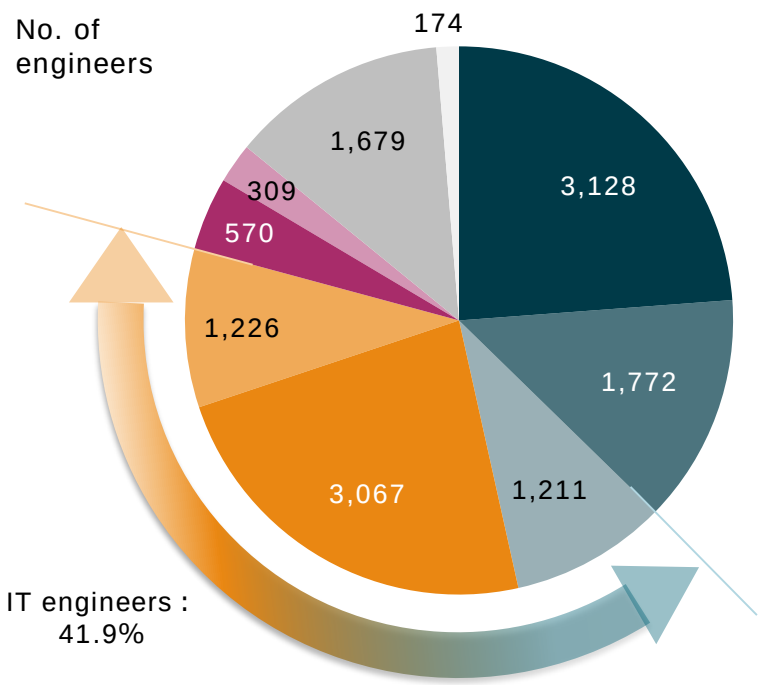
Assigned Engineers by Technology

- Number of assigned engineers* increased in all technologies
- Strong demand for IT engineers continues
- Engineers increased in software development, driven by the acquisition of EDELTA and PROBIZMO

