TechnoPro Group Financial Results for the 1st Quarter of FYE June 2019

TechnoPro Holdings, Inc.

October 31, 2018

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Contents

		Page
I	: FY2019 Q1 Overview	2
II	: KPI Analysis	8
i	: Number of Engineers	8
ii	: Unit Sales prices	12
III	: New Acquisition	13
IV	: FY2019 Q1 Highlights	15
V	: Dividend Forecast	16
VI	: Appendix	17

* KPI excludes 'Other' business.

TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

FY2019 Q1 Overview

- In Q1 FY2019, revenue increased JPY 6.6 billion (up 24.7%) year on year, operating profit increased JPY 670 million (up 26.7%) year on year
- Earnings from TOQO.Co.Ltd (acquisition announced on June 29, 2018) has been consolidated as of August 2018
- Earnings from Orion Managed Services Limited (acquisition announced on October 10, 2018) to be consolidated as of October 2018

(JPY in millions, except per share amounts)

	Three Months Ended					Full Year		
	Q1 FY2018 (Actual)	*Progress*	Q1 FY2019 (Actual)	*Progress*	*YOY*	Full Year FY2018 (Actual)	Full Year FY2019 (Guidance)	*YOY*
Revenue	26,726	22.9%	33,334	*24.7%*	*+24.7%*	116,529	135,000	*+15.9%*
Gross profit (GP)	6,340	21.5%	8,062	*23.7%*	*+27.2%*	29,475	34,000	*+15.4%*
GP margin	*23.7%*		*24.2%*			*25.3%*	*25.2%*	
SG&A expenses	3,841	21.1%	4,828	*23.6%*	*+25.7%*	18,237	20,500	*+12.4%*
Ratio on revenue	*14.4%*		*14.5%*			*15.7%*	*15.2%*	
Operating profit (OP)	2,511	22.3%	3,183	*23.6%*	*+26.7%*	11,238	13,500	*+20.1%*
OP margin	*9.4%*		*9.5%*			*9.6%*	*10.0%*	
Profit before income taxes	2,489	22.3%	3,162	*23.4%*	*+27.0%*	11,163	13,500	*+20.9%*
Net profit**	1,879	22.1%	2,082	*23.4%*	*+10.8%*	8,498	8,900	*+4.7%*
Net profit per share	–	–	–	–	–	244.81	245.49	–
Dividend per share (forecast)	–	–	–	–	–	120.00	123.00	–

* Amounts are rounded down to the nearest unit.

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

TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Business Line Results FY2019 Q1

- Provides earnings information (managerial) for each line of business, considering expanding business portfolio other than engineer staffing
- Contribution margin of 10.2% (9.9% year on year) in *Engineer staffing,* offset expenses related to headquarters functions provided by TechnoPro Holdings from operating profit
- Includes Boyd & Moore Executive Search in *Overseas*, as it integrally operates business with its overseas offices located in Singapore and India; in *Overseas*, profit from TechnoPro China and Helius Technologies grew steadily
- Engineers totaled 18,206: 17,212 in Japan, 994 in other countries

(JPY in millions, except headcounts and sales per head)

	Engineer staffing (Japan, two subsidiaries)			Others (Japan)			Overseas			HQ expenses & Consolidation adj., etc.			Consolidated		
	Q1 FY2018 (Actual)	Q1 FY2019 (Actual)	YOY	Q1 FY2018 (Actual)	Q1 FY2019 (Actual)	YOY	Q1 FY2018 (Actual)	Q1 FY2019 (Actual)	YOY	Q1 FY2018 (Actual)	Q1 FY2019 (Actual)	YOY	Q1 FY2018 (Actual)	Q1 FY2019 (Actual)	YOY
Revenue	25,590	29,368	*+14.8%*	833	2,226	*+167.2%*	412	1,959	*+375.5%*	(109)	(220)	-	26,726	33,334	*+24.7%*
Operating profit (OP)	3,500	4,075	*+16.4%*	65	178	*+173.8%*	4	206	-	(1,058)	(1,277)	-	2,511	3,183	*+26.8%*
OP margin	*13.7%*	*13.9%*	-	*7.8%*	*8.0%*	-	*1.0%*	*10.5%*	-	-	-	-	*9.4%*	*9.5%*	-
Contribution margin	*9.9%*	*10.2%*	-	-	-	-	-	-	-	-	-	-	-	-	-

													Consolidated (excl. overseas)		
No. of engineers	14,394	16,513	*+14.7%*	113	699	*+518.6%*	-	-	-	-	-	-	14,507	17,212	*+18.6%*
Non-Japanese	573	794	*+38.6%*	-	15	-	-	-	-	-	-	-	573	809	*+41.2%*
No. of engineers (overseas)	-	-	-	-	-	-	260	994	*282.3%*	-	-	-	-	-	-
Utilization rate	*96.0%*	*96.2%*	-	*98.8%*	*94.9%*	-	-	-	-	-	-	-	*96.0%*	*96.2%*	-
Sales per head (JPY in thousands)	620	621	-	-	-	-	-	-	-	-	-	-	-	-	-

* Amounts are rounded down to the nearest unit.

TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Companies in Each Business Line [managerial]

September 30, 2017

Engineer staffing
- TechnoPro, Inc.
- TechnoPro Construction

Overseas
- TechnoPro China
- Boyd & Moore Executive Search

Others (Japan)*
- TechnoPro Careers
- Pc Assist
- ON THE MARK
- TechnoPro Embedded

HQ expenses & Consolidation adj., etc.
- TechnoPro Holdings
- TechnoPro Smile (Special Subsidiary)

September 30, 2018

Engineer staffing
- TechnoPro, Inc.
  - TechnoPro Embedded (absorbed to TechnoPro, Inc. on Oct. 1, 2017)
- TechnoPro Construction

Overseas
- TechnoPro China
- Boyd & Moore Executive Search
- Helius Technologies (consolidated as of Apr. 2018)

Others (Japan)*
- TechnoPro Careers
- Pc Assist
- ON THE MARK
- EDELTA (consolidated as of Nov. 2017)
- PROBIZMO (consolidated as of Feb. 2018)
- Techno Live (consolidated as of Apr. 2018)
- TOQO (consolidated as of Aug. 2018)

HQ expenses & Consolidation adj., etc.
- TechnoPro Holdings
- TechnoPro Smile (Special Subsidiary)

* Others (Japan) includes: ON THE MARK, EDELTA, PROBIZMO, Techno Live, TOQO

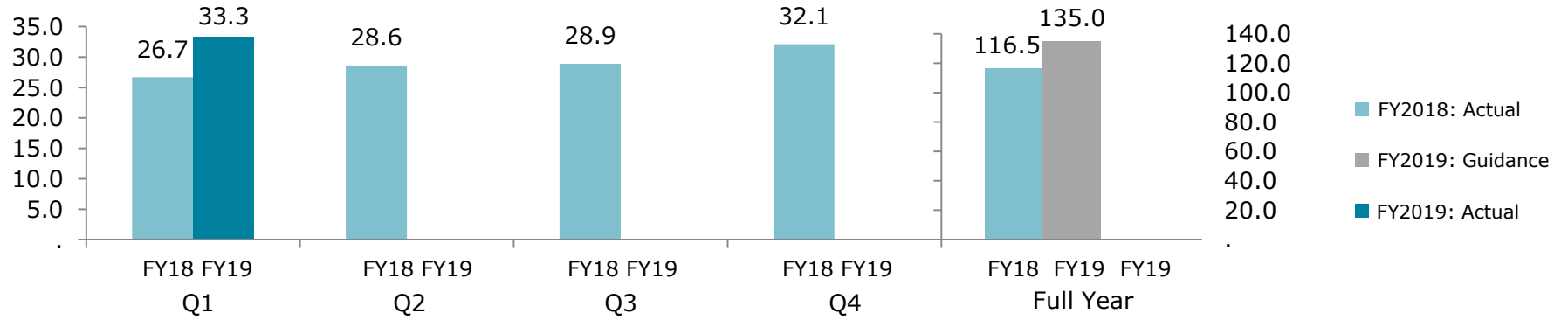
Copyright © TechnoPro Holdings, Inc. All rights reserved.

