TechnoPro Group

Financial Updates and Progress of Medium-Term Management Plan

TechnoPro Holdings, Inc. (code: 6028,TSE)

July 31, 2019

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

Five years, from FY18.6 to FY22.6

(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

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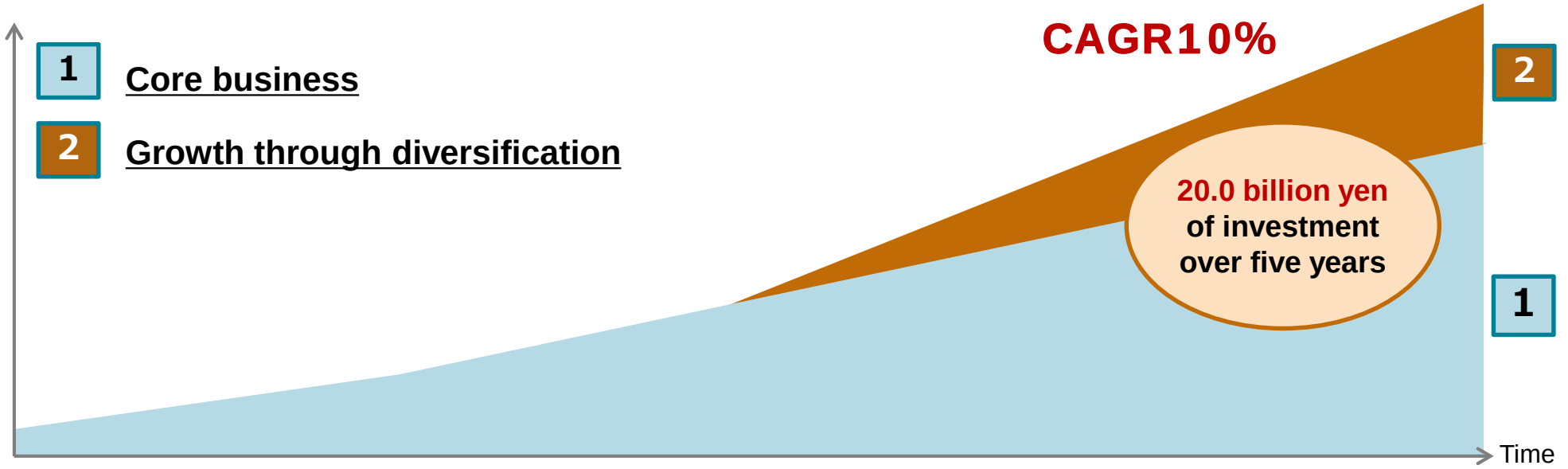
Management Targets (repost)

Position five-year period as time to build foundations for 10 years into the future

<Current Medium-Term Management Plan>

Create a solid management foundation 2014–2015 | Accelerate growth 2016–2017 | **Foundation for 10 years in the future 2018–2022** | Long-term sustainability



(billions of yen)	FY16.6	FY17.6	FY18.6	-	FY20.6	-	FY22.6	CAGR
Sales	90.3	100.0	109.0		135.0		160.0 or more	10% or more
Operating profit	8.5	9.6	10.6		13.5		17.0 or more	12% or more
Net profit	7.4	7.7	7.6		9.0		11.0 or more	7% or more
ROE	32.0%	29.9%	→		20% or more		→	

