Financial Updates and Progress of Medium-Term Management Plan

TechnoPro Holdings, Inc.

February 1, 2019

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Contents

			Page
Ⅰ	:	Progress of Medium-Term Management Plan	2
Ⅱ	:	Our responses to investor inquiries	12
Ⅲ	:	Historical performance and market evaluation	18

Copyright © TechnoPro Holdings, Inc. All rights reserved.

1. Basic Policies of the New Medium-Term Management Plan (repost)

Five years, from FY06/18 to FY06/22

(We expect to be flexible in revising the plan, at around three years, based on Company performance and the operating environment.)

We aim to be a “global human resource services company with technology at its core.”

(Expand the business domain)

Look ahead toward long-term increases in corporate value 10 years hence

Cultivate engineers and support their transition from maturing and declining industries to growth industries without loss of employment

TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

2. Progress of Medium-Term Management Plan

(JPY100 million, except headcounts and sales per head)

	FY06/17 (Actual)	FY06/18 (Plan)	FY06/20 (Plan)	FY06/22 (Plan)	CAGR 5 years
Revenue	1,000	1,090	1,350	1,600	10%
Operating Profit	96	106	135	170	12%
Net Profit	77	76	90	110	7%
ROE*	30%	20%+			-
Sales per head (JPY in thousands)	626**	635	644	655	1%
Number of Engineers	14,346	15,400	17,600	19,600	6%

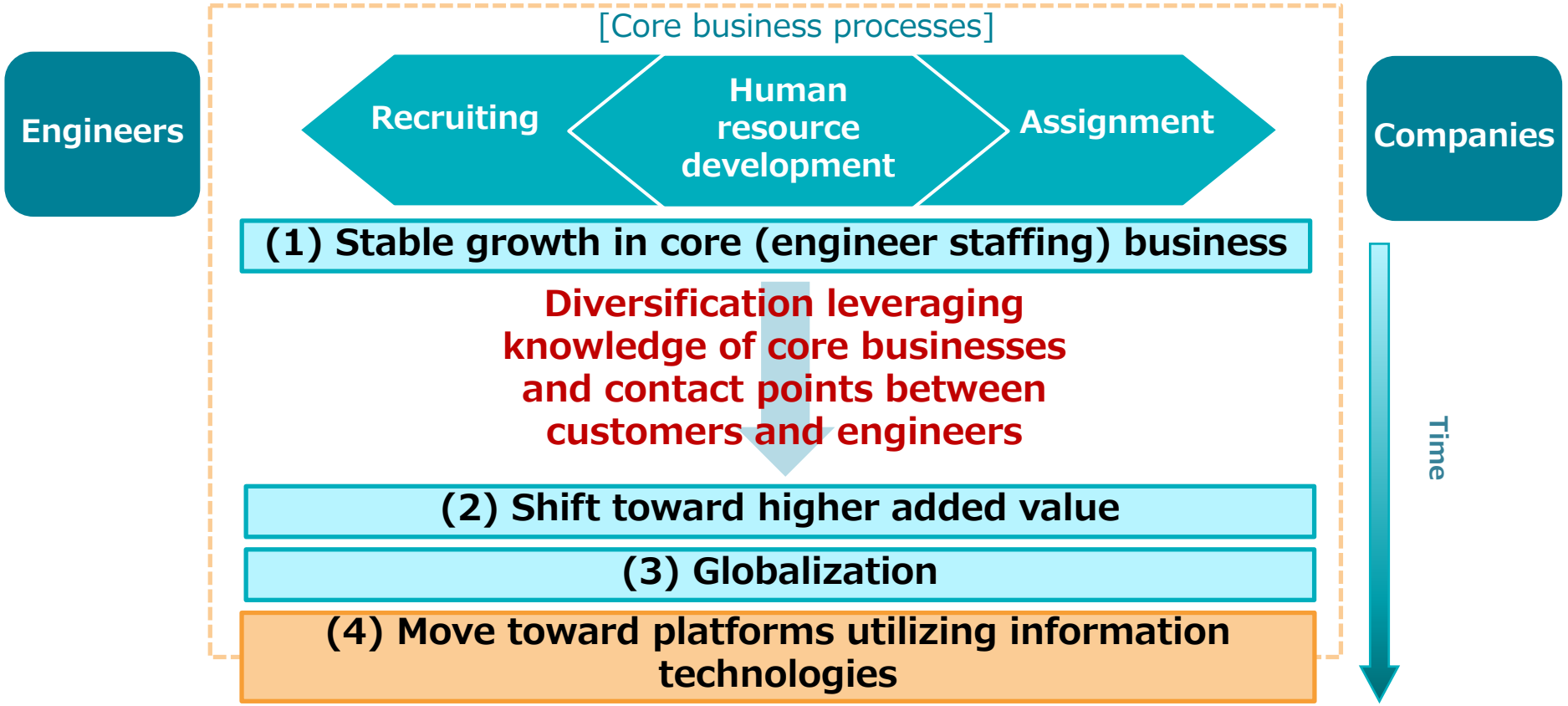
FY06/18 (Actual)	YoY%	FY06/19 (Guidance)	YoY%
1,165	16%	1,350	16%
112	16%	135	20%
84	10%	89	6%
24%	-	21%	-
630**	1%	-	-
16,797	17%	18,000+	7%+