Quarterly Performance

- Progress vs. full year guidance: 25% for revenue, 24% for operating profit, maintaining solid growth momentum as the same period in prior year

(JPY in billions)

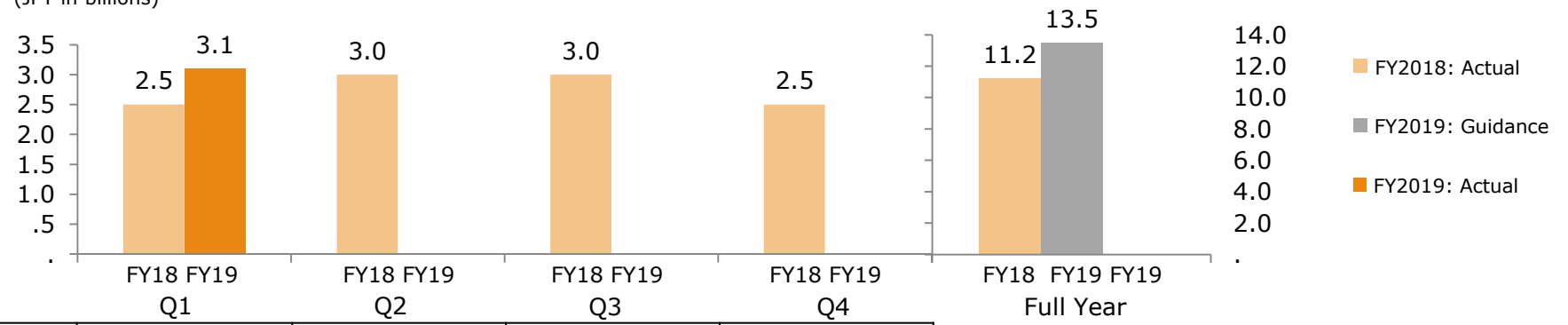
Revenue



Composition %	23% 25%	25% -	25% -	28% -	
YOY	24.7%	-	-	-	-

(JPY in billions)

Operating Profit



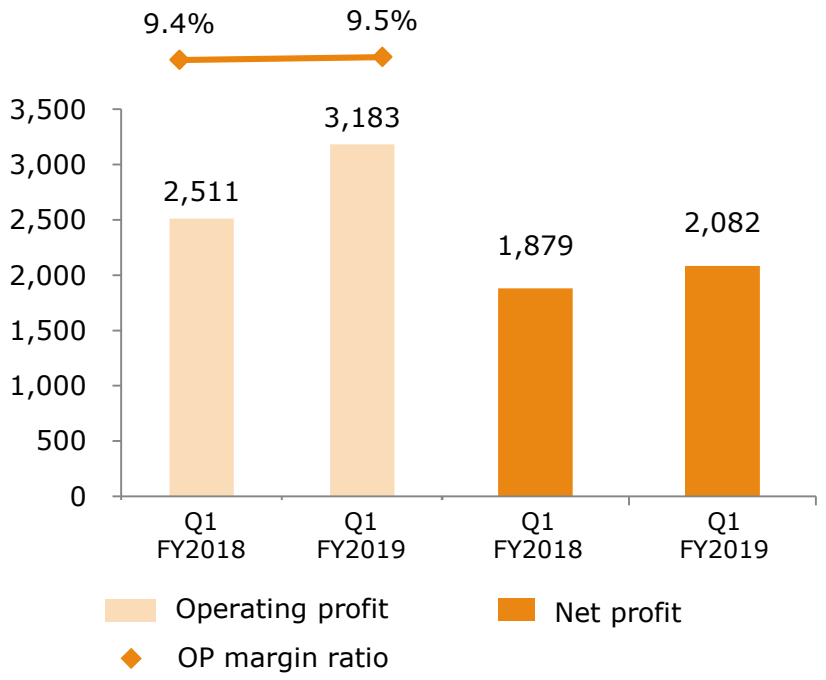
Composition %	22% 24%	27% -	28% -	23% -	
OP ratio	9.4% 9.5%	10.6% -	10.7% -	8.1% -	9.6% 10.0%
YOY	26.7%	-	-	-	-

* Amounts are rounded down to the nearest unit.

Copyright © TechnoPro Holdings, Inc. All rights reserved.

P&L Summary

(JPY in millions)



(JPY in millions)	Q1 FY2018	Q1 FY2019	Diff. YOY	YOY (%)
Revenue	**26,726**	**33,334**	**+6,607**	*+24.7%*
*Impact of Engineer increase***			**+3,744**	
*Impact of unit sales price increase** (cf. p.12)*			**+33**	
M&A contribution, etc.			**+2830**	
CoGs	**20,385**	**25,271**	**+4,885**	*+24.0%*
Ratio to revenue	***76.3%***	***75.8%***	***(0.5pt)***	
Gross profit	**6,340**	**8,062**	**+1,721**	*+27.2%*
Ratio to revenue	***23.7%***	***24.2%***	***+0.5pt***	
Impact of utilization rate rise			***+0.2pt***	
Others (other than engineer staffing)			***+0.3pt***	
SG&A	**3,841**	**4,828**	**+986**	*+25.7%*
Ratio to revenue	***14.4%***	***14.5%***	***+0.1pt***	
Other income－Other expenses	**12**	**(51)**	**(63)**	
Operating profit	**2,511**	**3,183**	**+671**	*+26.7%*
Financial income	**1**	**5**	**+3**	
Financial expenses	**23**	**27**	**+3**	
Net profit before income taxes	**2,489**	**3,162**	**+672**	*+27.0%*
Corporate / income taxes	**609**	**1,040**	**+430**	
Net Profit	**1,879**	**2,082**	**+202**	*+10.8%*