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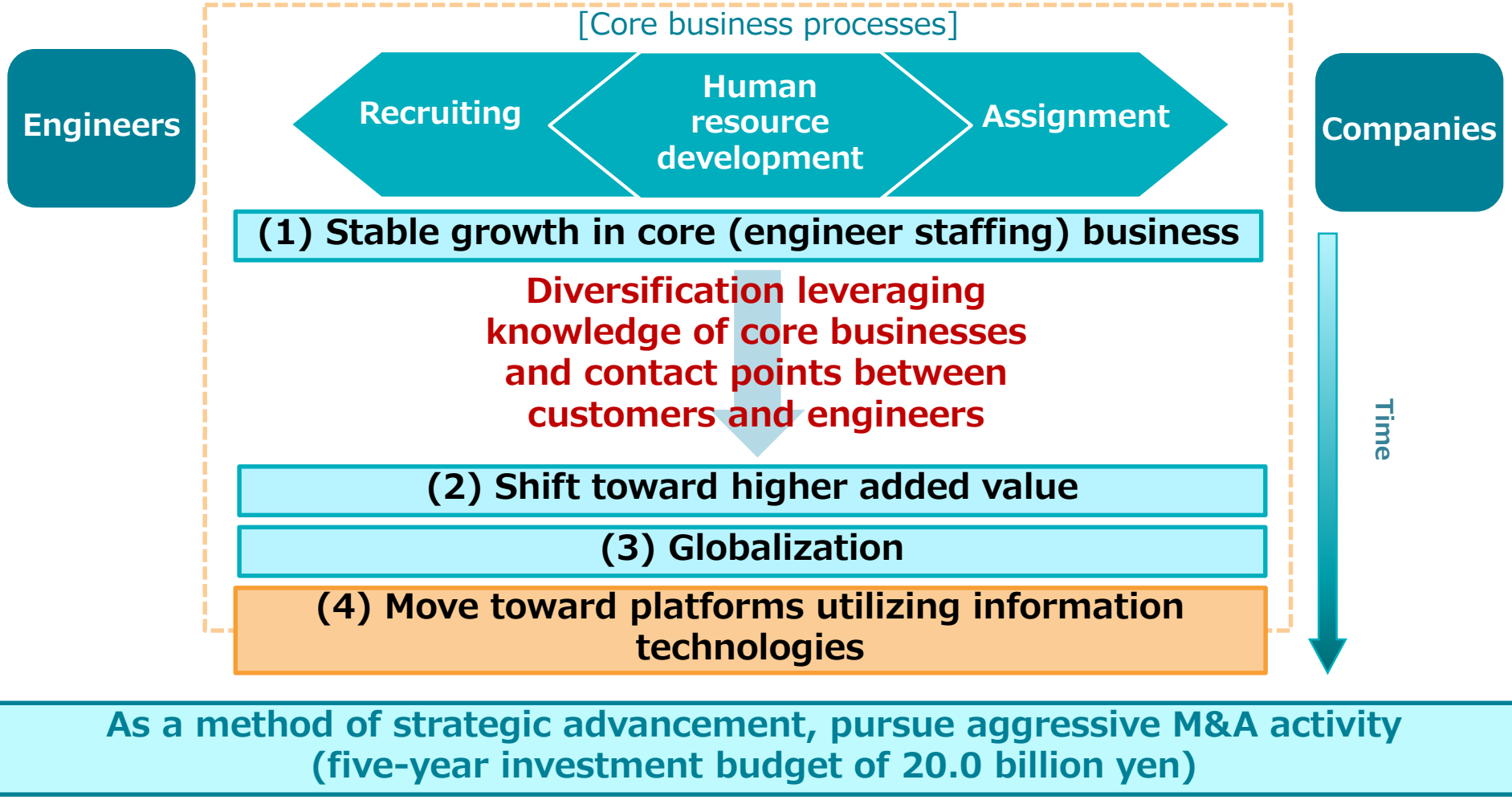
Developing Our Growth Strategy (repost)



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Progress of Medium-Term Management Plan – Financial Updates (1/3)

- Achieved medium-term plan goals for third year in FY19.6, one year ahead of schedule
- FY20.6 revenue expected to exceed FY22.6 plans (final year of medium-term plan)
- Three years beginning FY20.6 will include strategic investments for engineer benefits, growth, and operating efficiencies

(billion yen, except headcounts and sales per head)

	FY 17.6 (Results)	FY 18.6 (Results)	FY 20.6 (Plan)	FY 22.6 (Plan)	CAGR 5 years
Revenue	100.0	109.0	135.0	160.0	*+10%*
Operating Profit	9.6	10.6	13.5	17.0	*+12%*
OP Margin	*9.6%*	*9.7%*	*10.0%*	*10.6%*	-
Net Profit	7.7	7.6	9.0	11.0	*+7%*
*ROE**	*29.9%*	*20%-plus*			-
Sales per head** (yen in thousands)	626	635	644	655	*+1%*
Number of Engineers [Japan]	14,346	15,400	17,600	19,600	*+6%*

FY 18.6 (Results)	YoY	FY 19.6 (Results)	YoY	FY 20.6 (Results)	YoY
116.5	*+16%*	144.1	*+24%*	160.0	*+11%*
11.2	*+17%*	13.7	*+22%*	15.3	*+11%*
9.6%	-	*9.5%*	-	*9.6%*	-
8.4	*+10%*	9.6	*+14%*	10.1	*+4%*
24.5%	-	*22.4%*	-	*22.5%*	-
630	*+1%*	630	*0%*	-	-
16,797	*+17%*	19,293	+15%	21,000	+9%

* FY19.6 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, Inc. + TechnoPro Construction