* FY06/19 is based on the BS at the beginning of the FY, others are based on the average BS amount of the beginning and the end of FY
** TechnoPro + TechnoPro Construction

TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

3. Developing Our Growth Strategy (repost)

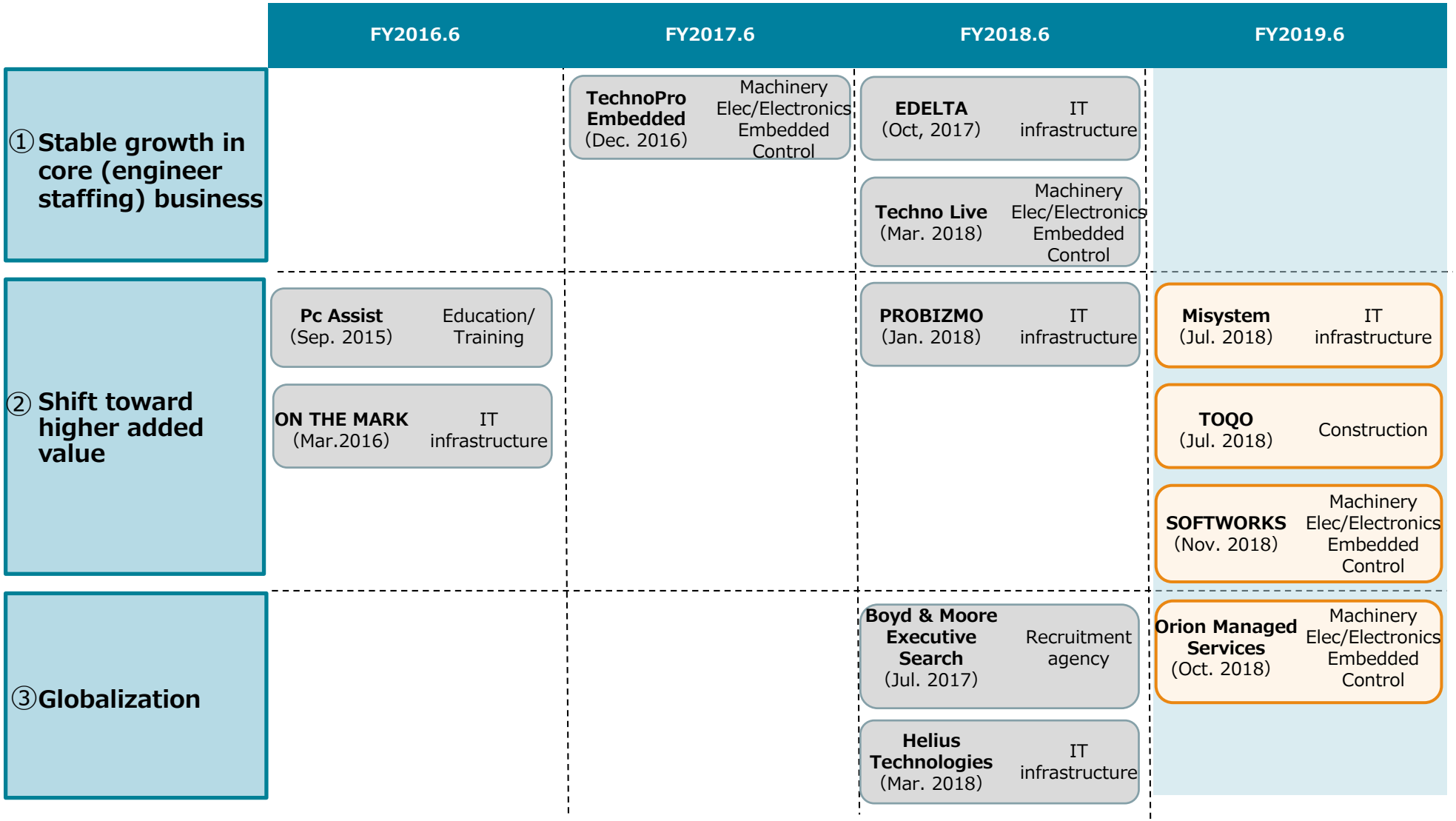


As a method of strategic advancement, pursue aggressive M&A activity (five-year investment budget of ¥20.0 billion)

Capital policy focusing on the balance of “Invest proactively in growth”, “Maintain appropriate financial strength (leverage)” and “Observe discipline in shareholder returns”

Copyright © TechnoPro Holdings, Inc. All rights reserved.