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

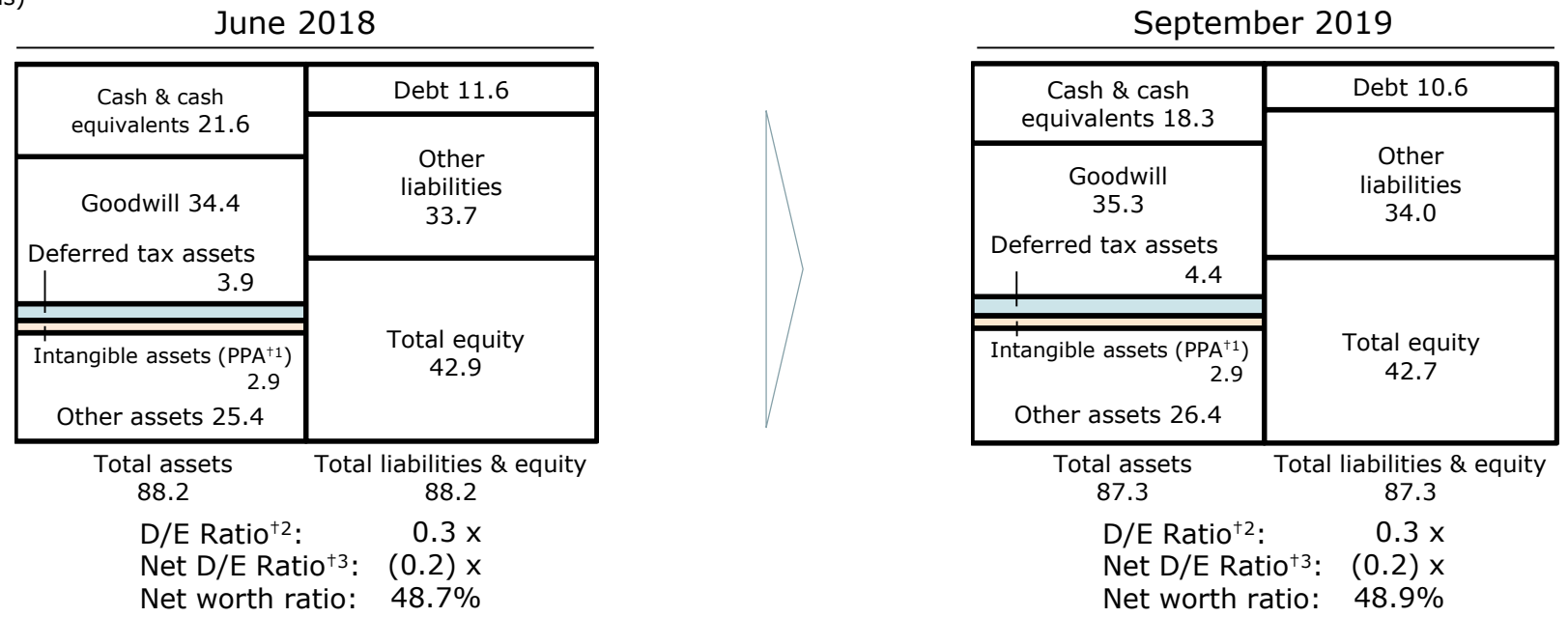
TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Balance Sheet & Cash Flow

- Cash & cash equivalents decreased JPY 3.2 billion compared to the balance sheet at June 2018, due to payment of income tax and dividend
- The balance sheet at September 2018 does not include Orion Managed Services Limited (acquisition announced on October 10, 2018)

(JPY in billions)



Q1 FY2019 Cash Flow

・Operating CF	1.5
・Investing CF	(1.3)
・Financing CF	(3.4)
Net CF	(3.2)

FCF 0.17

†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

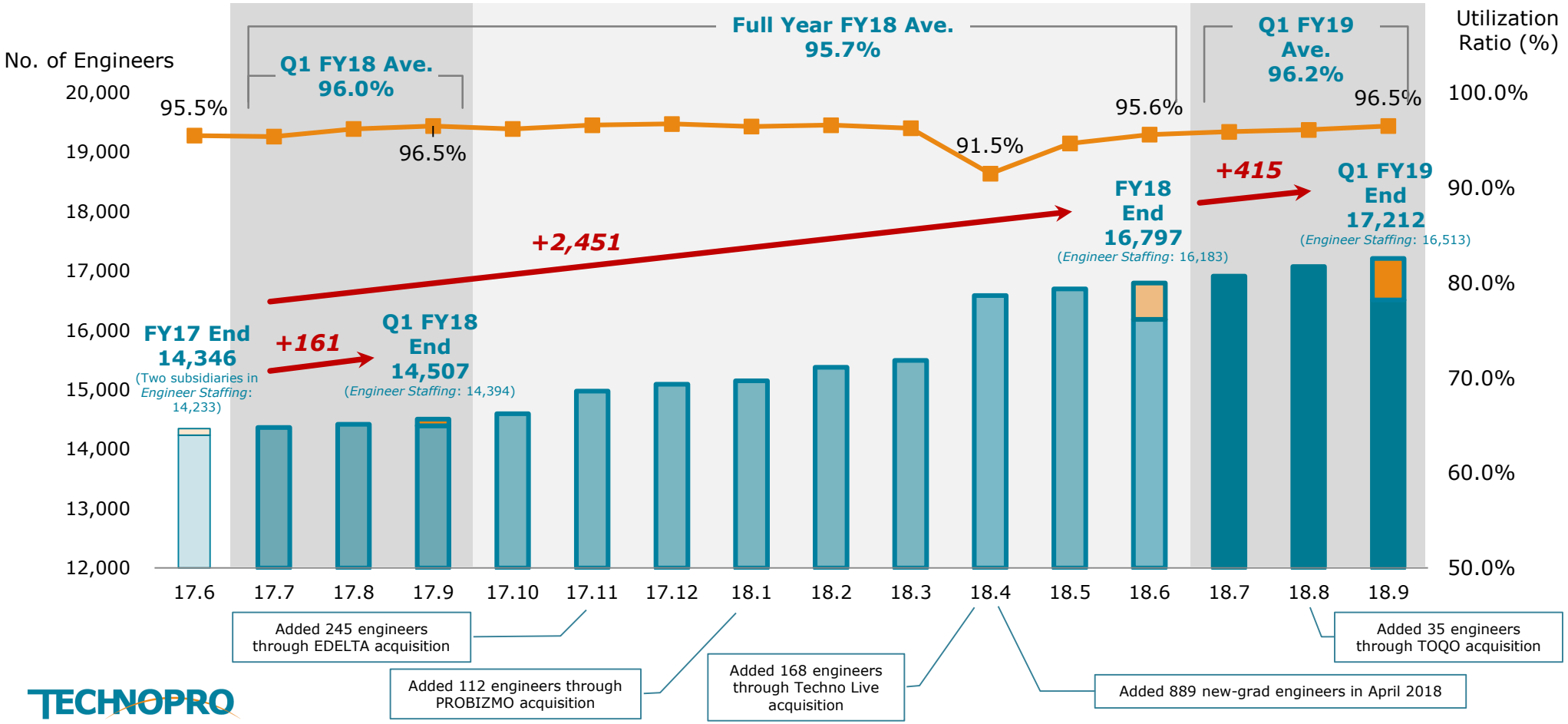
* Amounts are rounded down to the nearest unit.

TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Number of Engineers & Utilization Rate

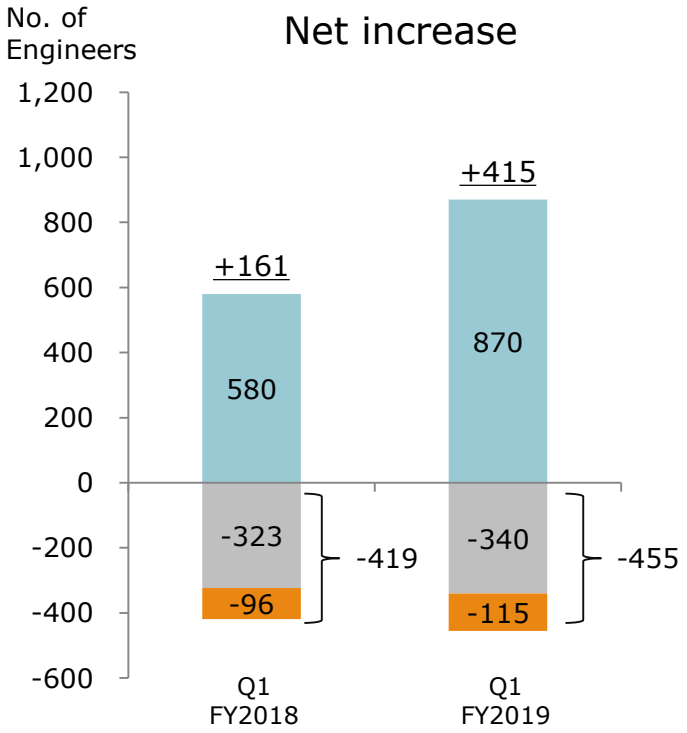
- Engineers on payroll in Japan at the end of Q1 FY2019 totaled 17,212 (up 415 from the end of prior year), including 809 non-Japanese engineers (up 53 from the end of prior year)
- Employs 16,513 at two companies in *Engineer staffing* (TechnoPro, Inc. and TechnoPro Construction, Inc.)
- Average utilization rate of 96.2% for Q1 FY2019 period (up 0.2% year over year)
- Employs 994 engineers at overseas subsidiaries (not included in numbers above)



Copyright © TechnoPro Holdings, Inc. All rights reserved.