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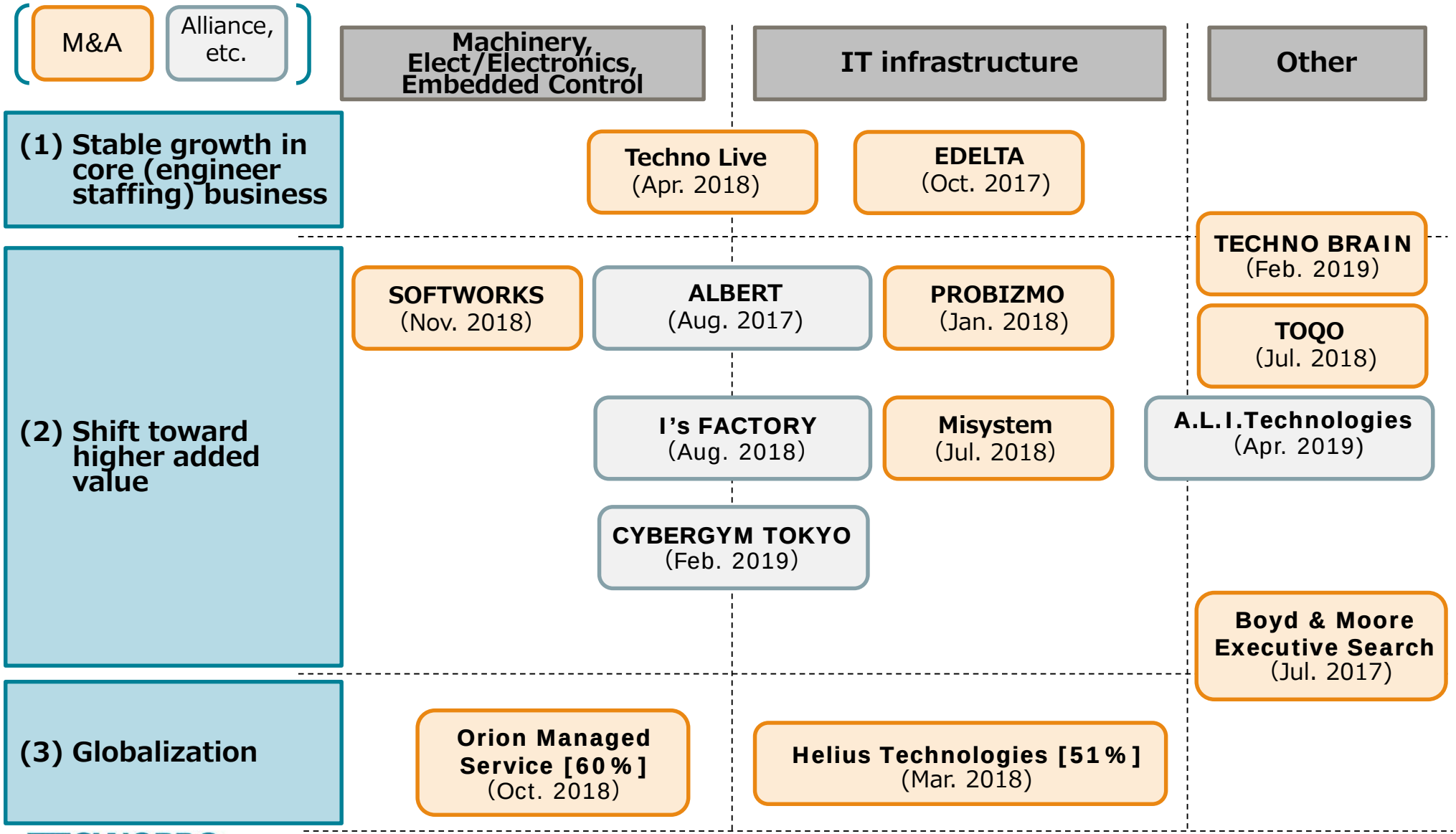
Progress of Medium-Term Management Plan –M&A / Alliance (2/3)



*Figures in [ ] represent ownership ratio; companies without figures are wholly owned.

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Progress of Medium-Term Management Plan – M&A review (3/3)

- Invested capital* in M&A during medium-term plan amounted to **9.5 billion yen in total** (excluding 1.5 billion yen in investments in entities merged into TechnoPro, Inc.), related FY19.6 ROIC** was **8.6%**
- Progress in ¥20.0 billion investment budget at 55% as of second year (including invested capital in three entities merged into TechnoPro Inc.)
- Aiming for ROIC of **10%-plus** for each investment area and each acquired company, creating value moving forward

FY19.6 Results

	Machinery, Elect/Electronics, Embedded Control	IT infrastructure	Other	Invested Capital (yen)	ROIC
(1) Stable growth in core (engineer staffing) business				1,104 mn	13.4%
(2) Shift toward higher added value				4,248 mn	7.5%
(3) Globalization				4,170 mn	8.6%
Invested Capital (yen)	1,592 mn	5,214 mn	2,716 mn		
ROIC	10.4%	8.8%	7.3%		

Invested Capital 9,522 million yen
Profit Contribution After Tax*** 823 million yen
ROIC 8.6%

* When acquiring a company, invested capital is considered share acquisition price plus assumption of net interest-bearing debt. In other cases, invested capital is considered share acquisition price

** ROIC (Return on Invested Capital)= Operating profit after taxes(share ownership ratio)÷Invested Capital

*** Twelve-month period trailing back from the end of the period in which Orion and other companies acquired

*Excluding entities merged with TechnoPro, Inc. (Techno Live, Misystem, SOFTWORKS). Total invested capital in three entities amounted to 1,503 million yen.

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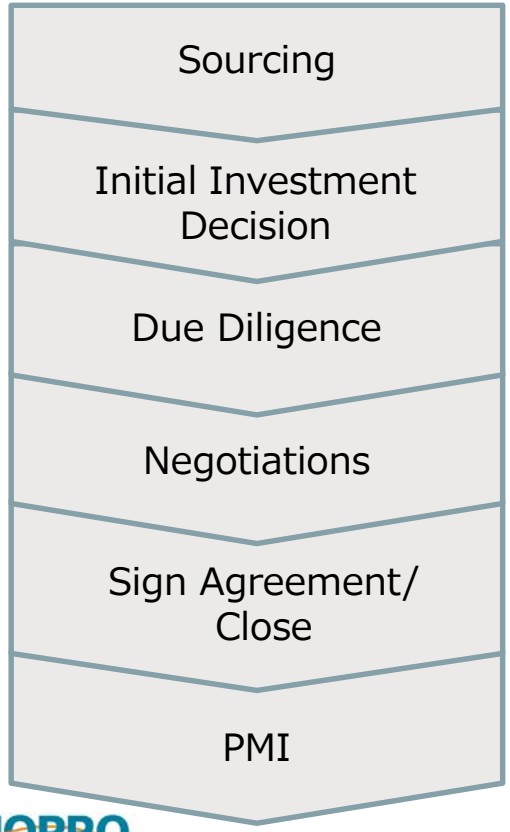
Approach to Future M&A Activities