4. Progress of Medium-Term Management Plan – M&A

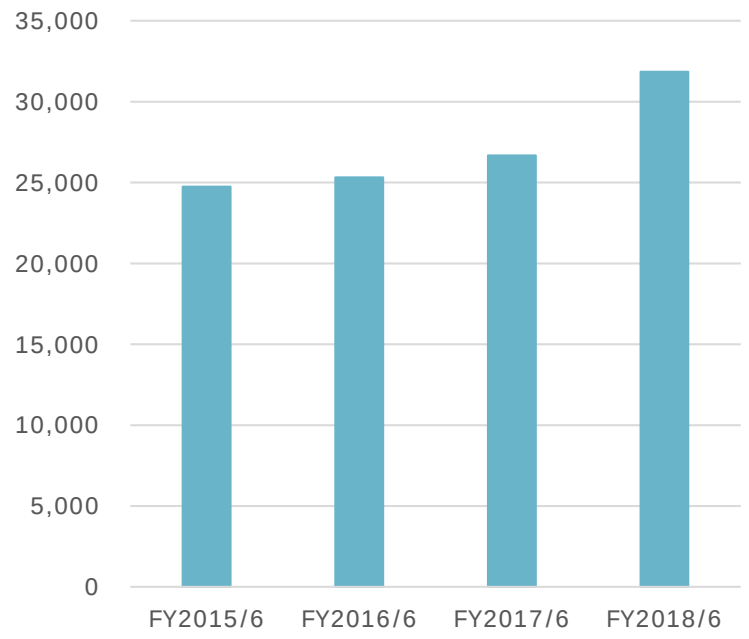


Copyright © TechnoPro Holdings, Inc. All rights reserved.

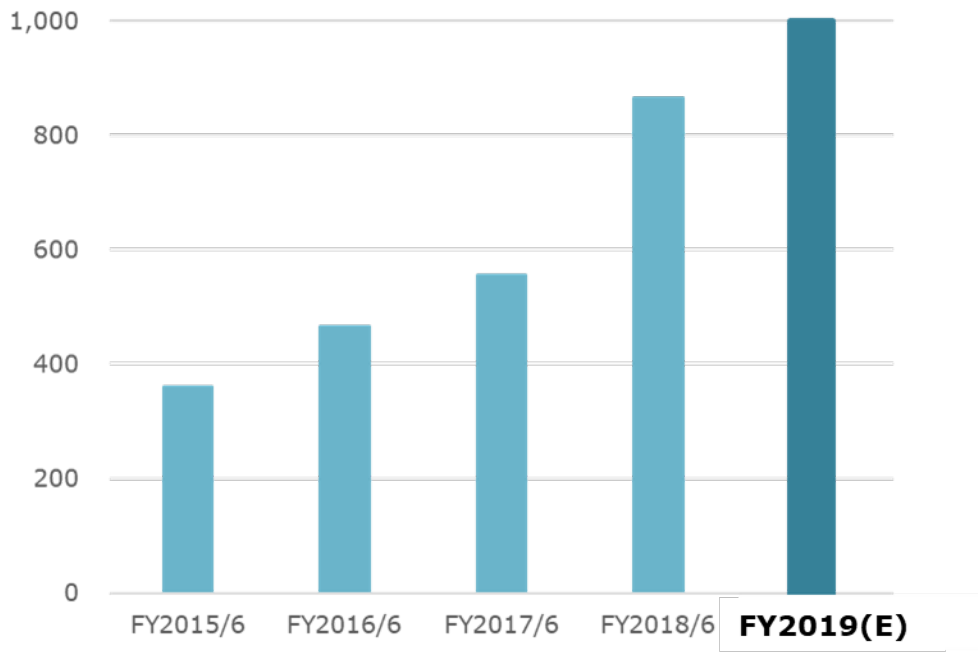
① Stable growth in core (engineer staffing) business

- Hired 1,744 engineers (+13.8%YoY) as reported in Q2
- Recruitment has become more cost-efficient as applicants and hires increase
- More than 1,000 new grads are expected to join in Apr. 2019
- Under a favorable recruitment conditions, the M&A strategy is focused on higher added value

No. of annual mid career applicants



No. of hired new grad engineers



TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

② Shift toward higher added value

Acquisition of SOFTWORKS

- ✓ Engaged in contracting business of embedded automotive system for over 20 years in Tokai area
- ✓ Approx. 40 engineers
- ✓ Advantages in the upstream of embedded automotive system development, with high level of technical expertise and know-hows
- ✓ Merged with TechnoPro (2018/12/31)

Acquisition of MI System

- ✓ Headquartered in Osaka and undertakes development and maintenance of SAP ERP /business applications and Web development
- ✓ Approx. 40 engineers
- ✓ Consultants/SEs have expertise to design and implement SAP business
- ✓ To be merged with TechnoPro (2019/5/1)

Business alliance with i's FACTORY

- ✓ Partnered with i's FACTORY, a data analytics company to provide training and development programs for data scientists
- ✓ Offers data analytics service to the customers of TechnoPro Design and i's FACTORY jointly

Initiation of RPA lectures

- ✓ Developed and initiated RPA lectures at Win Schools (PC Assist Corporation) with RPA Technologies
- ✓ Educate engineers who are capable of RPA

※RPA (Robotic Process Automation: Business automation led by robot)