Recruitment/Turnover

- Hired 870 engineers (up 50.0% year on year)
- Turnover rate (full-timers): 8.0% (Q1 FY2018: 9.0%)



(Difference / % YOY)

Hired 870 (+290 / +50.0%)

Added 35 engineers through TOQO acquisition

Turnover (full-timers) 340 (+17 / +5.3%)

Contract terms matured, others 115 (+19 / +19.8%)

<Turnover>

	FY2018				FY2019
	Q1	Q2	Q3	Q4	Q1
Quarter	9.0%	7.0%	9.4%	7.6%	8.0%
Year-to-date	—	7.9%	8.5%	8.1%	—

TECHNOPRO

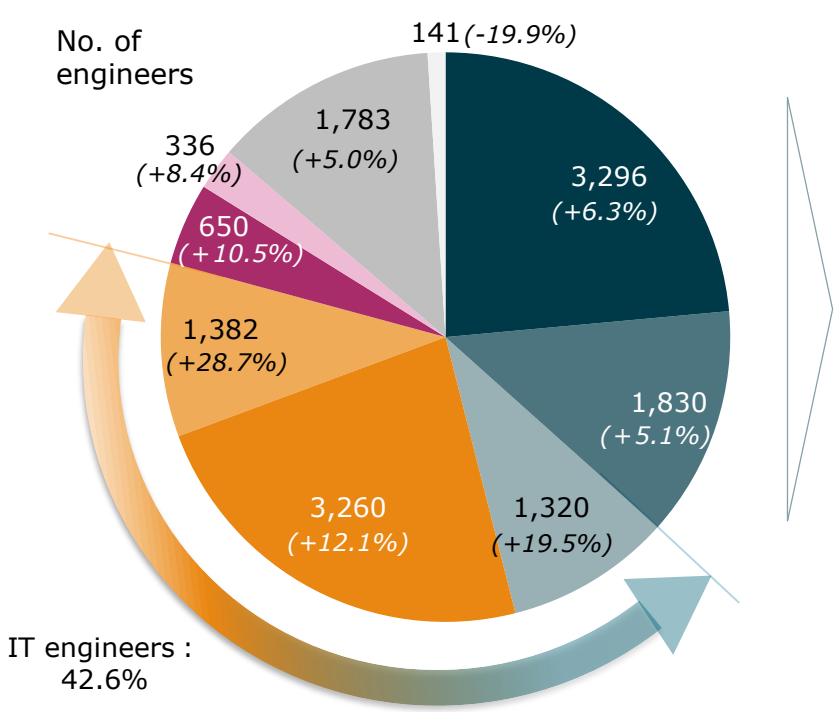
Copyright © TechnoPro Holdings, Inc. All rights reserved.

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; Techno Live employs engineers both in Machinery and IT; construction engineers increased through TOQO acquisition

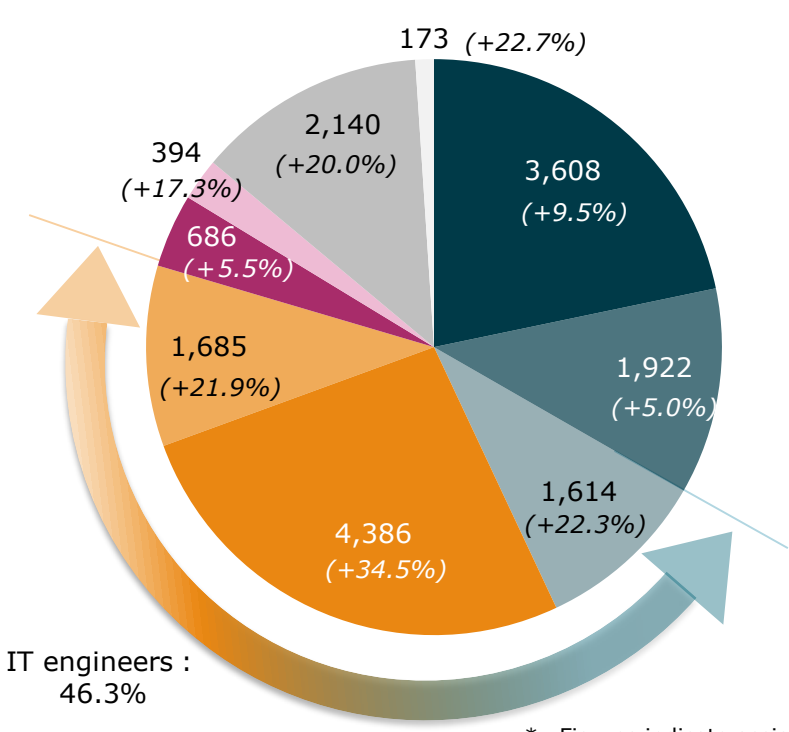
Three Months Ended September 2017

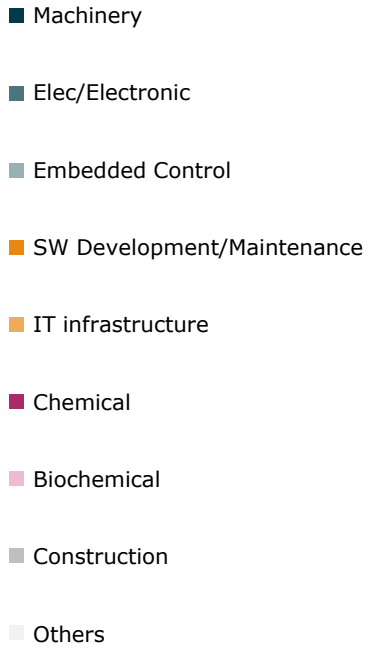
Assigned engineers: 13,998



Three Months Ended September 2018

Assigned engineers: 16,608





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

TECHNOPRO

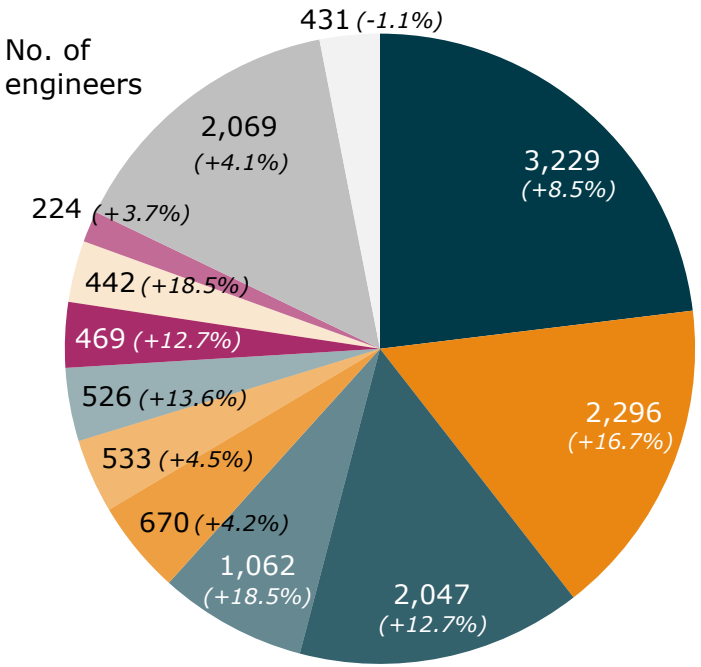
Copyright © TechnoPro Holdings, Inc. All rights reserved.

