TechnoPro Group
Business Environment and Management Policies

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

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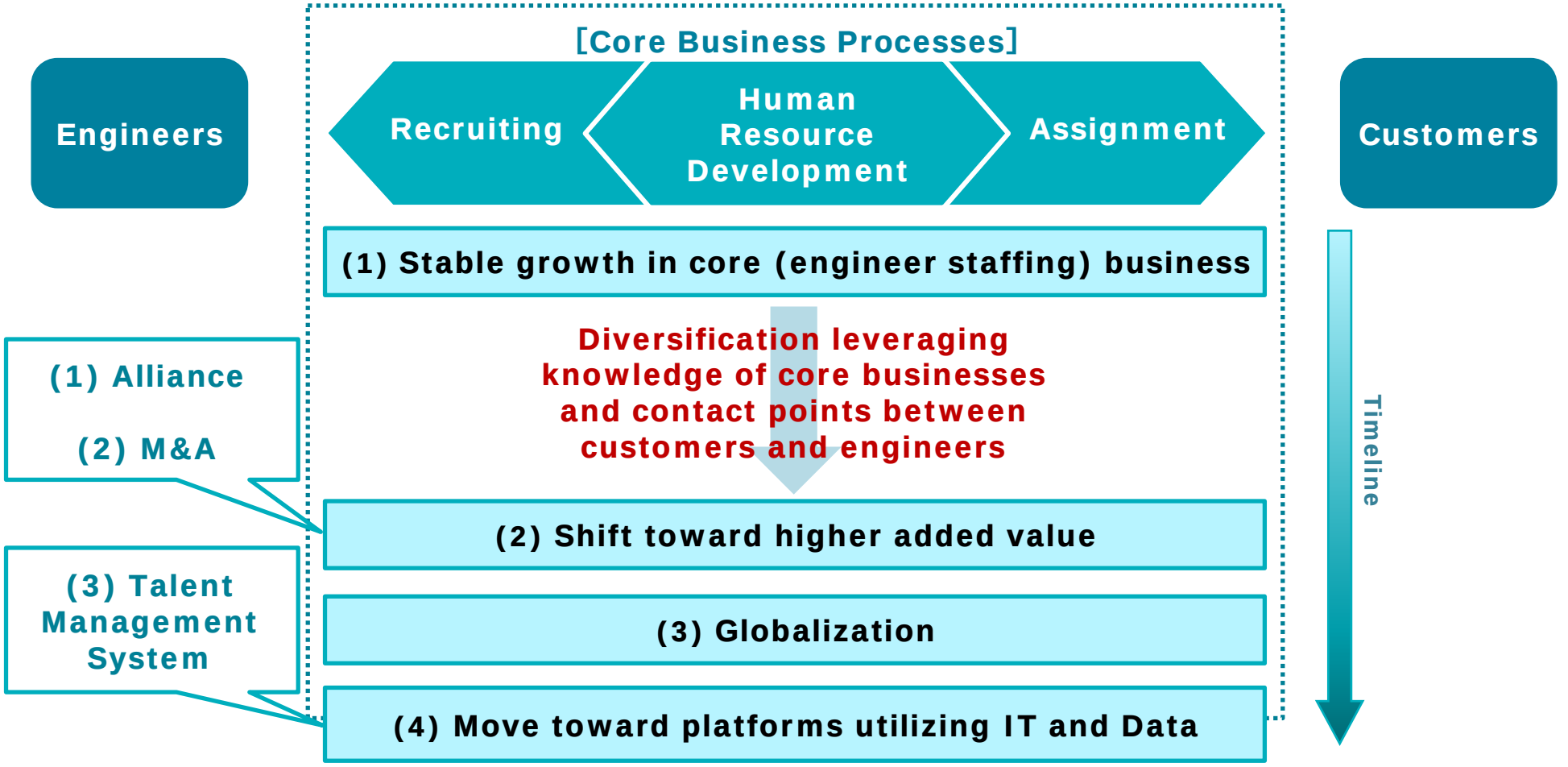
1. Progress of Current Medium-Term Management Plan



Pursue aggressive M&A activity as a means to promote growth strategies
(five-year investment budget of 20.0 billion yen)