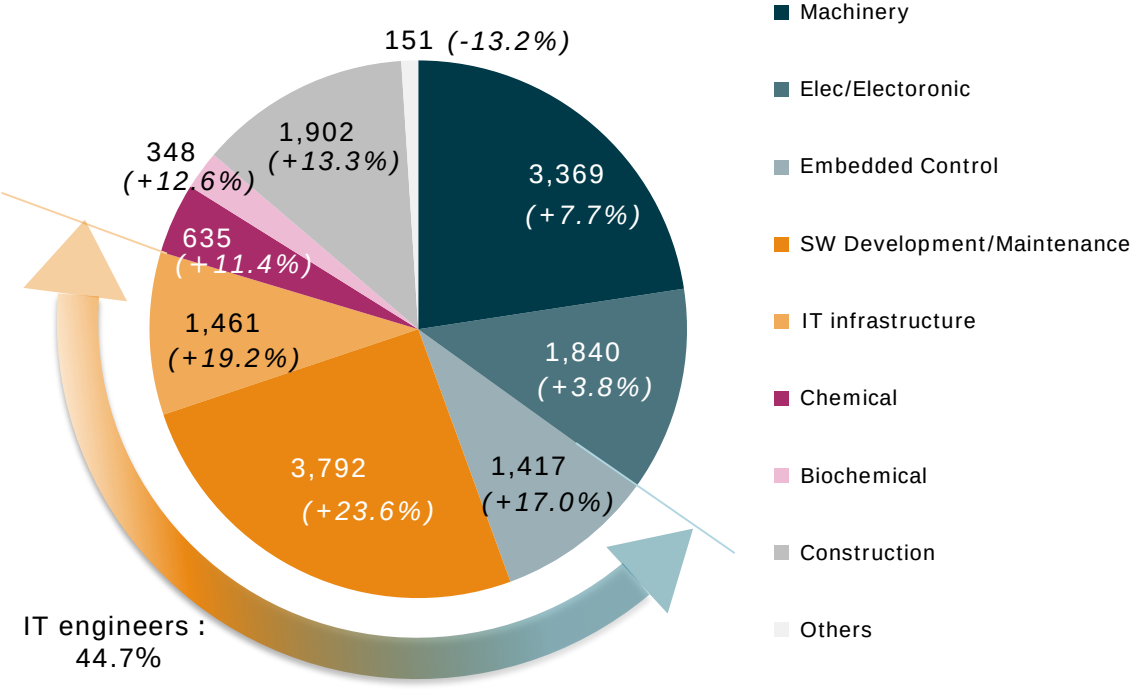
Nine Month Ended March 2017

Assigned engineers: 13,136



Nine Month Ended March 2018

Assigned engineers: 14,915



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

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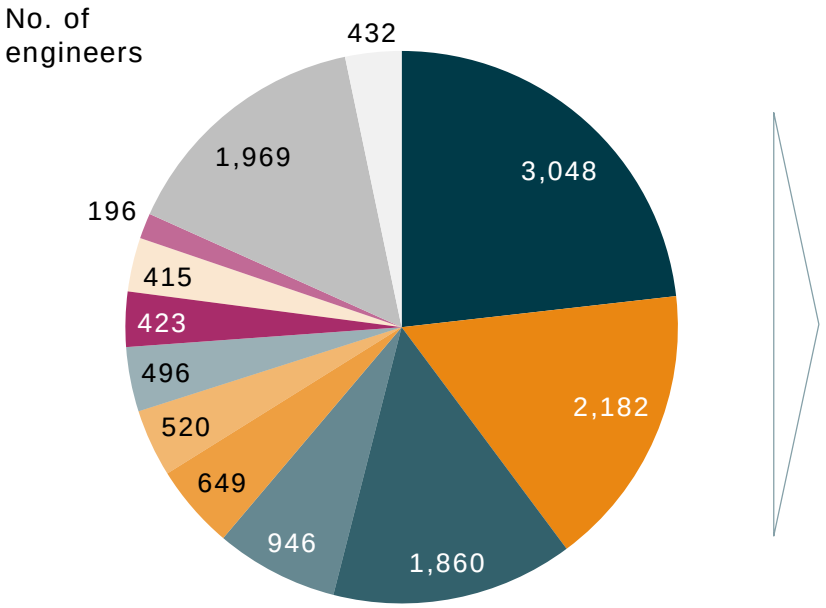
Assigned Engineers by Industrial Sectors

- Number of assigned engineers* increased in all industrial sectors

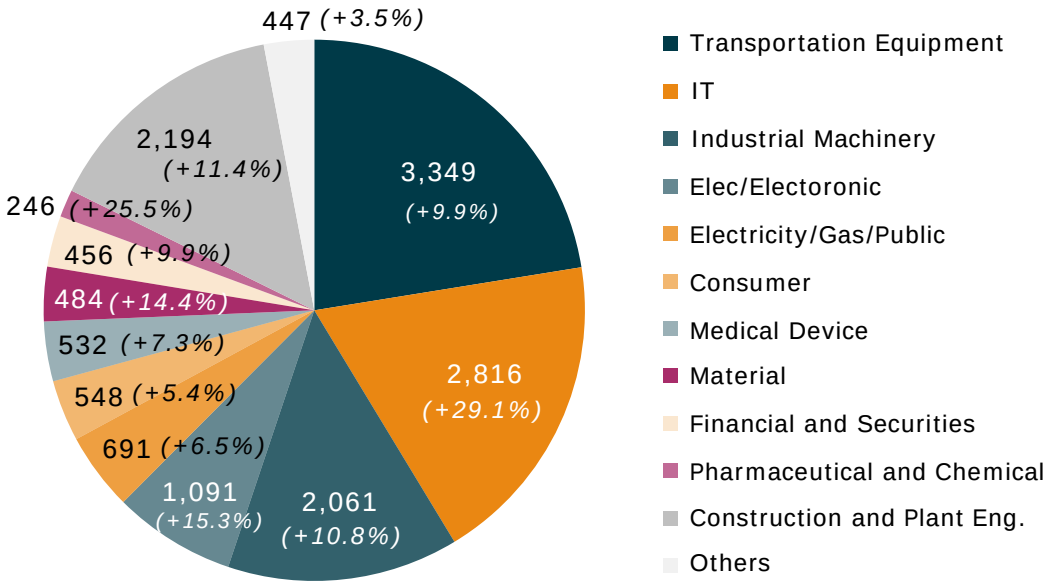
Nine Month Ended March 2017

Assigned engineers: 13,136



Nine Month Ended March 2018

Assigned engineers: 14,915



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

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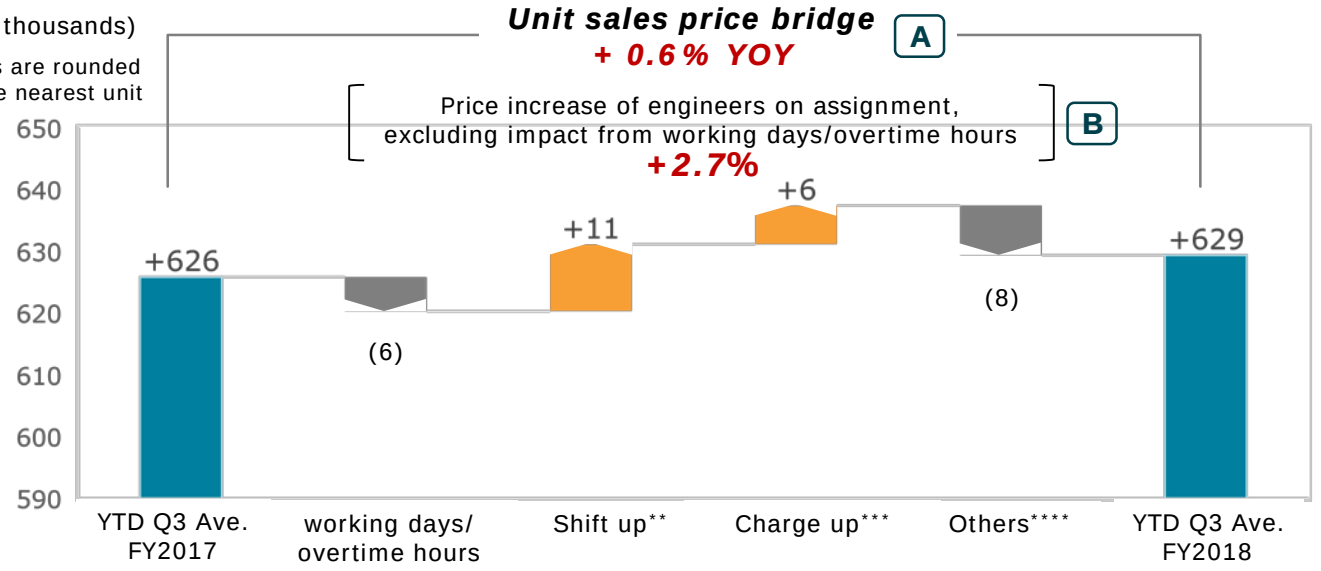
Unit Sales Price