TECHNOPRO

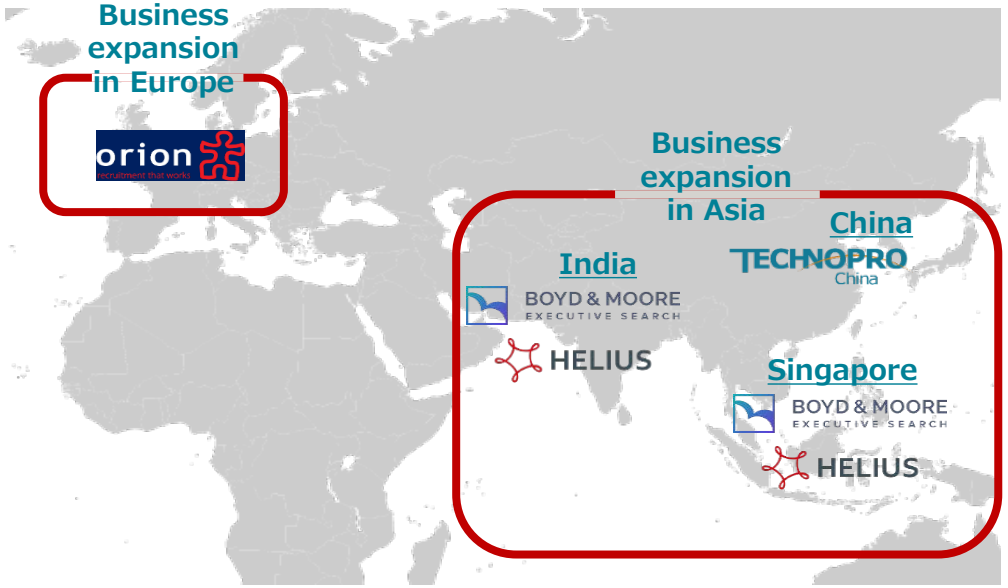
Copyright © TechnoPro Holdings, Inc. All rights reserved.

③ Globalization

Expand global footprint, in addition to the operational base in China (TechnoPro China Group) to:

Support overseas bases of Japanese companies

Increase utilization of non-Japanese nationals



Acquisition of Orion Managed Services

- ✓ Delivers engineering related staffing and permanent recruitment services
- ✓ Engineers: approx. 600
- ✓ Delivery of technical recruitment services to Japanese companies operating in the U.K.

Acquisition of Helius Technologies

- ✓ Delivers engineer staffing services in Singapore, India and Malaysia
- ✓ Engineers: approx. 600
- ✓ Expand offshore development service in India

Acquisition of Boyd & Moore Executive Search

- ✓ High-end talent search company mainly for IT companies based in Tokyo, India and Singapore
- ✓ Enhance engineer staffing to TechnoPro customers and talent acquisition capability of TechnoPro

Number of non-Japanese engineers

2015.6 Actual	2018.6 Actual	2018.12 Actual	**2022.6 Target**
315	756	861	**1,500**

(people)

TECHNOPRO

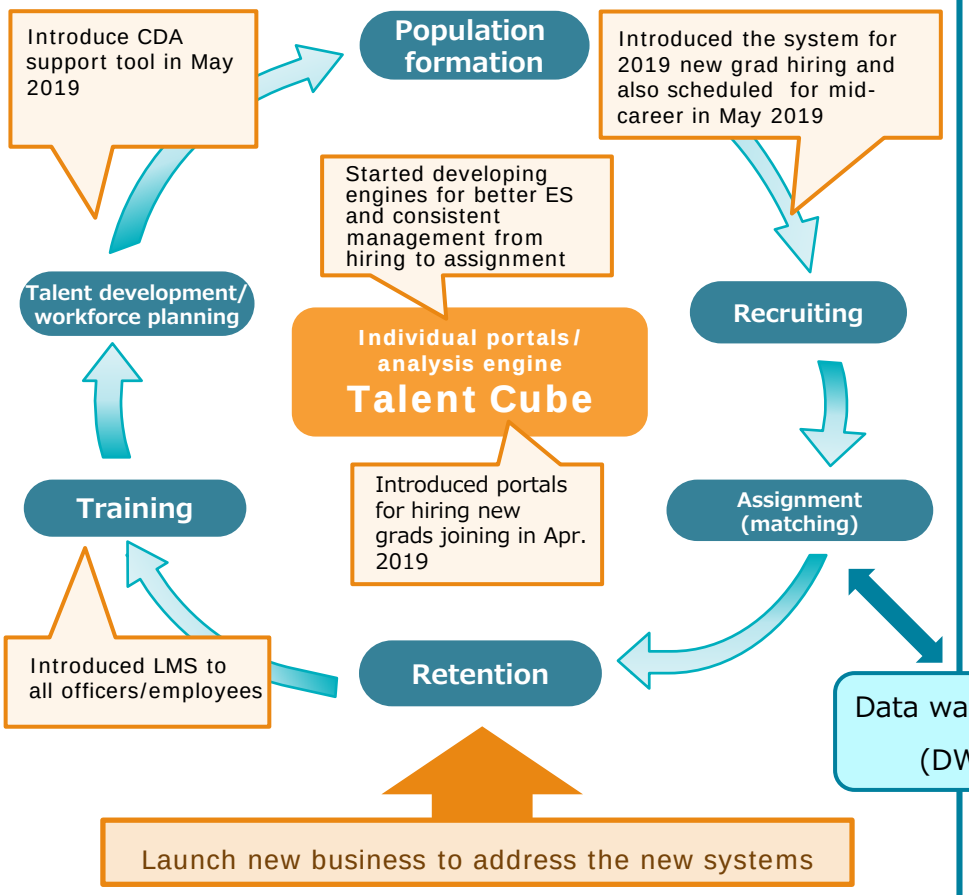
Copyright © TechnoPro Holdings, Inc. All rights reserved.