- We will continue to be **active in M&A** as a growth strategy
  - ✓ Emphasis not only on EPS growth, but also on value creation (ROIC exceeds cost of capital)
  - ✓ Proactive approach to target companies aligned with our business strategy
- **Operating division and post-merger integration management team to be active** from the due diligence stage, starting post-merger integration measures and group collaboration as soon as possible

M&A Process



- Select target based on business strategy
- **Proactive approach based on our long list**

- Disciplined investment decision reflecting cost of capital and ROIC after operating improvements
- Select acquisition method reflecting risk sharing and incentives

- **Active participation of operating division and post-merger integration managers in due diligence**
- Draft post-merger integration plan (100-day plan) ahead of time

- Comprehensive consideration of all due research categories during due diligence
- **Negotiate terms and protection mechanism to avoid down-side risk**

- Procure funds reflecting cost of capital
- Set strict closing condition terms

- **Begin post-merger integration as soon as possible**
- **Strengthen relationships with group companies for cross-selling, etc.; achieve expected synergies**
- Achieve/maintain minimum ROIC targets

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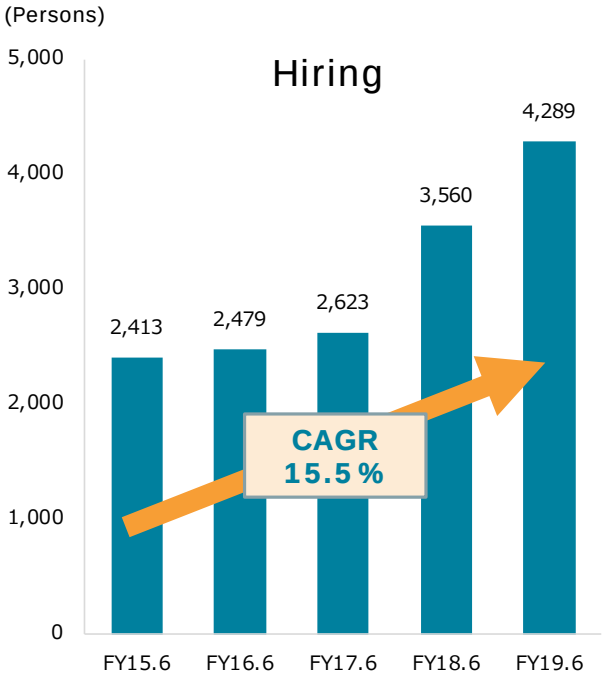
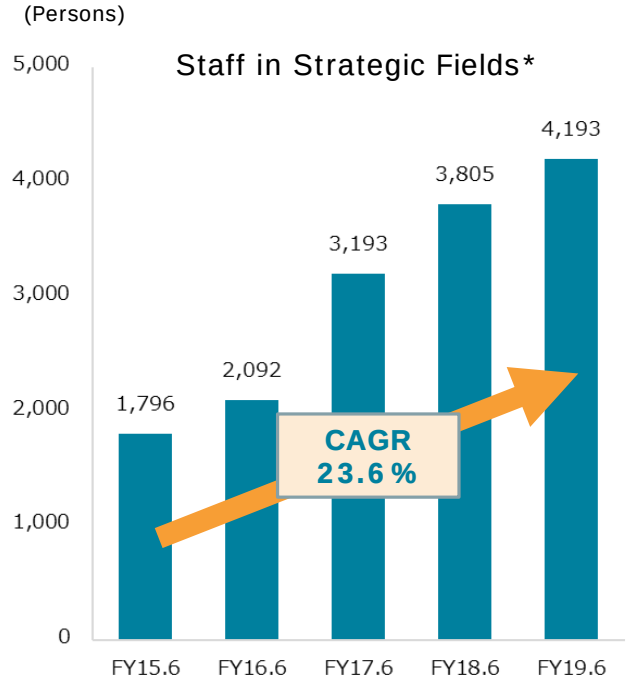
(1) Stable growth in core (engineer staffing) business