Due to COVID-19, focusing on sourcing activities for a while

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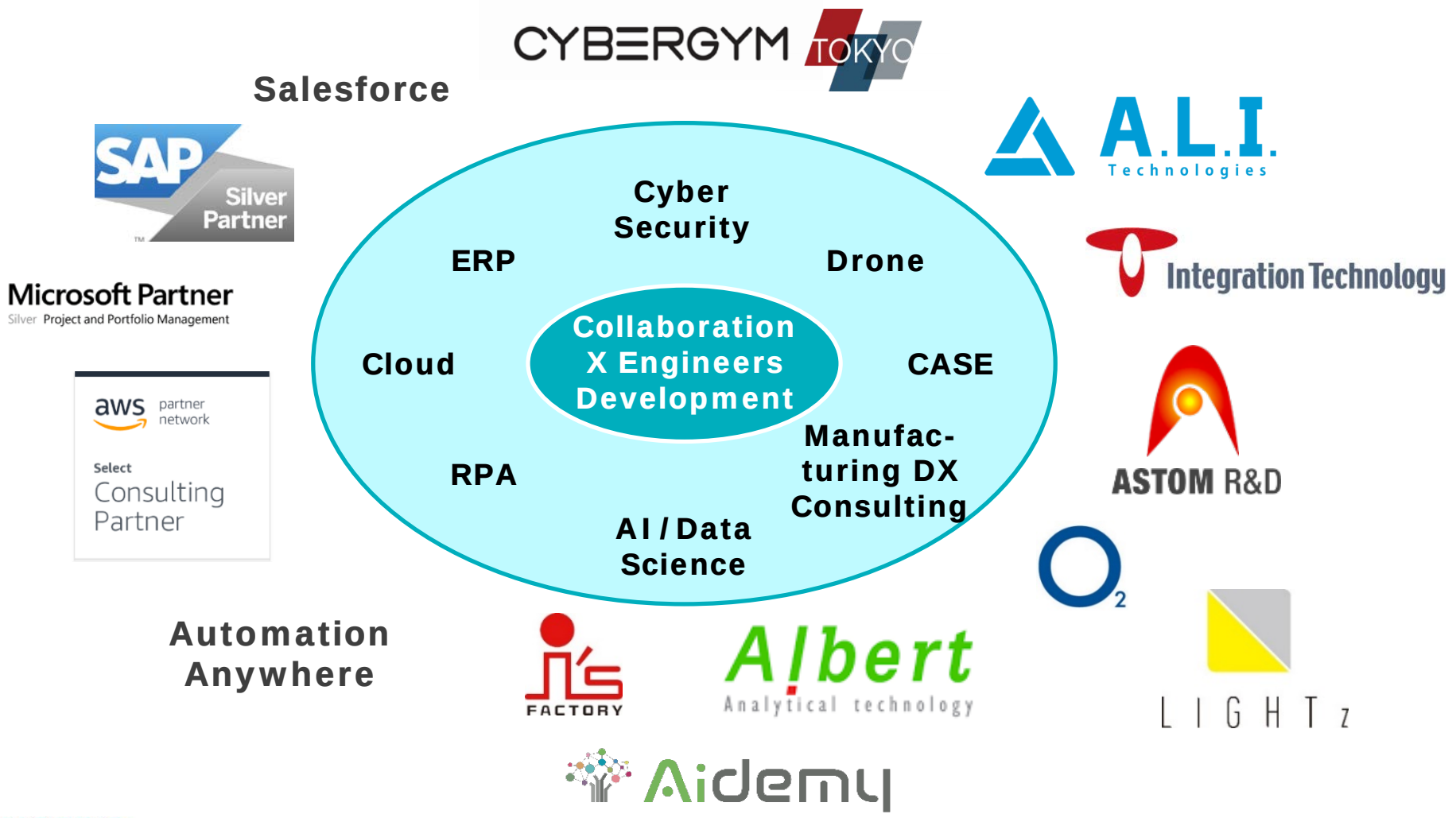
(1) Alliance (1/2)

Establish “Ecosystems” involving various partners with advanced technologies



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(1) Alliance (2/2)

Cloud

AWS Partner Network (APN) select consulting partner

Support of AWS cloud migrations

Microsoft Project and Portfolio Management Silver partner

Design, development, testing of Azure cloud for BFSI

Applicable engineer # (FY20.6/FY21.6 Target)

AWS	80	120
Azure	20	30

RPA

Automation Anywhere (“AA”) qualified partner Executed partner agreement with SB C&S

Helius is a re-seller of AA in South East Asia
- Assessment, POC, implementation, support
- BFSI, manufacturing, health care, telecom etc.
- On shore/Off shore delivery

Applicable engineer# (FY20.6/FY21.6 Target)

TechnoPro/Helius	23	43

ERP

SAP PartnerEdge Silver Partner

Enhance SAP ecosystem to develop engineers and expand business

– S4/HANA development, implementation, maintenance

Applicable engineer# (FY20.6) 65

including SAP qualified consultants (S/4 HANA): 10

FI (Financial Accounting): 3
SD (Sales and Distribution): 2
MM (Material Management): 4
PP (Production Planning): 1

FY21.6 Target 80

AI/Data Science

i’sFACTORY/Albert

Develop data scientists/Joint sales

Aidemy

Develop AI engineers/ Build AI platform

Trained engineer# (through FY20.6)

i’sFACTORY	119
Albert	206
Aidemy	111

After training, trained engineers are assigned to the projects such as autonomous driving algorithm and factory IoT etc.