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

- Unit sales price* increased 0.6% (up JPY 3,500/month YOY) to JPY 629,000
- Decreased JPY 6,000/month YOY due to fewer working days (down 0.6 days/nine months) and shorter overtime hours (down 0.1 hours/day)
- Increased JPY 11,000/month by shift up** and JPY 6,000/month by charge up***

(JPY in thousands)

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. 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.)

[Price Development]

		FY2017				FY2017		
		1Q	2Q	3Q	4Q	1Q	2Q	3Q
Unit Price (year-to-date)		617	623	626	626	620	629	629
YOY	A	*+0.1%*	*+0.4%*	*+0.1%*	*+0.6%*	+0.5%	+1.1%	+0.6%
Price increase of engineers on assignment (excluding impact from working days/overtime hours)	B	*+2.6%*	*+2.6%*	*+2.6%*	*+2.8%*	+2.7%	+2.6%	+2.7%

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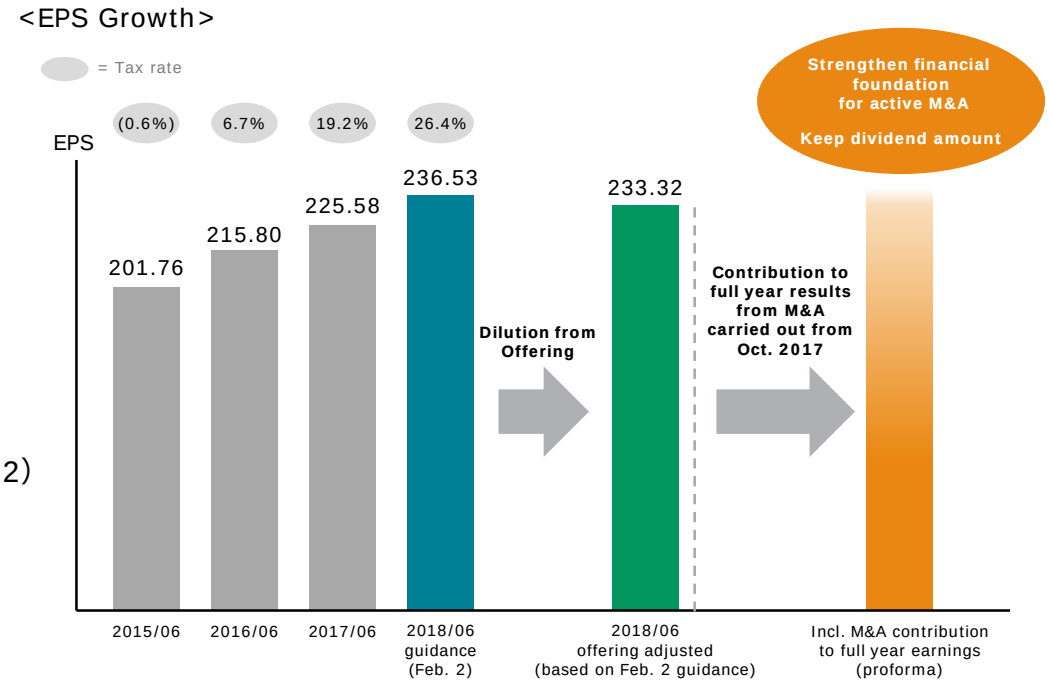
New Share Issuance Overview [announced on March 22, 2018]

[Issuance Overview]

- Shares offered: 2,000,000 shares of common stock
- Offer Price: JPY 6,439 per share
- Underwriting value: JPY 6,165 per share
- Net proceeds from offering: JPY 12,330 million
- Discount rate: 6.00%
  (Calculation base date and price: JPY 6,850 as of March 22)
- Closing date: Friday, April 6, 2018



- Expects to spend approx. JPY 9.0 billion out of JPY 12.3 billion aggregated proceeds to redeem a part of the outstanding borrowings utilized to acquire six subsidiaries. Plans to invest remaining amount to build a new talent management system and to enhance other core systems.