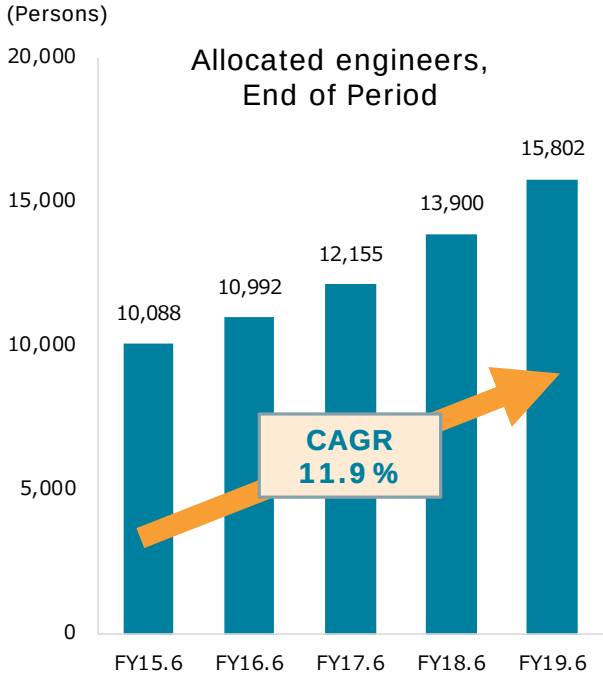
Engineer Staffing Companies: TechnoPro, Inc., TechnoPro Construction, Inc.

- Hired **4,289 engineers** in FY19.6; five-year avg. growth of **15.5%**
- Total of **4,193 engineers** in strategic fields as of FY19.6; five-year avg. growth of **23.6%**
- Total of **15,802 allocated engineers** utilization cases as of FY19.6; five-year avg. growth of **11.9%**

Hire | **Develop HR** | **Assign**







*Strategic fields
Technology fields determined to be important over the medium and long term.
Ex. 3D design technology, embedded software, ERP, security, finance and automobile ICT, etc.

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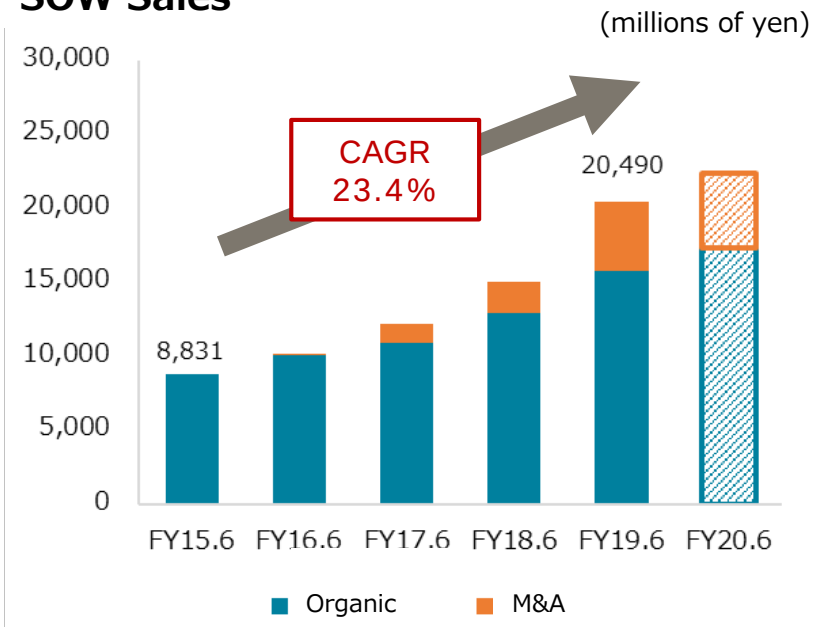
(2) Shift toward higher added value

SOW Strategy (Contract Services/ Subcontracting)

Adding Misystem, with its strengths in ERP, and SOFTWORKS, with its strengths in embedded software for automobiles, and other high-value-added companies to the group has brought in talented project managers and accelerated SOW business growth.

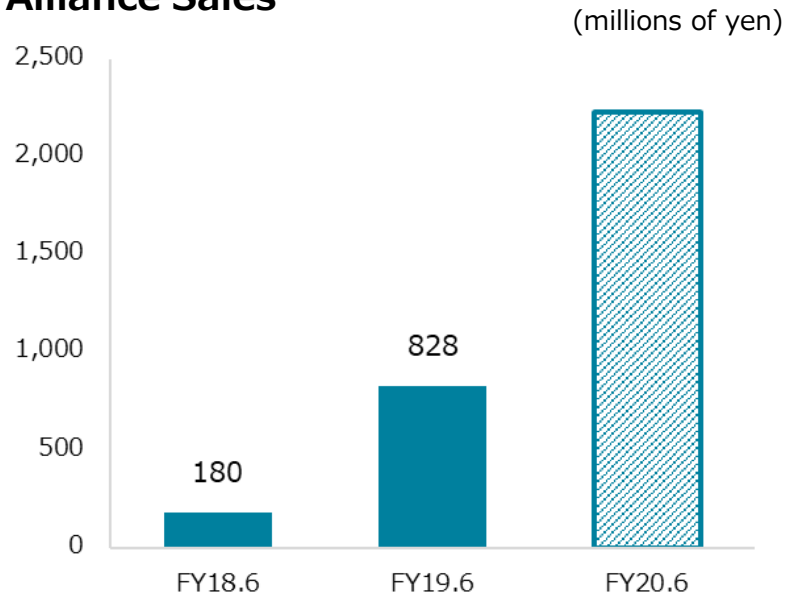
SOW Sales



Alliance Strategy

We are expanding alliances* and partnerships with data scientists and cyber security experts to foster an environment in which more engineers can take on projects in leading-edge technologies.