Assigned Engineers by Industrial Sectors

- Number of assigned engineers* increased in all industrial sectors

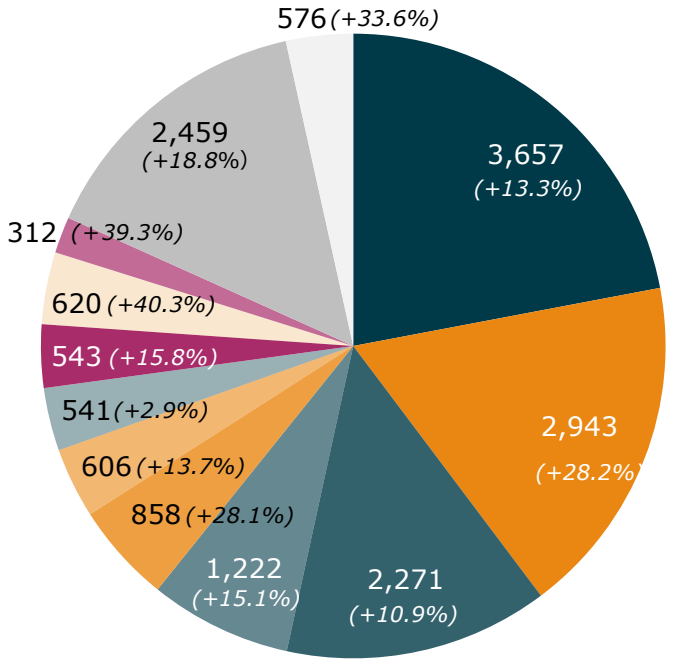
Three Months Ended September 2017

Assigned engineers: 13,998



Three Months Ended September 2018

Assigned engineers: 16,608





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

TECHNOPRO

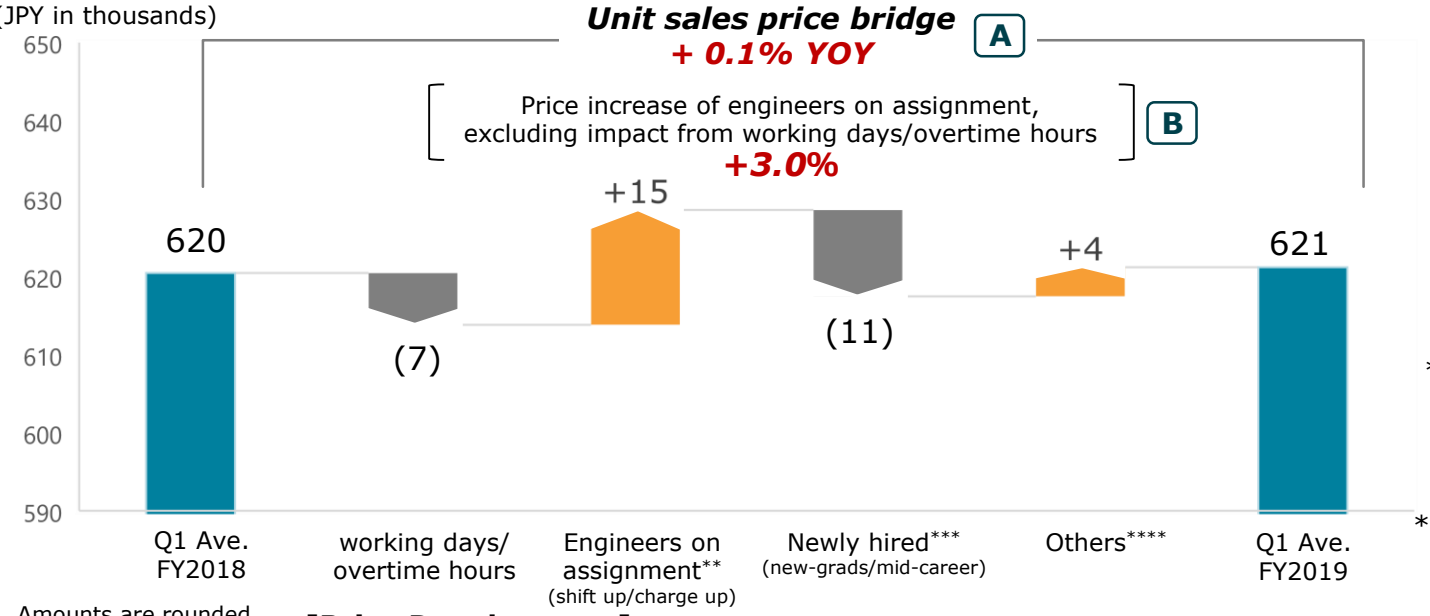
Copyright © TechnoPro Holdings, Inc. All rights reserved.

Unit Sales Price

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

- Unit sales price* increased 0.1% (up JPY 7,000/month year on year) to JPY 621,000
- Decreased JPY 7,000/month year on year due to fewer working days (down 0.2 days/month) and shorter overtime hours (down 0.7 hours/month)
- Increased JPY 15,000/month driven by increased contract price for engineers on assignment
- Decreased JPY 11,000/month due to first assignment of newly hired new graduate/mid-career engineers
- New graduates (within 3 years after joining) account for 10.6% of total engineers (Q1 FY2018: 8.9%)

(JPY in thousands)



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

** Engineers on assignment
Increase(decrease) of prices through changes in place of assignment or contract renewal at the same assignment

*** Newly hired
Increase(decrease) of prices from first assignment of newly hired new graduate/mid-career engineers

**** Others
Increase(decrease) of prices from other factors than described above

Amounts are rounded off to the nearest unit

[Price Development]

		FY2018				FY2019
		Q1	Q2	Q3	Q4	Q1
Unit Price (year-to-date)	A	620	629	629	630	621
Year on year		*+0.5%*	*+1.1%*	*+0.6%*	*+0.6%*	+0.1%
Price increase of engineers on assignment *(figures calculated by comparing unit price at the end of period)*	B	*+3.0%*	*+2.8%*	*+2.7%*	*+3.0%*	+3.0%

Copyright © TechnoPro Holdings, Inc. All rights reserved.

New Acquisition: Orion Managed Services Limited

Company Overview

- Delivers engineering related staffing and permanent recruitment services
- Two locations in the U.K.
- Engineers: approx. 800
- Revenue: JPY 3.9 billion
  EBITDA: JPY 300 million
  (FY ended March 2018)

Acquisition Summary

- Transaction closed: Oct. 10, 2018
- TechnoPro Holdings acquired 60% of Orion's outstanding shares

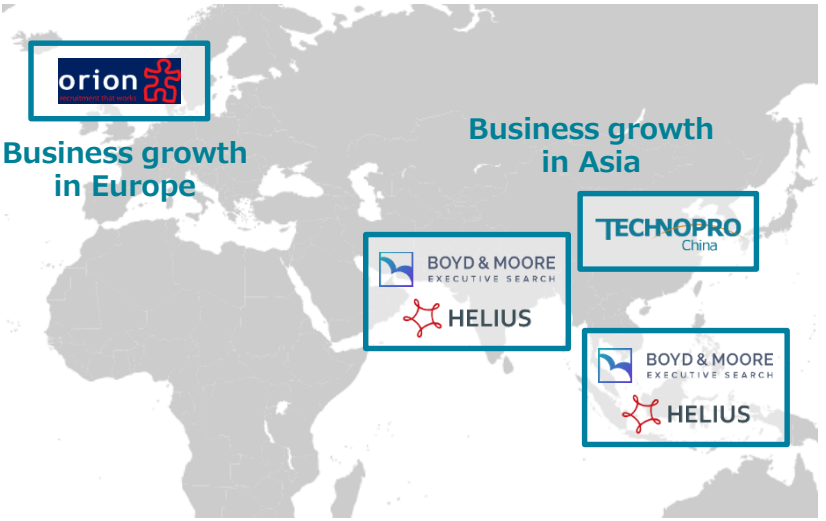
Expected Synergy

Drive growth in global market

(1) Collaboration between Orion with TechnoPro's subsidiaries in India

(2) Delivery of technical recruitment services to Japanese companies operating in the U.K.