Strengthen financial foundation to promote active and swift M&A

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Dividend Forecast

- Expects more than 50% dividend payout ratio and annual dividend of 118.30 yen per share; reaffirms the guidance announced at prior earnings release
- 1.87% expected dividend yield, based on the closing price of April 24, 2018 (JPY 6,340/share)

(JPY/share)

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

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New Acquisitions

Growth Strategy in Medium-term Business Plan (released July 2017)

[Core business processes]

Recruiting → Human resource development → Assignment

(1) Stable growth in core (engineer staffing) business

Diversification leveraging knowledge of core businesses and contact points between customers and engineers

(2) Shift toward higher added value

(3) Globalization

(4) Move toward platforms utilizing information technologies

Expected Synergy

✓ Techno Live Co., Ltd.
[cf. p.16]

✓ Helius Technologies Pte Ltd
[cf. p.15]

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New Acquisition: Helius Technologies Pte Ltd

Company Overview

- Delivers engineer staffing and workplace leasing services in Southeast Asia region
- Locations: Singapore, India, Malaysia
- Engineers: approx. 600
- Revenue: JPY 5 billion
  EBITDA: JPY 600 million
  (FY ended March 2017)

Acquisition Summary

- TechnoPro Holdings acquired 51% of its outstanding shares
- Acquisition price: JPY 2.56 billion

Expected Synergy

Drive growth in global market

(1) Acquire new clients from overseas subsidiaries of Japanese IT firms
(set up *Japan Desk* for liaison)

(2) Expand offshore development services in India

(3) Deliver diversified technology-related services adding to IT across Asia

Contribution to group earnings

Full year FY2019:

Revenue JPY 5.8 billion
EBITDA JPY 700 million

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*JPY amounts calculated using exchange rate: SDG 1 = JPY 80

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New Acquisition: Techno Live Co., Ltd.

Company Overview

- Developing staffing business in diverse fields such as machinery, electrics/electronics, IT in Hiroshima and Tokyo
- Operating in Hiroshima, Tokyo, Osaka, Fukuoka
- Engineers: approx. 170
- Achieves net engineer increase every year through vigorous recruiting
- Employs numerous engineers with high-potential in embedded systems, CAE analysis, and other fields
- Its IT engineers engaging mainly in development projects rather than maintenance/operation

Expected Synergy

(1) Expand core business (engineer staffing) in machinery, electrics/electronics and IT fields

(2) Improve profitability by reassigning engineers to high-profit projects appropriate for their skills

Contribution to group earnings

Full year FY2019:

Revenue JPY 1 billion
EBITDA JPY 50 million

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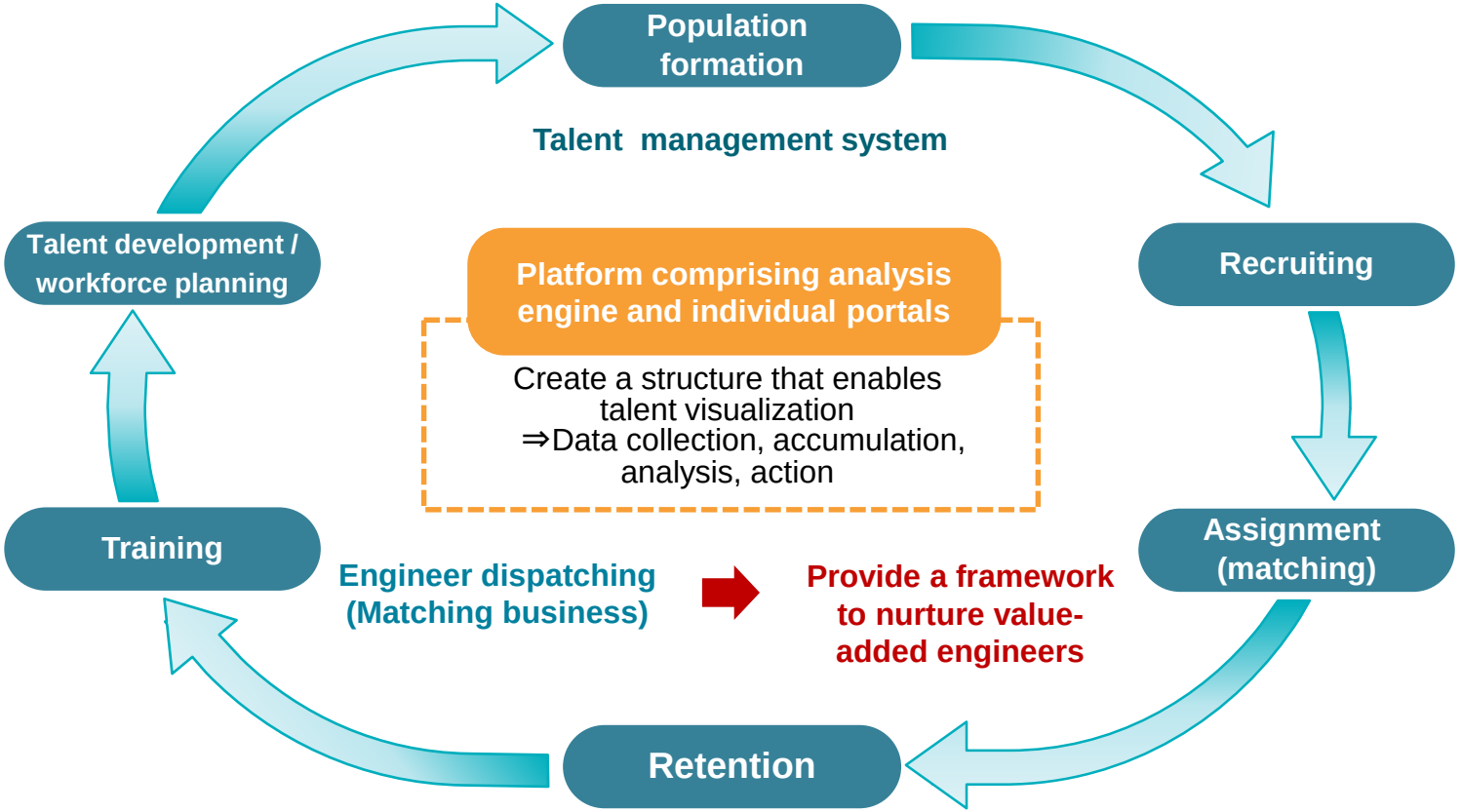
Investment in IT talent management system