④Towards platforms utilizing IT (Proactive IT system)

Arm the core business with IT and promote HR services to meet the needs of companies and engineers

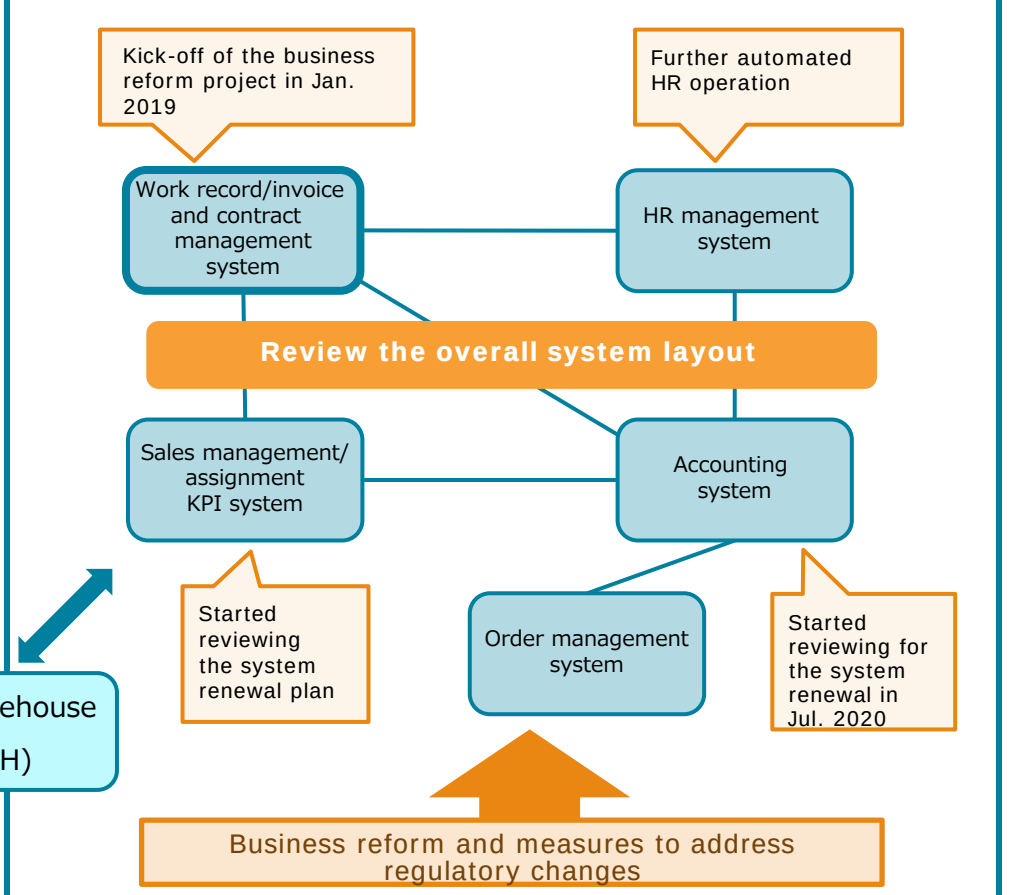
Talent management system

Revenue and profit growth



Business reform

Efficient business operation (Reduce SG&A and cost)



TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

5. Future outlook

FY06/20 target – to be almost achieved 1 year ahead of plan



Medium-Term Management Plan – may be revised earlier, aligning with the progress of growth strategy

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Contents

			Page
Ⅰ	:	Progress of Medium-Term Management Plan	2
Ⅱ	:	Our responses to investor inquires	12
Ⅲ	:	Historical performance and market evaluation	18

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Our responses to investors inquiries

1. Impact of the current economy
2. Resilience to economic cyclicality
3. Competitive dynamics in employment market
4. Impact of work style reform

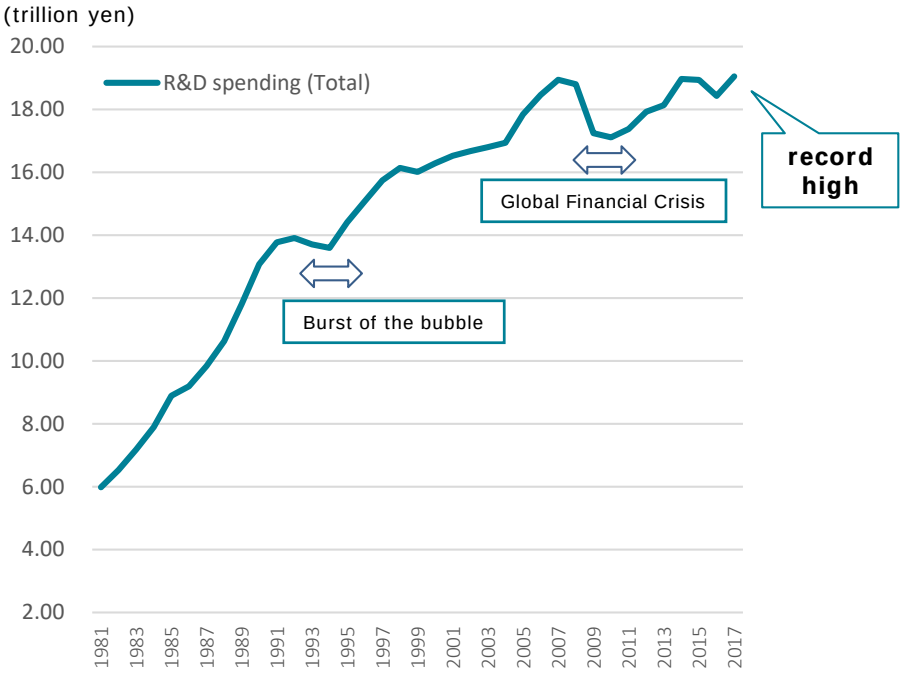
Copyright © TechnoPro Holdings, Inc. All rights reserved.