(3) Delivery of technical recruitment services to Orion's clients with operations in Japan and Asia



*JPY amounts calculated using exchange rate: GBP 1 = JPY 148

TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Goodwill & PPA Amortization

Goodwill (Q1 FY2019)

(JPY in billions)

	Engineer staffing (two subsidiaries)	M&A	Total
Machinery, Elec/ Electronic	13.6	0.3	13.9
Embedded Control, IT infrastructure	7.9	0	7.9
SW Development/ Maintenance	2.9	2.7	5.6
Chemical, Biochemical	1.2	0	1.2
Construction	3.3	0.5	3.9
Others	0	2.4	2.4
Total	29.2	6.1	35.3

PPA Amortization (Q1 FY2019)

(JPY in billions)

PPA amount	Amortization period
2.9	10-14 years

Note: PPA for subsidiaries acquired in FY2019 (TOQO, Orion) is under review

Because the current market value of goodwill well exceed book value, there are no major risks of impairment of goodwill

Rationale 1

Impairment of goodwill will be required when market value* of goodwill is lower than book value**

⇨ Current market value of our goodwill is five times higher than book value

Rationale 2

Goodwill booked through forthcoming M&A will also be able to be allocated to our current cash-generating unit which has steady source of income

Rationale 3

Amortizable assets (client assets, etc.) are amortized as PPA (amortization period depends on acquired entity)

* Calculated using "recoverable value" assessed through evaluating goodwill based on the future profit to be earned by each cash-generating unit

** Disclosed in securities report

TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

FY2019 Q1 Highlights

- Aims to enrich disclosure about non-financial information and material issues by publishing Integrated Report in Nov. 2018; through the editing process, re-acknowledged human resource development as the most important agenda for the TechnoPro Group
- Progress in fostering data scientists leveraged by partnership with ALBERT; accelerate increase of data scientists through new partnership with i's FACTORY
- Steady increase in international recruiting; non-Japanese exceeds 10% of the total employees after Orion joined the Group

Material Issues for the TechnoPro Group

Theme 1: Human Resources

Raising Everyone's Potential

- Develop human resources and maximize opportunities to flourish
- Resolve shortage of engineering personnel and promote innovation, etc.

Theme 2: Business

Contributing to Society through the Power of Technology

- Realize high-value-added solutions
- Use IT to achieve business innovation, etc.

Theme 3: Social Responsibility

A Trusted Partner

- Observe ethics and compliance
- Ensure health and safety of the working environment, etc.

Theme 4: Governance

A Sustainably Growing Company

- Reinforce governance
- Engage in dialogue and disclosure
- Achieve EPS growth through business expansion, etc.

Relating SDGs



- Discussed thoroughly about the Group's material issues at the board meeting
- Define human resource development as the most important issue, create KPI

- Partnered with i's FACTORY subsequent to the partnership with ALBERT continued from Aug. 2017
- Developed 88 data scientists through training programs provided together with both partners

- Strongly promote recruiting of non-Japanese engineer
- Making a presentation to introduce the Group at Indian Institutes of Technology Hyderabad
- 9.9% * are non-Japanese among consolidated total employees (1,803 out of 18,206)



*Not including 800 employees at Orion Managed Services

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Dividend Forecast

- Expects more than 50% dividend payout ratio and annual dividend of 123.00 yen per share
- 2.20% expected dividend yield, based on the closing price of October 26, 2018 (JPY 5,600/share)

(JPY/share)

	FY2019
Interim dividend (forecast)	50.00
Year-end dividend (forecast)	73.00
EPS (forecast)	245.49
Payout ratio	50%

TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Contents

		Page
I	: FY2019 Q1 Overview	2
II	: KPI Analysis	8
i	: Number of Engineers	8
ii	: Unit Sales prices	12
III	: New Acquisition	13
IV	: FY2019 Q1 Highlights	15
V	: Dividend Forecast	16
VI	: Appendix	17

* KPI excludes 'Other' business.

TECHNOPRO

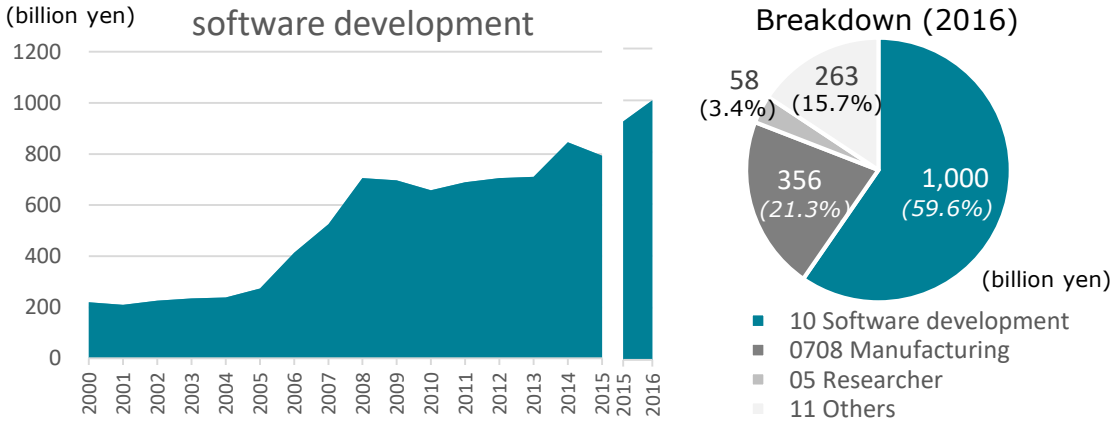
Copyright © TechnoPro Holdings, Inc. All rights reserved.

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.

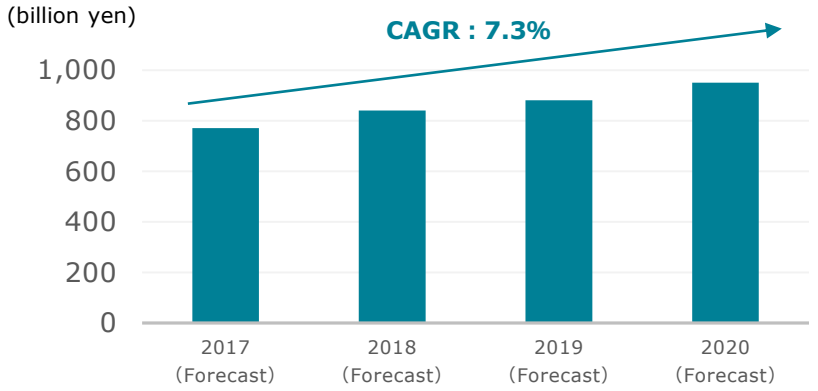
1. Transition of engineer staffing market size