Innovate core businesses (SG&A) and engineers' work styles (COGS) with IT solutions. Achieve digital transformation to a business model that can dispatch value-added engineers supported by talent development

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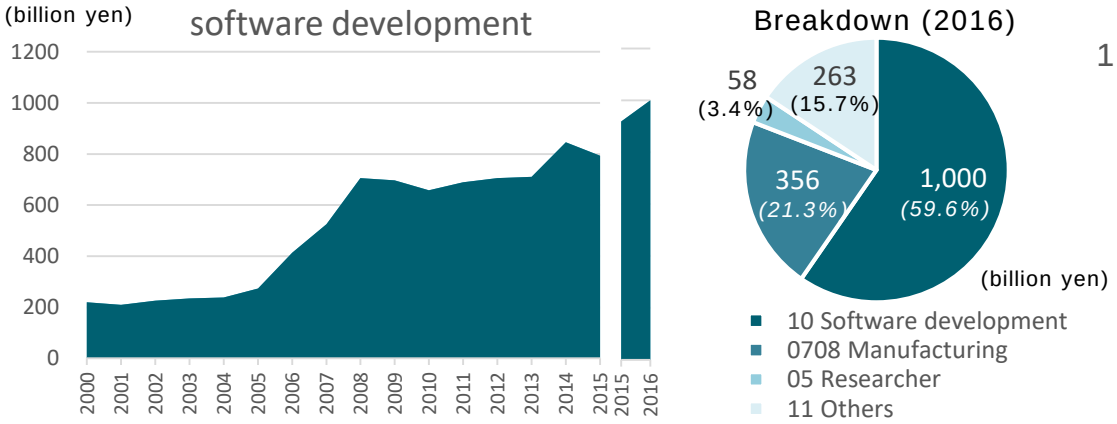
Appendix: Engineer Staffing Market Overview

- Estimated the whole staffing market size is about 6.6 trillion yen. (2016)
  Engineer staffing market size (including manufacturing engineers) is about 1.7 trillion yen, about 250,000 people.
- Steady economic growth of this market is forecasted because of the increasing of R&D and Software demand.

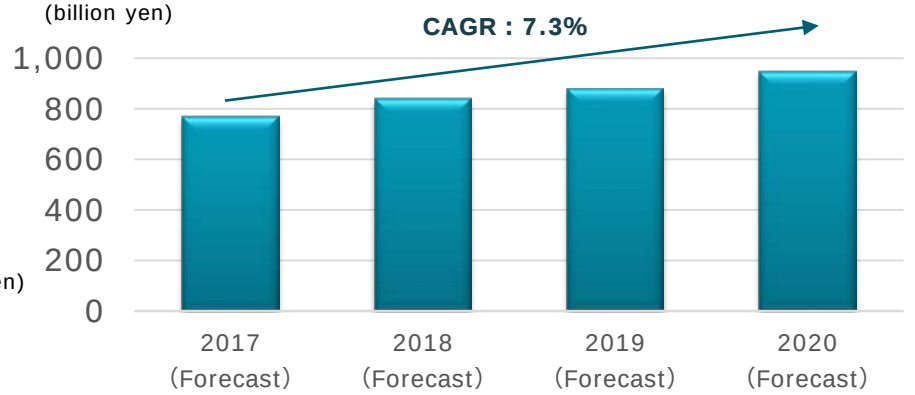
1. Transition of engineer staffing market size

Source: TechnoPro estimates based on the data researched by Ministry of Health, Labor and Welfare.