Alliance Sales



*See business alliances on P.6

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(3) Globalization – Initiatives for Global Collaboration

- Continue to emphasize globalization for ongoing sustainable growth
- Clarify management responsibility for overseas businesses and strengthen the role of the Global Business Promotion Department
  - ✓ Bolster sales support functions for overseas bases and introduce systematic sales at overseas bases leveraging the 2,000-strong customer list in Japan

TechnoPro Overseas Bases

- TechnoPro China Group
- Boyd & Moore Executive Search
- Helius Technologies
- Orion Managed Service

Election of Directors and Executive Officers for Overseas Business

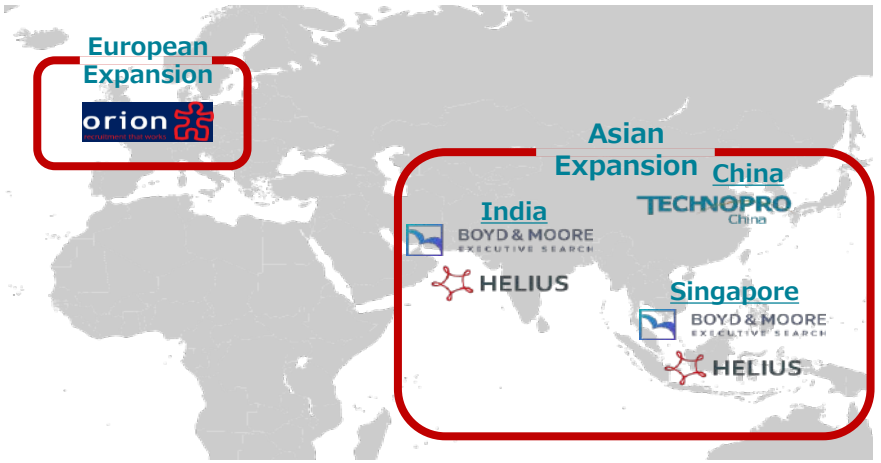
Global Business Promotion Department

- ➢ Link Japanese customers to overseas bases for sales support
- ➢ Management (post-merger integration) support
- ➢ Develop solutions for Japanese clients

TechnoPro, Inc. Global Business Division

- ➢ Assign full-time manager to encourage overseas business growth

- Establish regular meeting system to link global bases together, deepen involvement in budget and KPI control, sales activities
- Establish Global Business Division at both holding company level and within operating company TechnoPro, Inc.
- Develop new global strategy toward TechnoPro Group medium- and long-term growth



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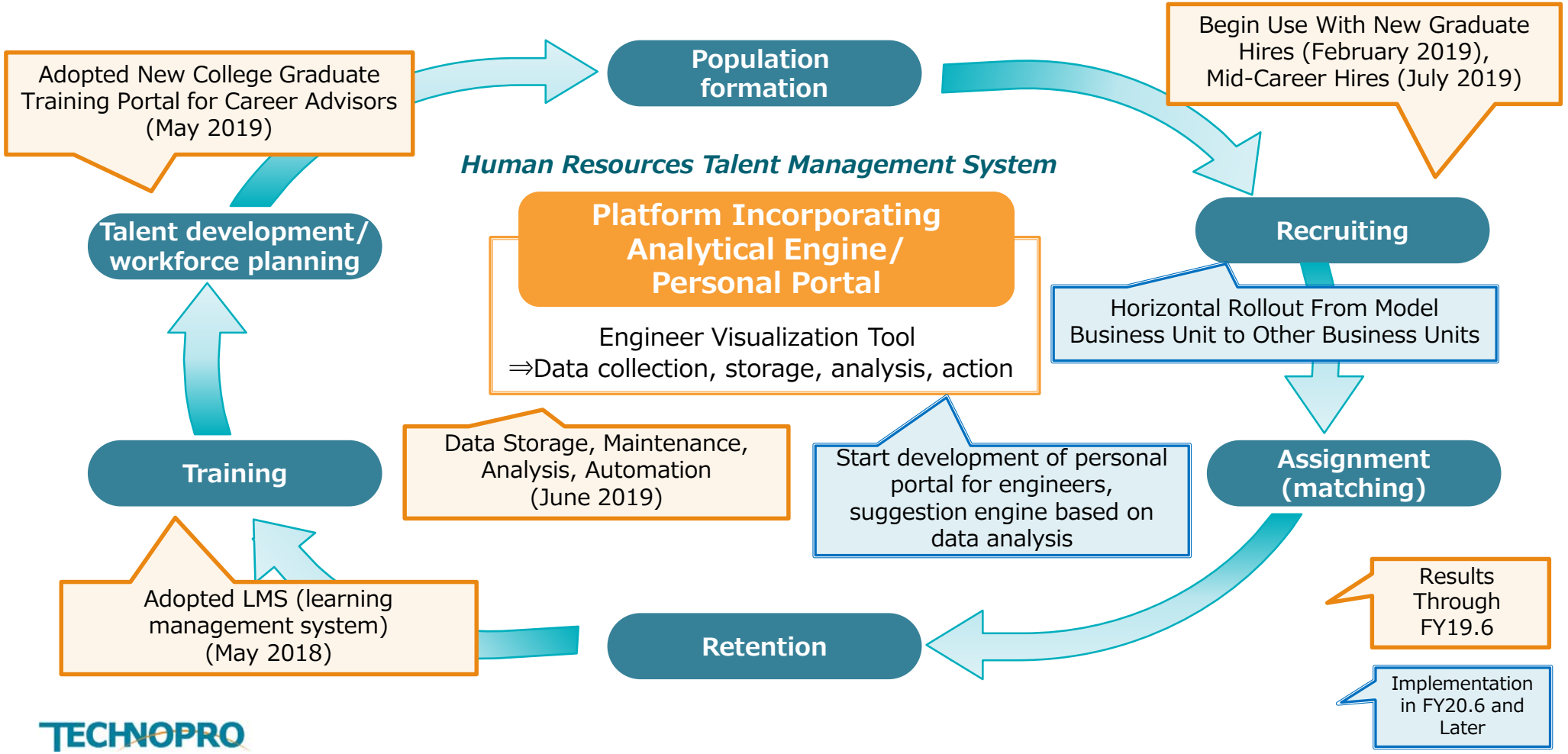
(4)Move toward platforms utilizing information technologies