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(2) M&A Performance

- No closed deal in FY20.6, due to COVID-19 (part of free cash flow was used for share repurchase)
- Invested **11.2 billion yen** for first 3 years out of 20.0 billion yen investment budget for 5 years (including acquisition of three entities already merged with TechnoPro Inc.)
- Create economic value moving forward, by **targeting ROIC of 10%-plus** for each investment area and each entity

FY20.6 Results

	Machinery, Elect/Electronics	IT Infrastructure	Other	Invested Capital (JPY)	ROIC
(1) Stable growth in core (engineer staffing) business		EDELTA CO.,LTD.		1,104M	15.3%
(2) Shift toward higher added value		PROBIZMO	TechnoBrain / BOYD & MOORE EXECUTIVE SEARCH / Tope	4,358M	7.3%
(3) Globalization	orion recruitment that works	HELIUS		4,238M	6.8%
Invested Capital (JPY)	1,660M	5,214M	2,826M		
ROIC	9.2%	8.4%	6.4%		

Invested Capital	9,700M
ROIC	8.0%
Cost of Capital	7.9%

* For fully-owned subsidiaries, invested capital is considered share acquisition price plus assumed net debt. For other non-100% subsidiaries, invested capital is considered share acquisition price

** ROIC (Return on Invested Capital)= NOPAT (before PPA amortization, corresponding to ownership %) divided by Invested Capital

※ Excluding entities merged with TechnoPro,Inc. (Techno Live, Misystem, Softworks)
Total invested capital in three entities amounts to 1,503 million yen

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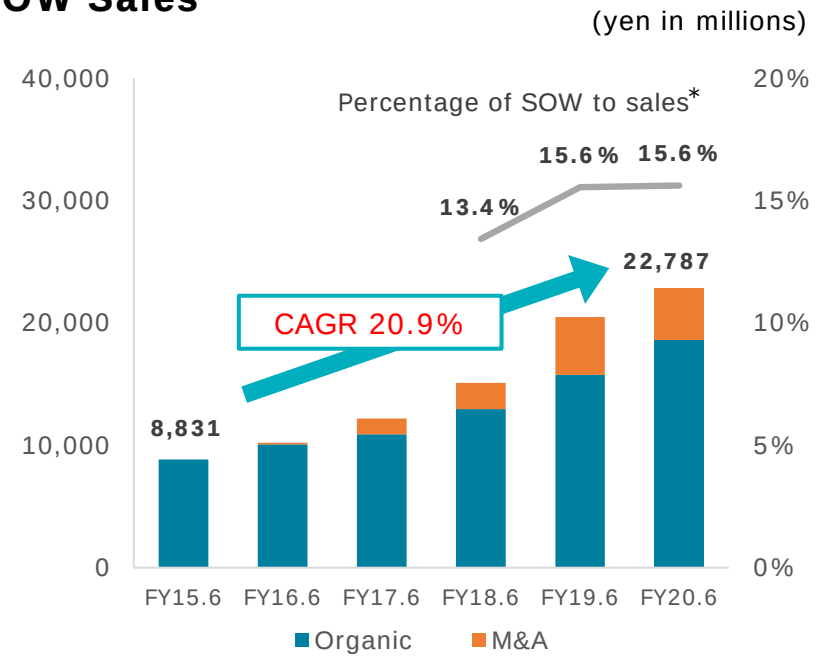
Reference: Toward Higher Added Value

SOW Strategy (Contract Services / Solution)

Adding Misystem, with its strengths in ERP, Softworks, with its strengths in embedded software for automotive, and other tech-driven companies to our group has brought in talented project managers and accelerated SOW business growth

Further, organically, acquired solution projects through proposals to the clients for team assignment

SOW Sales

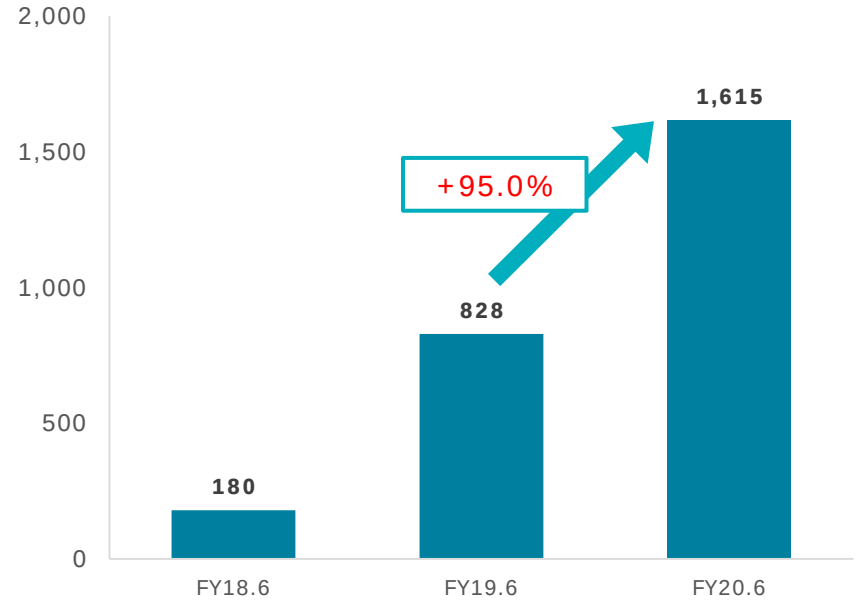


Alliance Strategy (Ecosystem)