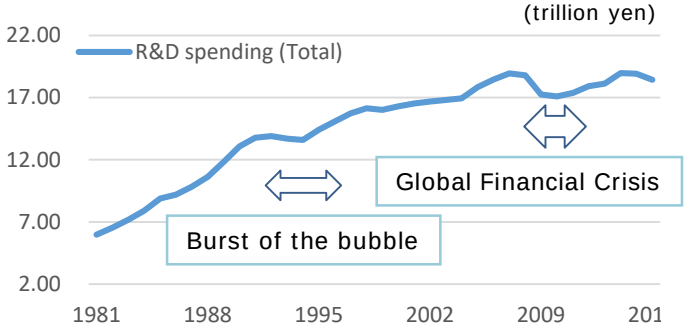
2. Forecast of engineer staffing market size

Yano Research Institute gathered information by research



3. Transition of R&D spending in Japan

Source: Ministry of Internal Affairs and Communications statistics Bureau, *Survey of Research and Development*



4. R&D spending forecast of major automobile companies in Japan (FY2018.3)

Source: the data of each companies' IR materials

(billion yen)

	R&D spending	YoY
Toyota	1,060	2.2%
Honda	740	8.0%
Nissan	525	7.1%
Suzuki	150	14.1%
Mazda	140	10.3%
Subaru	126	10.3%
Mitsubishi Motors	107	20.2%

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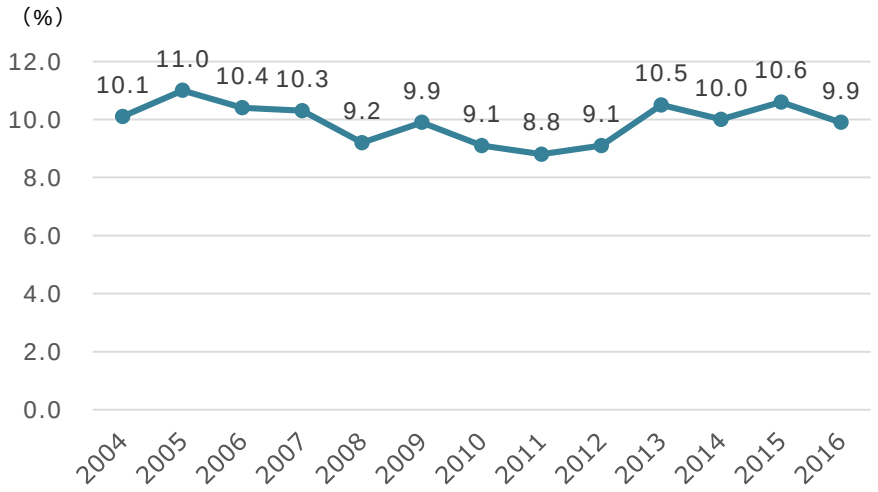
Appendix: Background of Engineer Staffing Market Growth and our strengths – 1. Mid career market

- The turnover ratio in Japan remains around 10% which shows career-change market has a certain scale
- While the life-time employment/seniority wage system firmly remains in Japan, the number of mid-career recruitment by blue-chip companies is limited due to the gap between productivity and salary

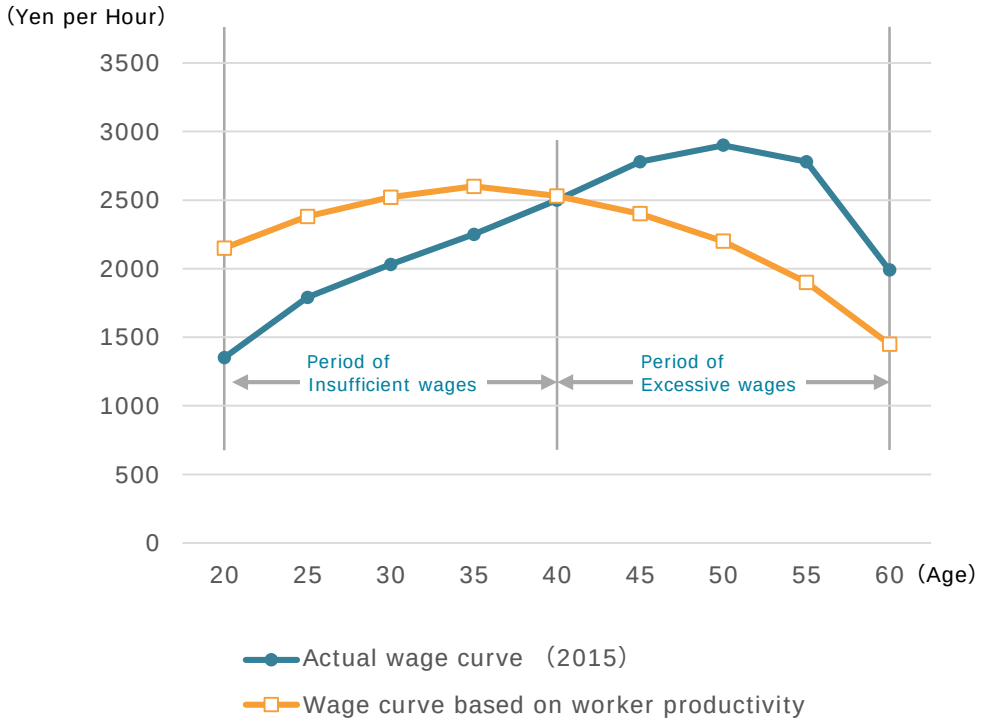
1. Turnover ratio in Japan

Source: "Employment Trends Survey", Ministry of Health, Labour and Welfare



2.Senority-Based Wages and Wages based on Work Productivity (Hourly)

Source: "Equity Research Reprinted Report", May 1, 2017, Investment Information Department, Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.