1. Impact of the current economy

- R&D is not directly affected by economic trends
- Although the demand varies with each customer, our overall business remains strong

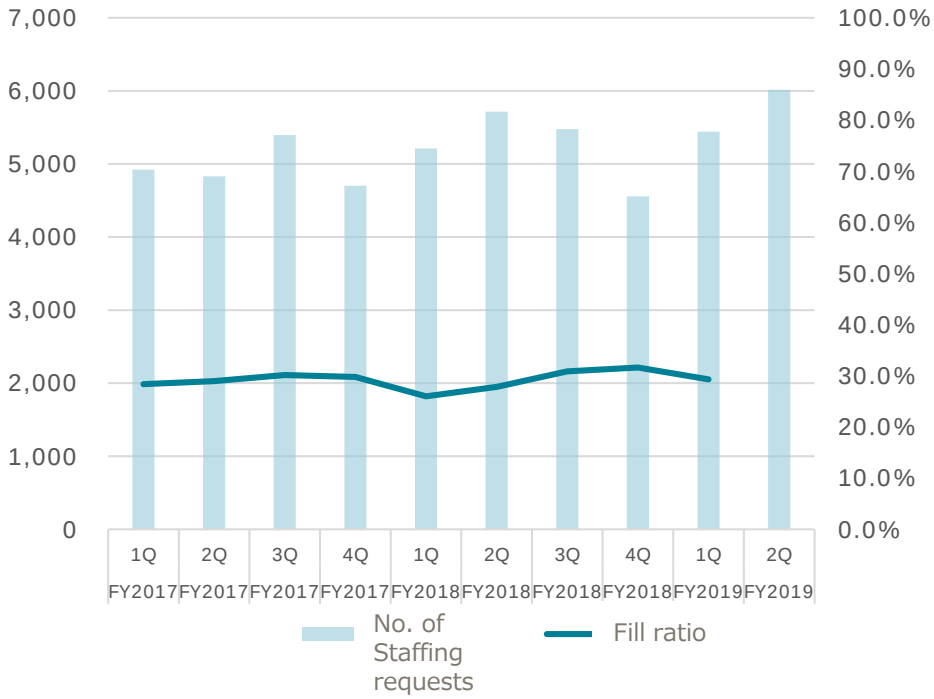
Transition of R&D spending in Japan

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



Historical staffing request

※No. of staffing requests is based on the inquires which satisfy our criteria such as talents very likely to be assigned within a certain period



Copyright © TechnoPro Holdings, Inc. All rights reserved.

2. Resilience to economic cyclicality

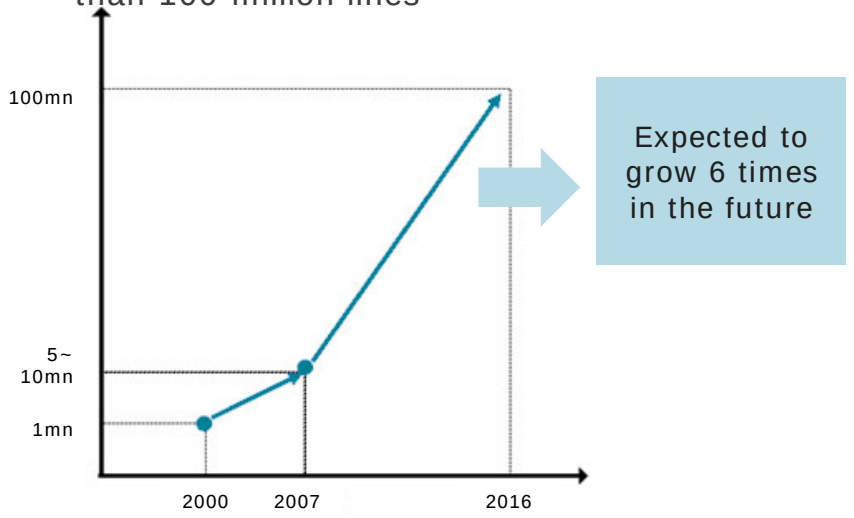
- Limited exposure to the production sites which are more likely to be exposed to economic slowdown
- Resilient strong financial base for a temporary decline in utilization ratio

Strategic optimization

IT	Structural demand growth expected as the economy becomes more software-defined
Machinery/ Electric	Demand based on mid-to-long term strategies such as autonomous driving
Construction	Various projects related with the Tokyo 2020 Olympics, World Expo 2025 in Osaka and revision of the Building Standards Law

Software complexity

Automobile software used to have 1 million lines of codes back in 2000, now have more than 100 million lines



<Ref.: Lines of codes of other products>
- Android OS:12million lines
- F-35 fighter: 24million lines
- Microsoft Office 2013: 44million lines

Source: Ministry of Economy, Trade and Industry
"Measures for accelerating productivity improvement by use of IT", NXP