We are expanding alliances and partnerships for data scientists and cyber security experts to foster a challenging environment in leading-edge technologies

Targeting to deliver total solutions, in addition to resource delivery, to the customers by adding consulting function

Alliance Sales



* Sales total of R&D outsourcing and Construction Management outsourcing segment

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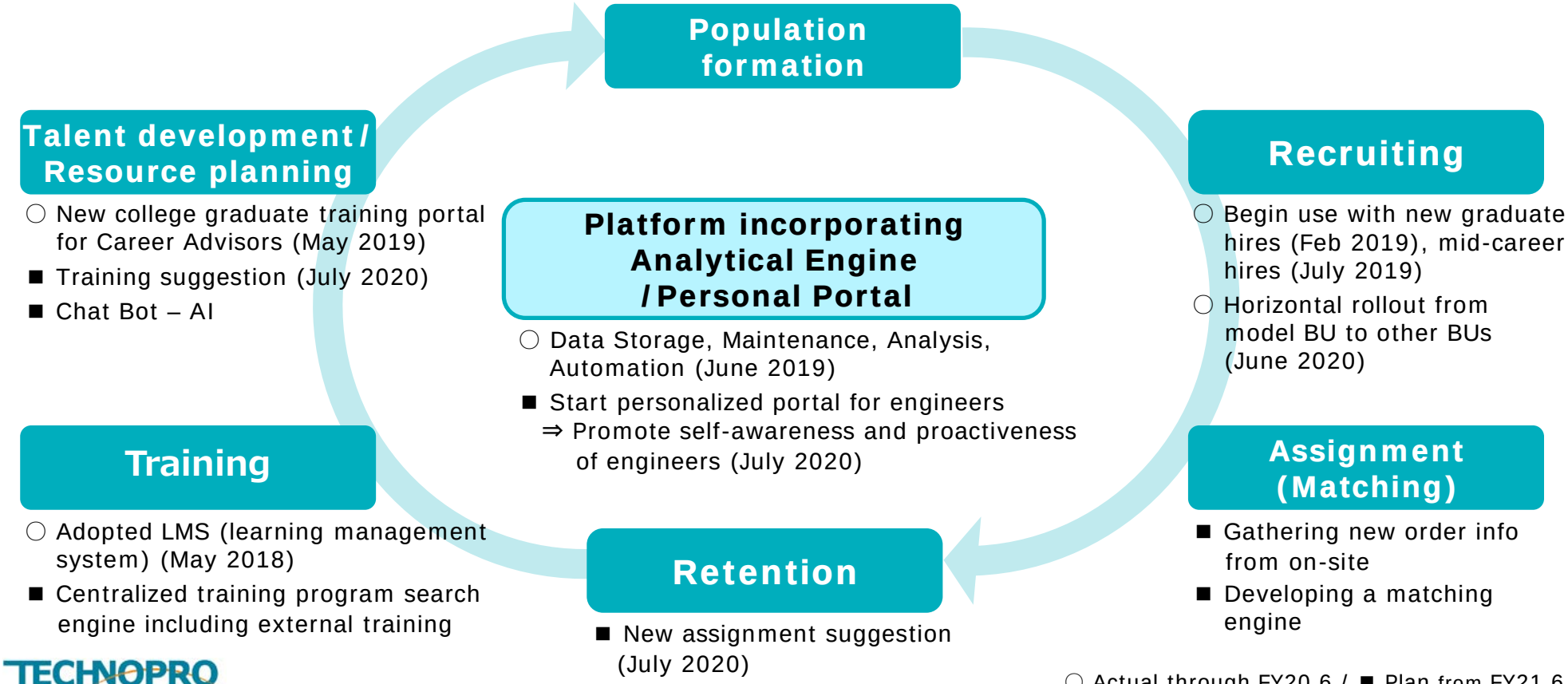
(3) Talent Management System

- Promote digitalization of core business by leveraging massive data on skills, knowledge and experiences of engineers (Data-driven/Personalization)

Goal

- Effective recruitment – process and career analyses
- Training suggestion/proactive engineers for higher value
- Proper engineer allocation by matching analyses
- Enhanced retention by retirement analyses



○ Actual through FY20.6 / ■ Plan from FY21.6

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2. Management Policies in COVID-19 Environment

- FY20.6 -

Revenue

- Negative impact by COVID-19 was realized in Q4 FY20.6 (Constraint on sales activities, Engineers on furlough, Hiring freeze etc.)
- Non-achievement of Guidance **– delayed assignment led to lower # of billable engineers**