Building a Human Resources Talent Management System

- Incorporate IT into core businesses to accelerate HR services that anticipate company and engineer needs
- FY19.6 will show progress in efficient hiring activities, secure relations with offerees, and improved engineer motivation
- Actively improve engineer value, aiming for improved hiring efficiency, effective HR training, and appropriate engineer assignments (increased base charge)



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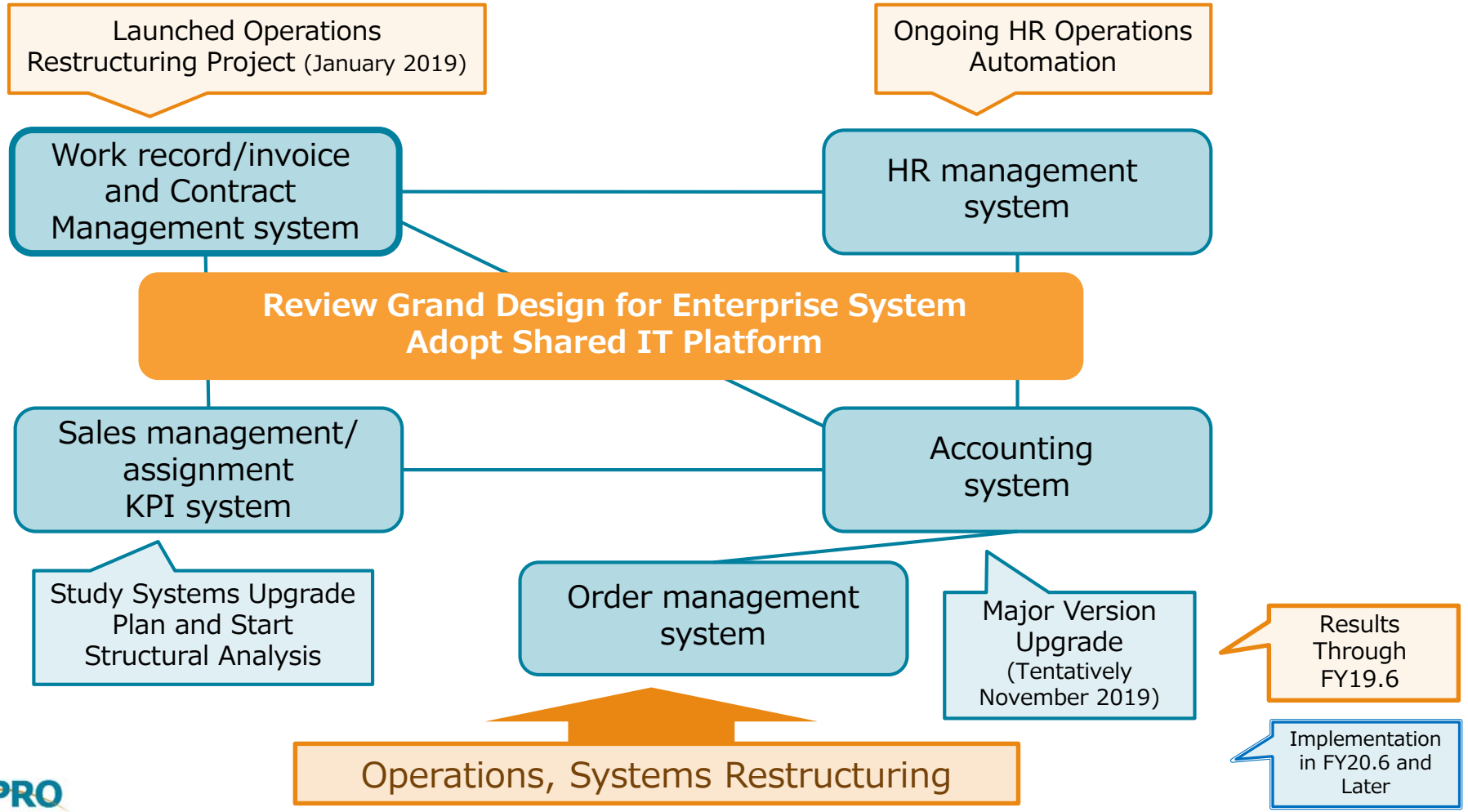
(4)Move toward platforms utilizing information technologies