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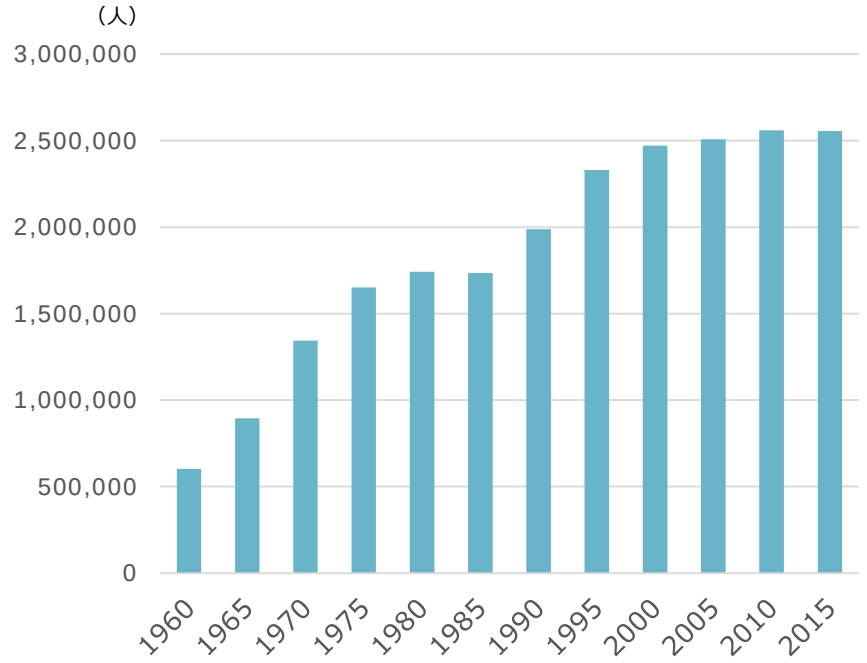
Appendix: Background of Engineer Staffing Market Growth and our strengths – 2. New grads market

- While the young population is shrinking, the number of university graduates is slightly increasing because of higher university entrance rate.
- New grads tend to focus on blue-chip companies while such companies have limited number of openings for them

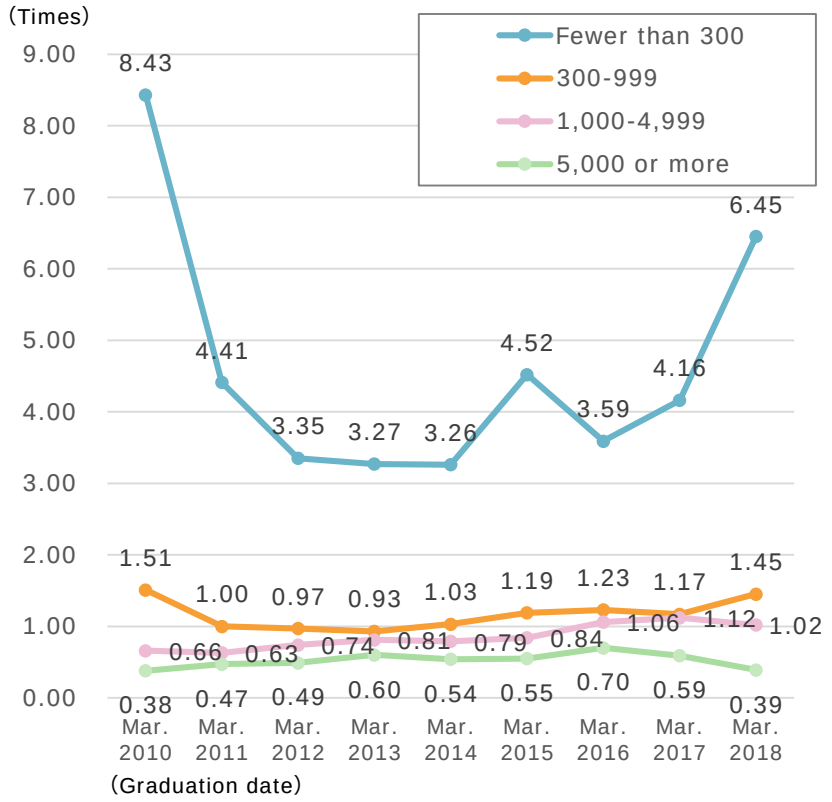
3. No. of university grads

Source: "Handbook of Education and Science statistics", Ministry of Education, Culture, Sports, Science and Technology