Operating Profit

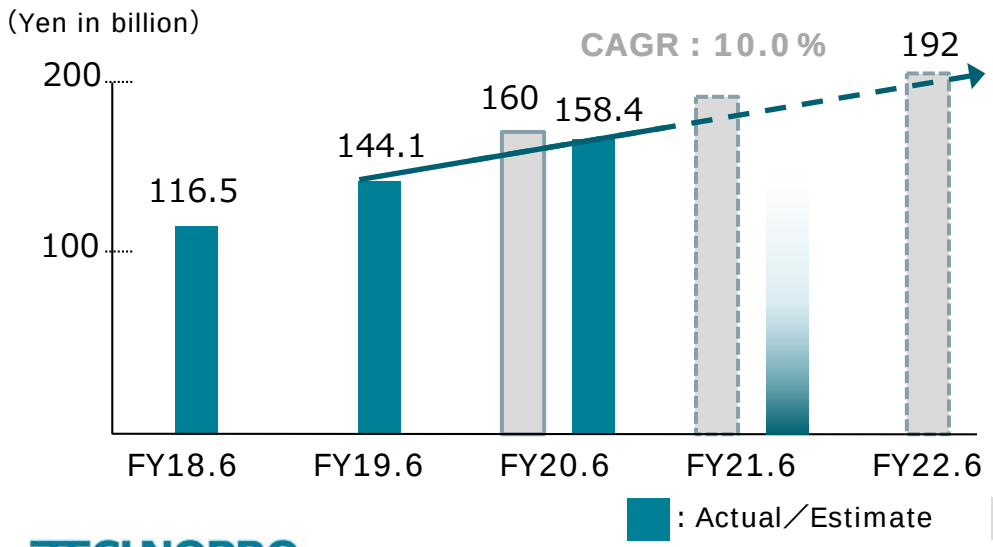
- Better performance up to Q3 and strict **SG&A control** (e.g. recruitment cost) in Q4
- Achieved Guidance, regardless of goodwill impairment loss of 915 million yen

- FY21.6 & FY22.6 -

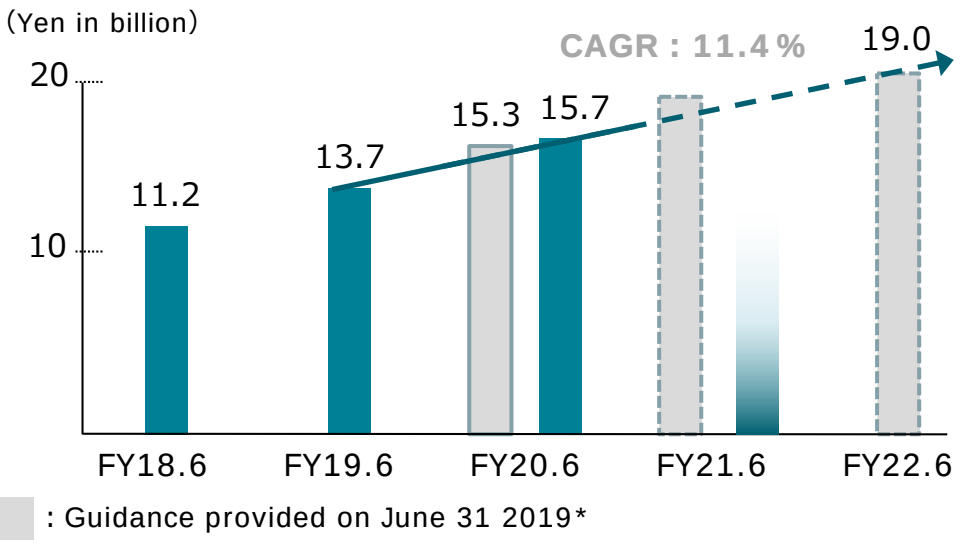
Overlook and Strategy

- Engineering HR market condition will depend on **depth and length of ensuing economic downturn**
- **Watch over contract renewal rate** in 3-month cycle
- Main scenario – **Bottom-out in 2021 and gradual recovery through 2022**
- FY21.6 – **Minimize adverse impact** based on strict KPI monitoring and continue to invest into education and training etc. for mid- to-long term growth
- FY22.6 – 1st year of **new medium-term management plan/ Revert to growth scenario**, with business transformation

Revenue



Operating profit



: Actual／Estimate　: Guidance provided on June 31 2019*

*Withdrawal of FY22.6 plan due to COVID-19

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Reference: Short-term Impact on Demand by “Technology”

- We have started to see changes in order quality; customers are seeking engineers with a certain degree of experience and mid-level skills or higher
- Demand for mechanical engineers (machinery, electric/electronic) continued to decline, even before COVID-19, due to factors including trade friction between the US and China

Distribution of Assigned Engineers (As of June 30, 2020)

Construction

Current and contracted projects expected to continue

Demand for experienced personnel remains firm, but demand for inexperienced one is lacking