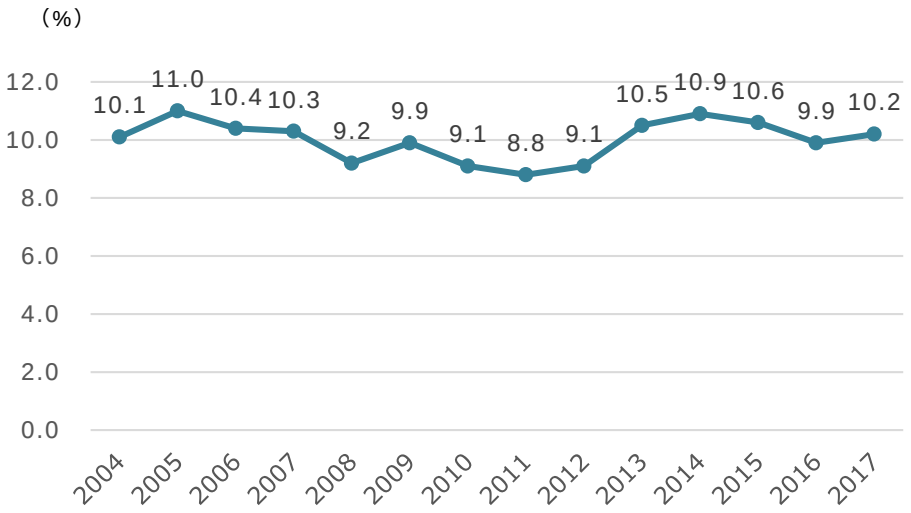
Copyright © TechnoPro Holdings, Inc. All rights reserved.

3. Competitive dynamics in employment market

- Actively hiring talents as reported in the quarterly financial results
- Turnover ratio remains almost flat and we can continue securing potential talents
- We see a positive momentum in new grads market which is even more focused on blue-chip companies

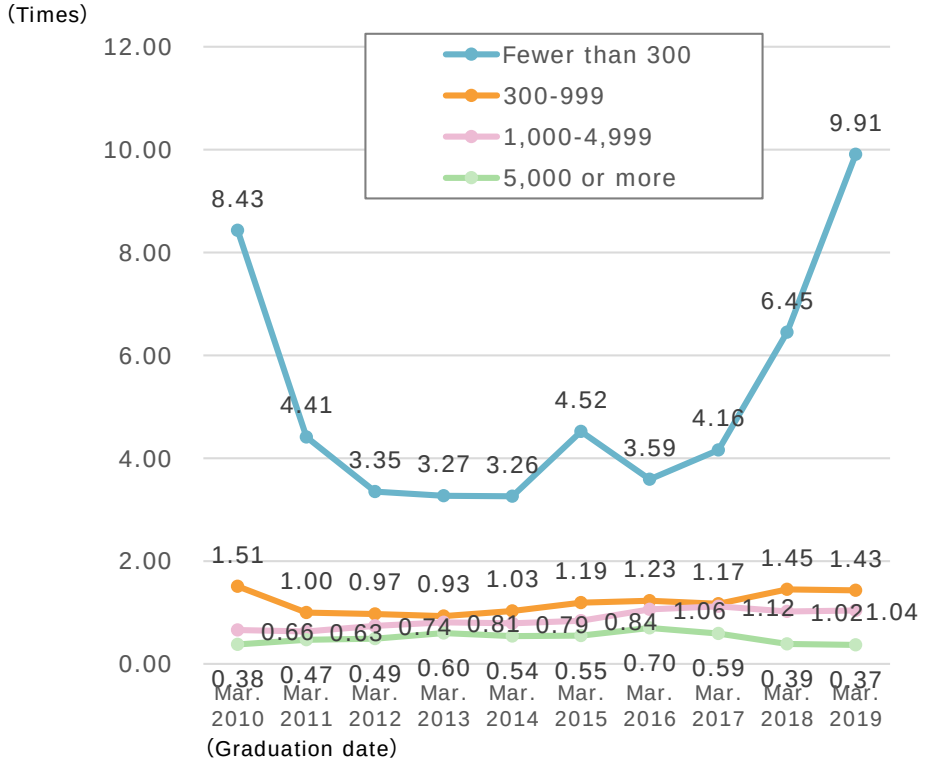
Turnover ratio in Japan

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



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

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



Copyright © TechnoPro Holdings, Inc. All rights reserved.

4. Impact of work style reform

- Given our favorable work environment, the impact of changes to paid leave and overtime regulation would be minimal
- Although there are views in which the conversion to permanent in-house employment might proceed, in terms of engineers the outsourcing ratio is relatively high in Japan. The needs for external resources will not decline in highly professional areas.