4.Job-to Applicants Ratio, by Scale Based on Number of Employees

Source : "34th College Graduates Job Opening Survey", Recruit Works Institute



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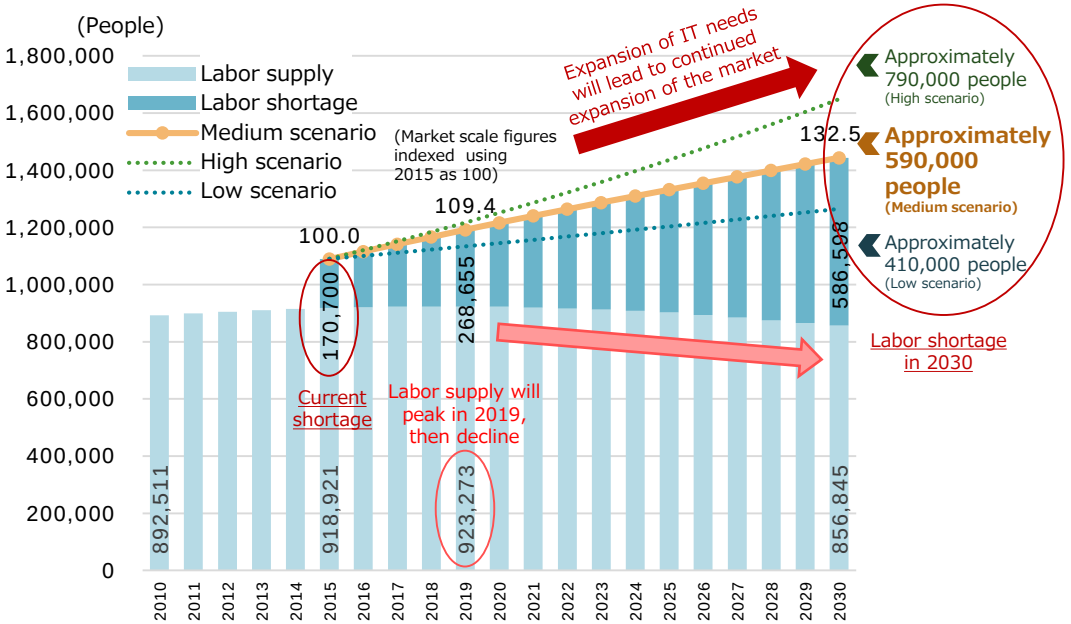
Appendix: Background of Engineer Staffing Market Growth and our strengths – 3. Growing demand

- IT-related company is highly competitive because of a huge demand-supply mismatch in the IT sector
- Weakening demand for engineers with the spread of AI will be more than offset by the new demand for engineers

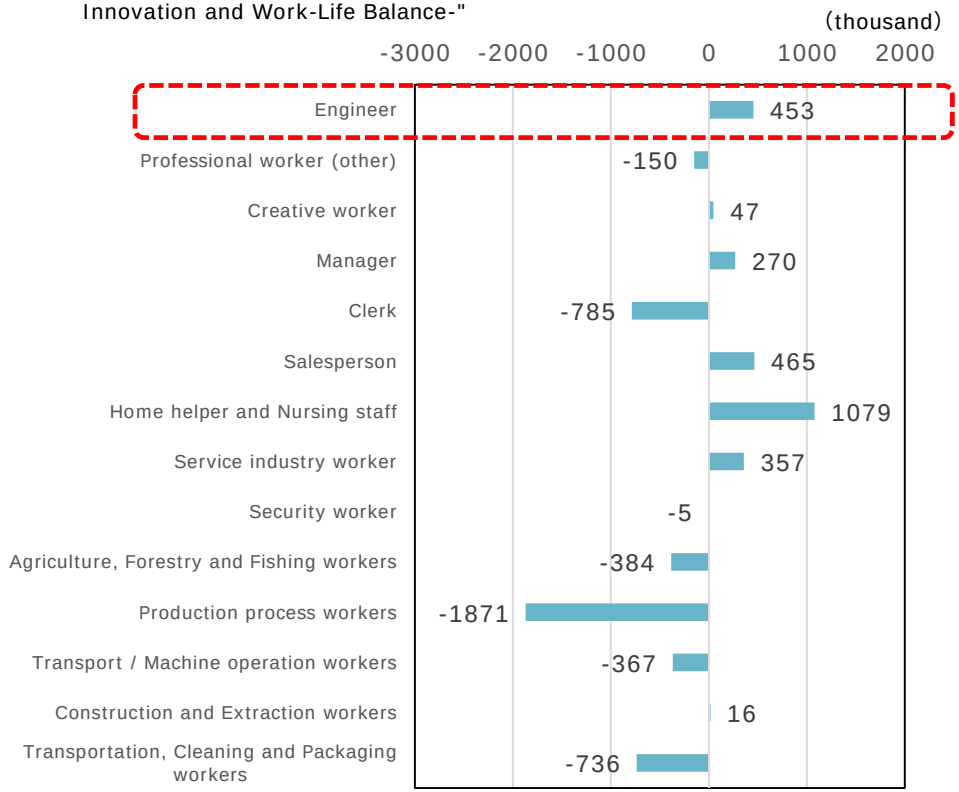
5. IT Staff Shortage Projections

Source: Ministry of Economy, Trade and Industry, *Study of Recent Trends and Future Estimates Concerning IT Human Resources*



6. Shift in workforce due to progression of AI

Source: Ministry of Health, Labour and Welfare, Labor economy white paper in 2017 "Analysis of Labor Economy - Issues for Promotion of Innovation and Work-Life Balance-"



Note: Estimated numbers comparing 2015 and 2030

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