Biochemical

Demand remains strong, especially from pharmaceutical companies

Expectations of new projects from universities and public research institutions

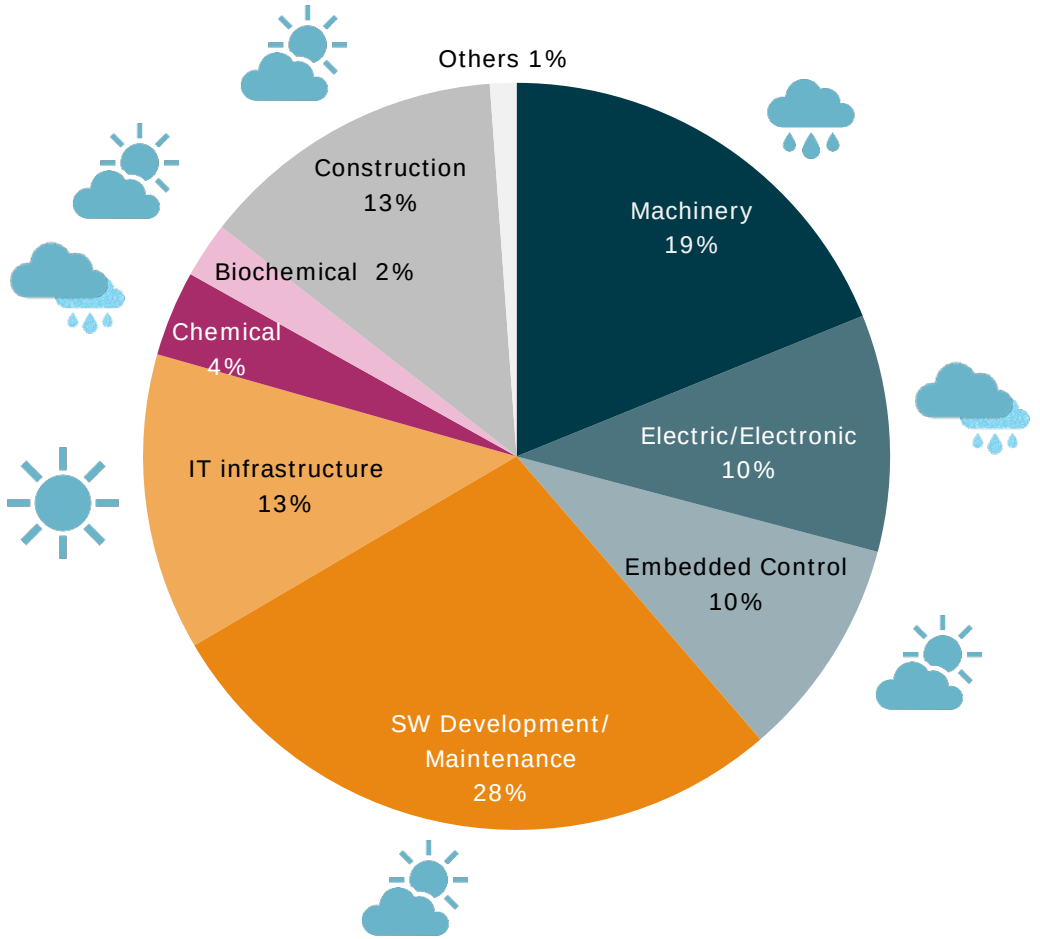
Chemical

Slightly decreased demand due to economic downturn

Semiconductor-related demand seems likely to recover

IT infrastructure

Demand for infrastructure and network set-up is increasing rapidly in response to work-from-home initiatives



Machinery

Decreased demand for design work on new product development

Tendency to be shifted overseas in every process level

Electric/ Electronic

Weak in overall demand, despite some semiconductor-related recovery

Embedded Control

Demand related to IoT and sensors remains strong, with robotic control and high-end home appliances remaining particularly active

SW Development/ Maintenance

Demand remains strong, although mainly focused on upgrade and maintenance

Delays in start-up of new development projects

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Reference: Short-term Impact on Demand by “Industry”

- Some industries have been impacted negatively by COVID-19, while new demand is emerging in certain industries under COVID-19 environment
- Our customers' industries are quite diverse and our efforts in risk diversification are working well during periods of decreased demand due to economic downturn

Distribution of Assigned Engineers (As of June 30, 2020)