Utilization rate of our paid leave (%)

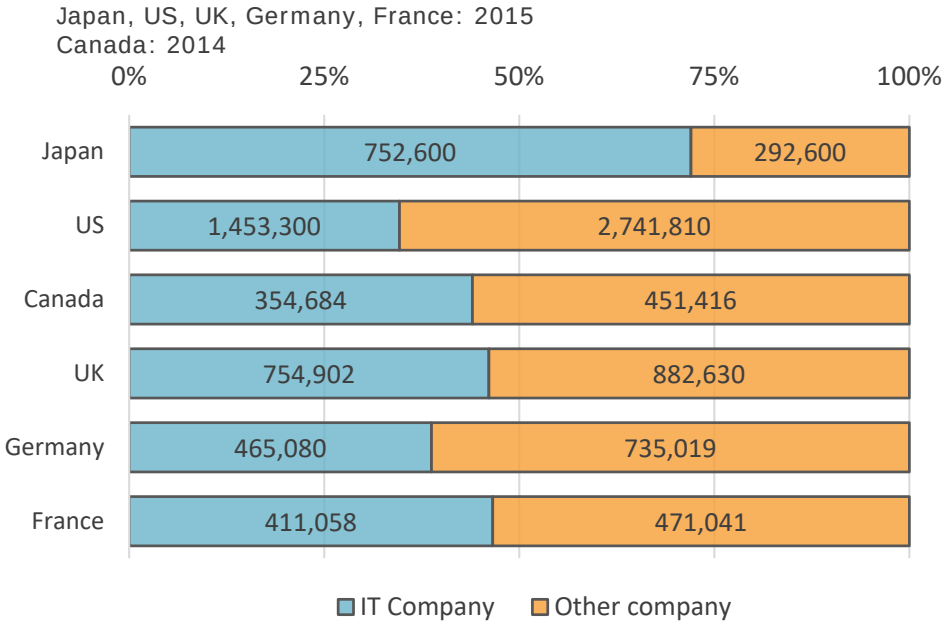
2015	2016	2017	2018
65.0	68.8	71.3	**75.0**

Our average overtime (hour/month)

2015	2016	2017	2018
23.3	20.6	19.2	**17.6**

Ratio of IT talents at IT and non-IT companies

※IT companies mean IT vendors and non-IT companies mean IT user companies



Source: Information-technology Promotion Agency Japan "IT Talent White Paper 2017"

TECHNOPRO

Copyright © TechnoPro Holdings, Inc. All rights reserved.

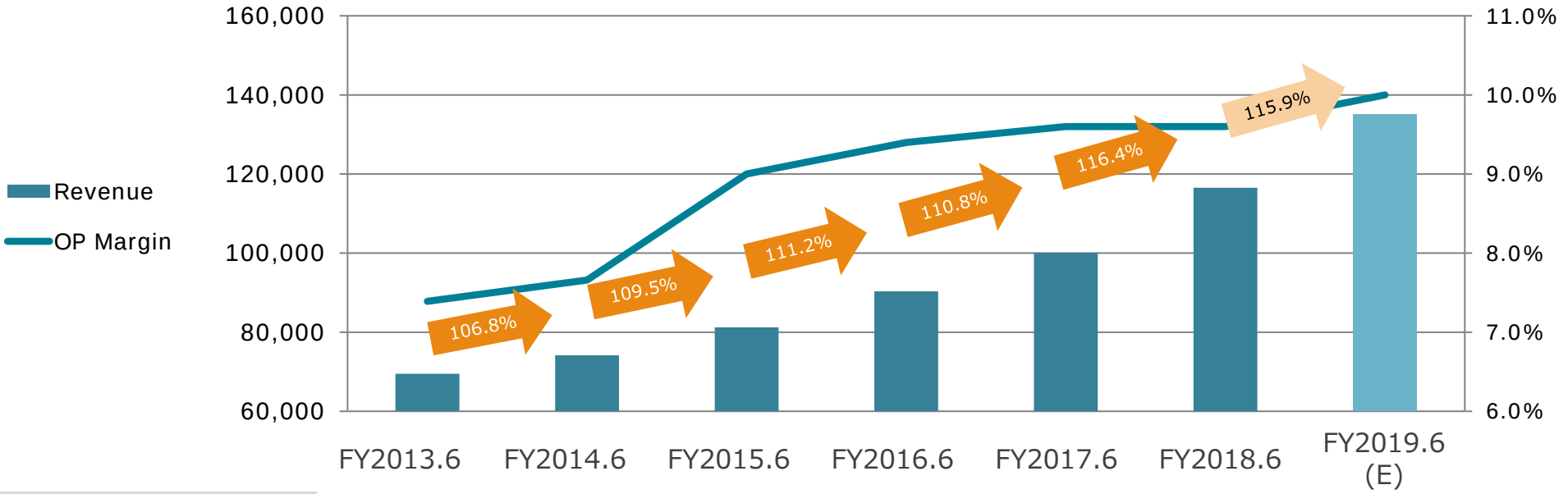
Contents

			Page
Ⅰ	:	Progress of Medium-Term Management Plan	2
Ⅱ	:	Our responses to investor inquiries	12
Ⅲ	:	Historical performance and market evaluation	18

Copyright © TechnoPro Holdings, Inc. All rights reserved.

Historical performance and market evaluation

We have no control on the market's evaluation,
but we closely monitor it from a management perspective



	FY2013.6	FY2014.6	FY2015.6	FY2016.6	FY2017.6	FY2018.6	FY2019.6 (E)
Revenue (JPY millions)	69,479	74,172	81,241	90,323	100,095	116,529	135,000
Operating profit (OP) (JPY millions)	5,136	5,688	7,283	8,494	9,647	11,238	13,500
Net (quarterly) profit attributable to owners of the parent (JPY millions)	3,703	4,027	6,874	7,359	7,717	8,498	8,900
OP margin	7.4%	7.7%	9.0%	9.4%	9.6%	9.6%	10.0%
Net (quarterly) profit per share	108.68	118.20	201.76	215.80	225.58	244.81	245.49

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.