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



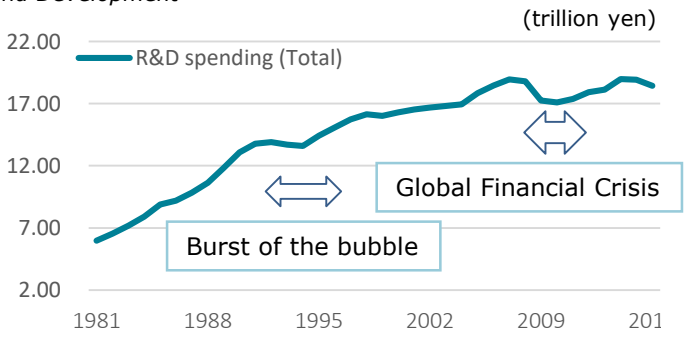
2. Forecast of engineer staffing market size

Yano Research Institute gathered information by research



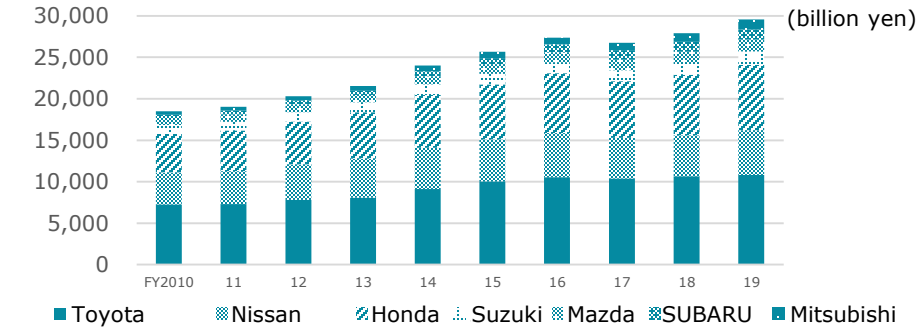
3. Transition of R&D spending in Japan

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



4. R&D spending trend of seven major auto companies in Japan

Source: *The Nikkei*



TECHNOPRO

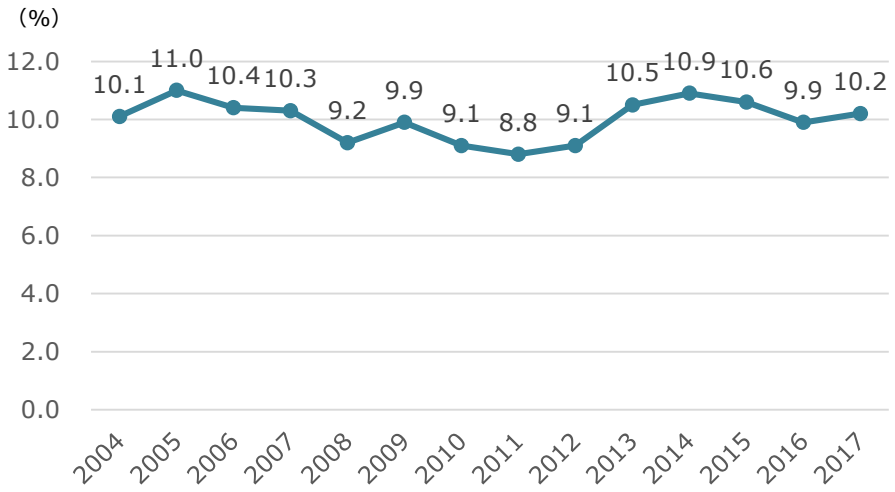
Copyright © TechnoPro Holdings, Inc. All rights reserved.

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

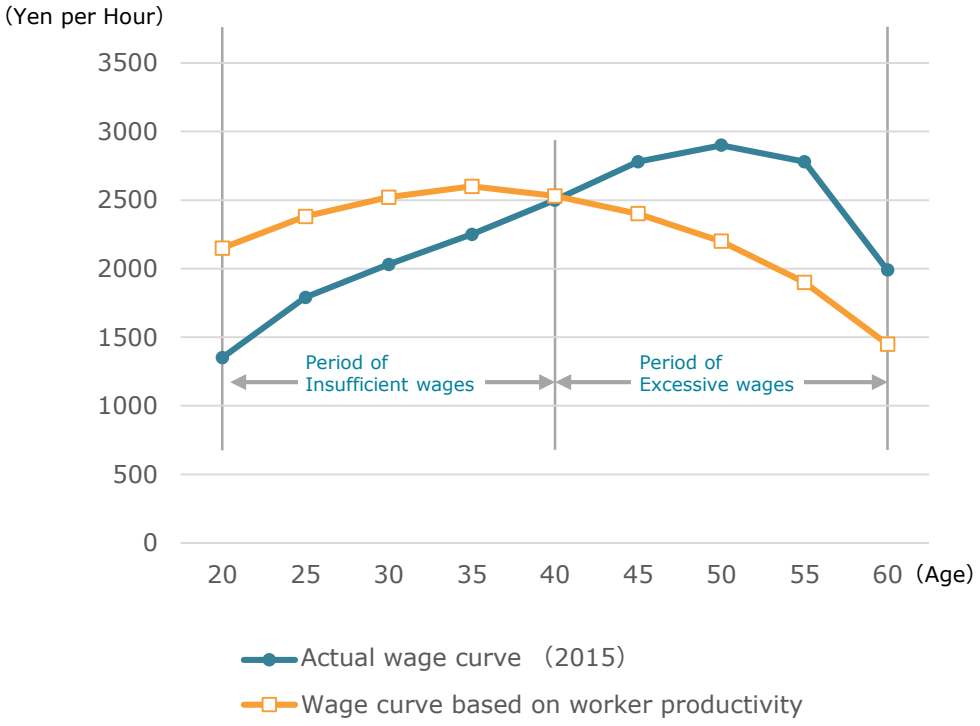
1. Turnover ratio in Japan

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.



TECHNOPRO

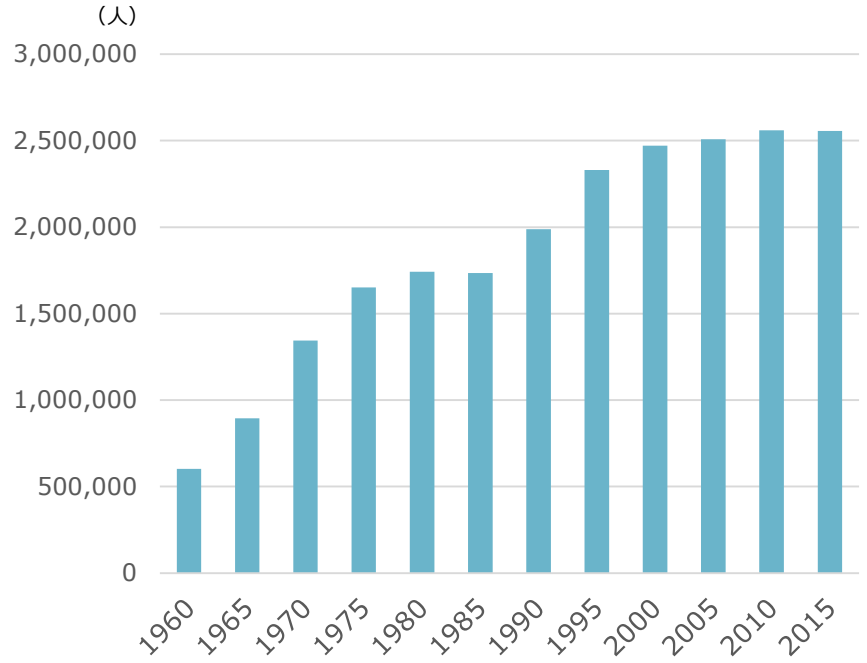
Copyright © TechnoPro Holdings, Inc. All rights reserved.