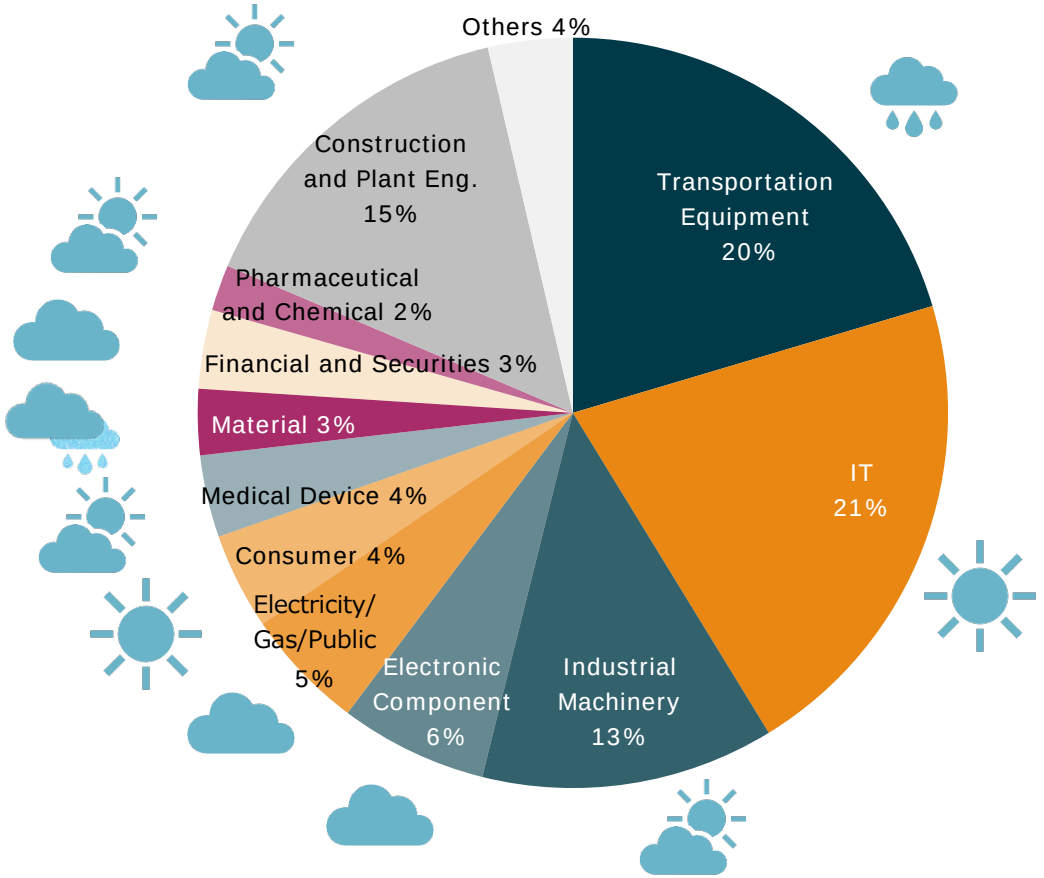
Financial and Securities
Expected demand in response to work-from-home initiatives and digitalization via cloud services

Medical Device
Expected demand for testing equipment and vaccine development/ production

Consumer
Increased demand for design and embedded control in commercialization of smart home appliances equipped with functions such as AI

Electricity/ Gas/Public
Decrease in special demand due to energy deregulation

Increasing trend in demand for IT by local governments and schools, etc.



Transportation Equipment
Start of budget controls due to decreased global demand for products

Restrained investments in advanced technology likely in the short term

IT
Demand for upgrade and maintenance of current systems remains solid

Demand for infrastructure and network set-up is increasing rapidly

Industrial Machinery
Demand for semiconductor manufacturing equipment is recovering both domestically and overseas

Particularly quick recovery in the Chinese market

Electronic Component
Demand remains solid due to improved semiconductor performance

Expected increase in demand growth from developments including 5G

* For Material, Pharmaceutical and Chemical, Construction and Plant Eng., see Chemical/Biochemical, and Construction on the previous page

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3. Our Path to Regrowth

Current main scenario: Bottom-out in 2021 and gradual recovery through 2022

2019 | 2020 | 2021 | 2022 | 2023 Year

Current medium-term management plan period | **New medium-term management plan period**

Results of **15% or more** for CAGR in first 3-year

Sustained CAGR of **10% or more** (including inorganic)

COVID-19

Minimizing Adverse Impact

Resilient business features
- ✓ Centered on large clients
- ✓ Diversified across technology and industrial sectors

Robust management system
- ✓ Strict KPI and cost control
- ✓ Healthy financial conditions

Preparation for Regrowth

Shift from *Quantity* to *Quality*

- ✓ Maintaining employment (securing of resources)
- ✓ Continued investments in education and training
- ✓ Utilization of external ecosystems

Adapting to a new business environment while seizing business opportunities in the "New Normal"

In the medium to long term, transform from a "technology-focused staffing service" to a "technology solution service" company in the digital domain

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(1) Important Measures for Return to Growth

Measures to return to growth while minimizing COVID-19 damages

Objectives		Details of Measures
Minimizing Adverse Impact	• KPI management on daily basis	• Manage daily utilization ratio, assignments and returns • Predict and respond promptly to contract cancellation possibilities for each engineer by the analyses of processes, skills, client business conditions
	• Expansion of financing sources	• Enlarge line of credit facilities for working capital usage • Obtain credit rating from the rating agency *R&I* for the purpose of diversifying funding (A-, Stable)
	• Temporary freeze on new hiring • Thorough cost management	• Cut hiring costs by 70% YOY in the budget for FY21.6 • Classify all SG&A items by rank (A to C) according to necessity, and flexibly adjust these expenses according to business performance
	• Introduction of order information sharing system • Sales support by engineers	• To make up for reduced sales visits, establish a system that enables our engineers to report clients' technical needs and demand for engineers, leading to effective proposals and project acquisition
Preparation for Regrowth **Shift from *Quantity* to *Quality***	• Maintaining employment (securing of resources)	• Eliminate engineer anxiety and prevent retirement by communicating management's strong will to protect employment status
	• Strengthen training curriculum in the digital domain	• Expansion of training programs that utilize e-learning • Utilize standby periods to support acquisition of digital skills expected to be in strong demand
	• Promote collaboration with leading-edge technology ventures and influential IT vendors	• Training programs including data science and cybersecurity • Increased numbers of engineers with IT vendor certifications