Restructure Enterprise System

- Toward our new system release in July 2022, we launched an operations restructuring project in January 2019: Conceiving a New Approach to Next-Generation Work Flow and New System Adoption
- In connection with the new system adoption, we are reviewing the grand design for our enterprise system, while identifying investment returns. We are also launching a new systems structure analysis and version upgrade ⇒ Aiming for a Single System, Aiming for a Shared IT Platform



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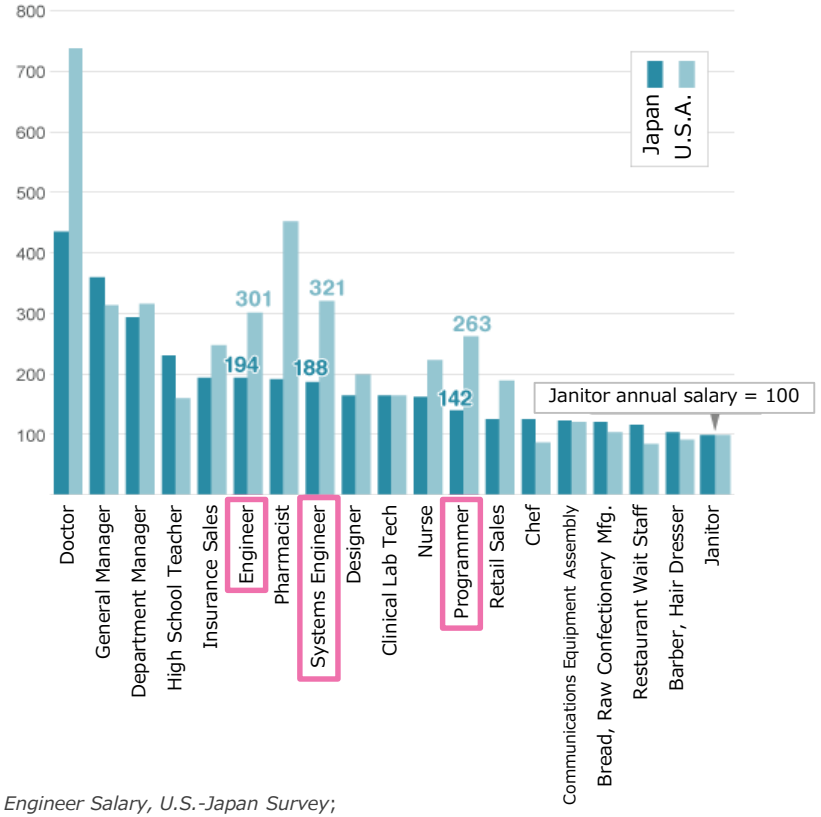
Approach to Improving Employee Benefits

- Additional costs to comply with equal pay for equal work rules will (enforced beginning April 2020) be small focus. At the same time, we will invest actively in improving employee benefits and training for engineers.
- Improved employee satisfaction contributes to increased retention, more efficient hiring, and increased employee motivation, etc., resulting in higher profitability

Salary by Occupation: U.S.-Japan Comparison (2016/Males)
(Janitor annual salary indexed to 100)



Source: *Report: Engineer Salary, U.S.-Japan Survey*;
TechnoPro Holdings
Research Institute for STEM Human Resources, Doshisha University

Background

Engineers have a relatively low status in Japan (see graph to the left)

Poor benefits are one factor contributing to chronic shortages of engineers

Details

In addition to increasing regular base, we will invest **3.0 billion yen over three years** to improve employee benefits

Cost increases will be absorbed by improved profits due to base charge hike, value added services and higher productivity, leading to maintenance of profit margins

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Future Developments

- FY22.6 revenue forecast of **192.0 billion yen** on an organic basis (+32.0 billion yen vs. current), annual avg. growth rate of **10.0%** over three years
- Invest 3.0 billion yen in engineer benefits over three years, aiming for profit margin improvement
- We intend to **create a new medium-term management plan** over the next year, making an official announcement in July 2020

(billions of yen)

	FY19.6		FY20.6		FY22.6			
	(Results)	*YoY*	(Guidance)	*YoY*	Mid-term Plan	(Plan)	Vs. Plan	*CAGR***
Revenue	144.1	*+23.7%*	160.0	*+11.0%*	160.0	192.0	+32.0	*+10.0%*
Operating Profit	13.7	*+22.3%*	15.3	*+10.0%*	17.0	19.0	+2.0	*+11.4%*
OP margin	*9.5%*		*9.6%*		*10.6%*	*9.9%*	-	-
Net Profit*	9.6	*+13.9%*	10.1	*+4.6%*	11.0	12.5	+1.5	*+8.9%*
Number of Engineers [Japan, year-end]	19,293	*+14.9%*	21,000	*+8.8%*	19,600	24,600	+5,000	*+8.4%*
Utilization rate [Japan]	95.5%	*-0.2pt*	95-96%	-	95-96%	95-96%	-	-

* Net profit attributable to owners of parent after non-controlling interests referred to as *Net Profit* in this document

** 3 years average based on FY19.6

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