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

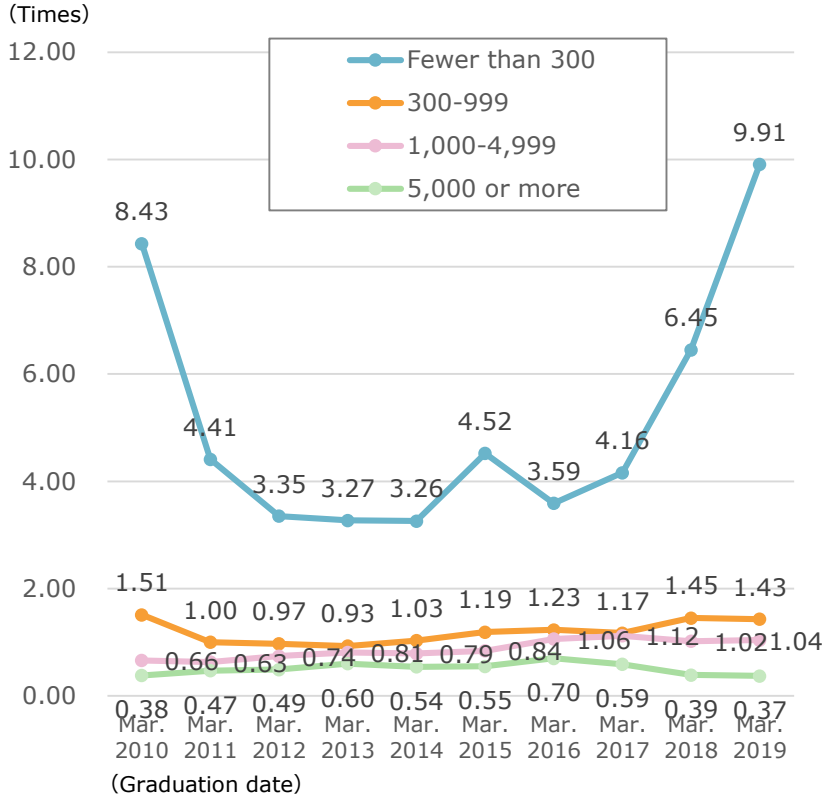
3. No. of university grads

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



TECHNOPRO

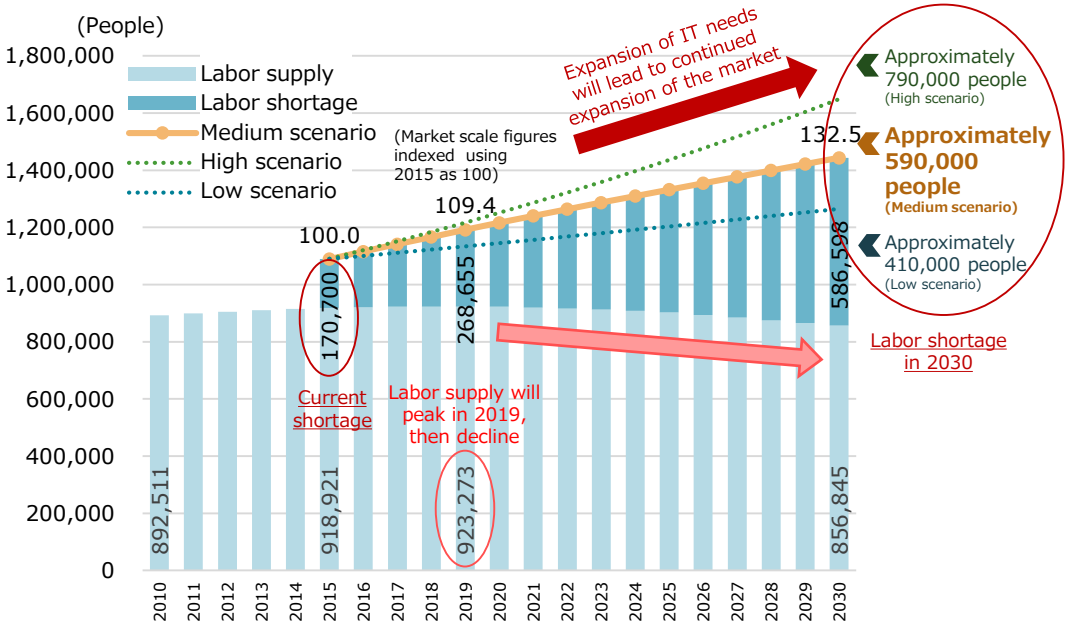
Copyright © TechnoPro Holdings, Inc. All rights reserved.

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

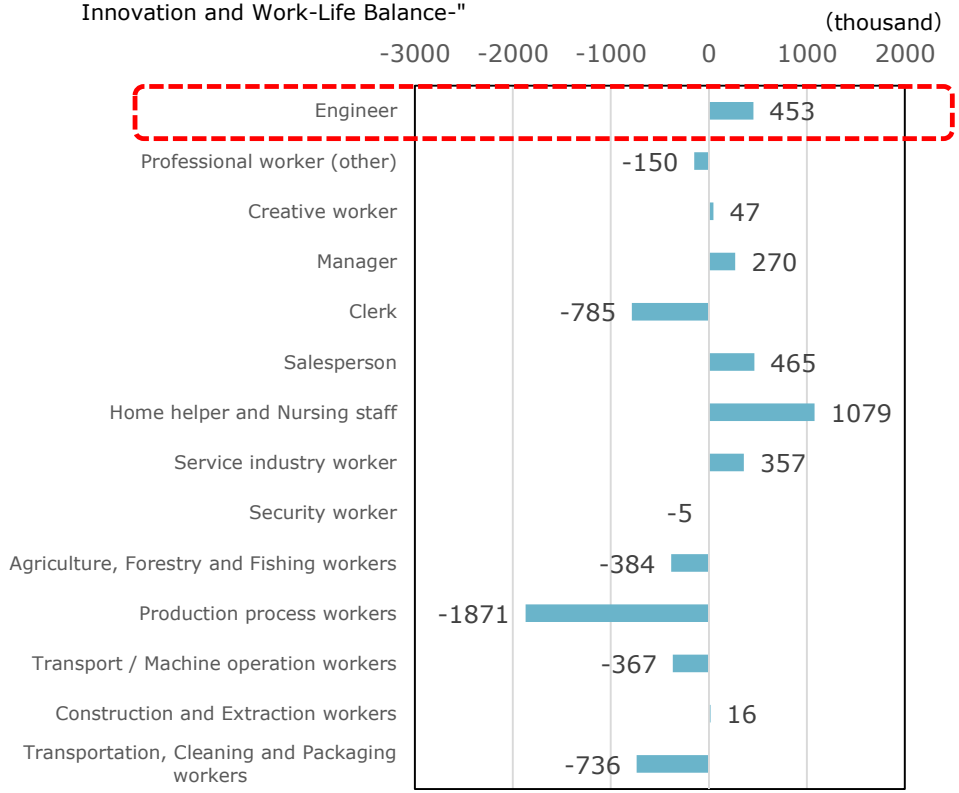
5. IT Staff Shortage Projections

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

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Disclaimer

This presentation is based on the information we obtained or on the certain assumptions that we understand to be reasonable. However, this is not for the Company to represent or imply any guarantee to the accuracy or completeness of the contents.
Further, statement in this presentation may contain forward-looking information that could be impacted by various risks and uncertainties, and that may significantly affect expected results. Therefore, it is to be noted not to entirely rely on forward-looking information.
It should be also noted that this presentation or any statement herein is not allowed to make copy or transfer without our written consent in prior.

TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.



Copyright © TechnoPro Holdings, Inc. All rights reserved.