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(2) New Business Opportunities in the “New Normal”

Digital Transformation (DX) needs accelerated by COVID-19

Behaviors

- Remote Work
- Automation / Productivity
- Contact Avoidance

Technology

- Cloud, ERP
- Cyber Security
- Networks (5G)
- IoT, RPA, Robotics
- AI / Data Science
- Voice Recognition

Company Initiatives

IT

Implementation support for cloud and RPA, data scientist training



Manufacturing

Training for manufacturing DX consulting, implementation support for robotics



Construction / Infrastructure

Drone surveying services, training of engineers capable of BIM



Leverage of our existing ecosystem

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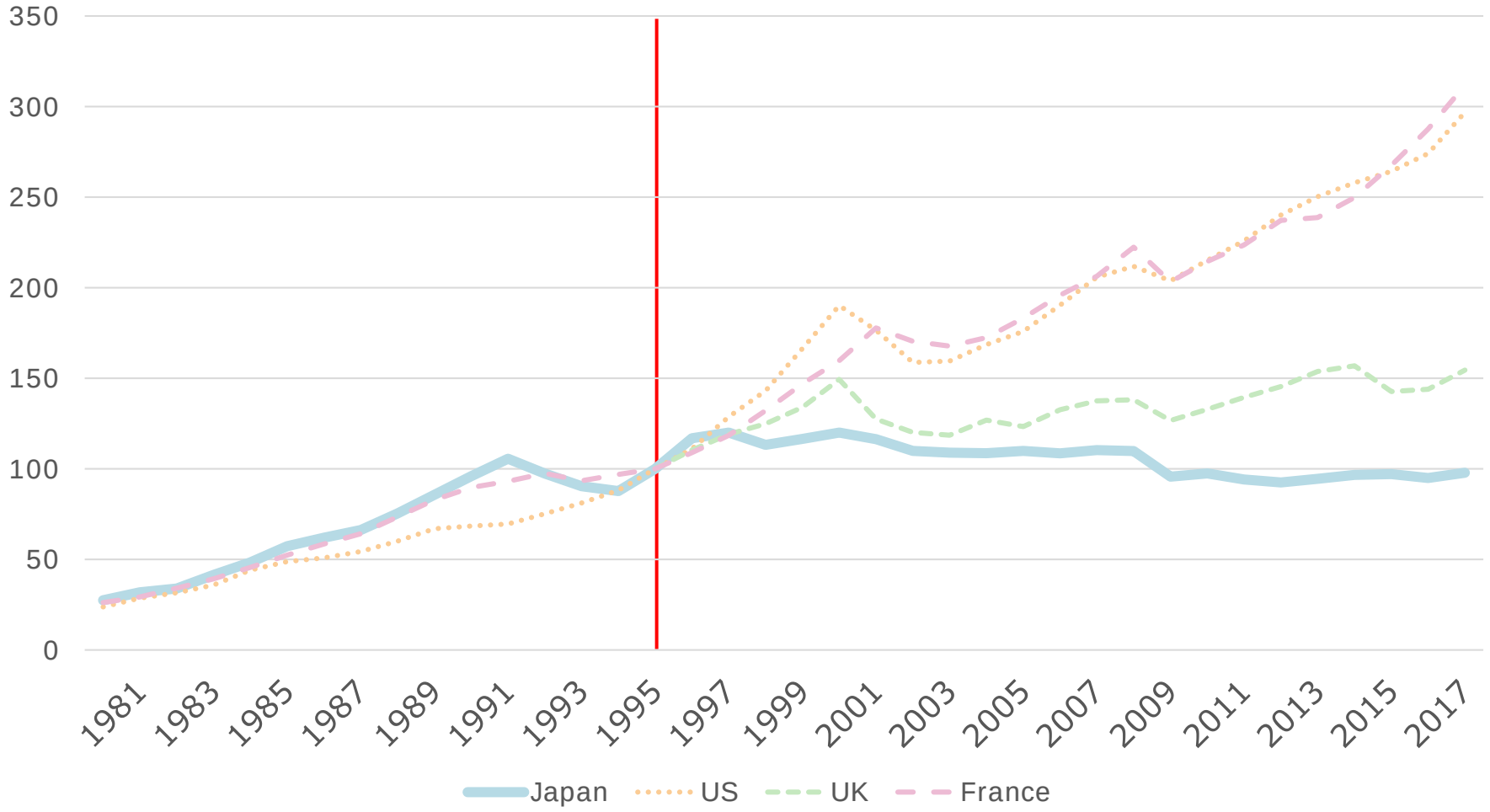
Reference: Delays in the Digitalization of Japan

Compared to 1995, current ICT investment growth in Japan is much lower than those in the US, UK, and France

Comparison of changes in the amount of ICT investment by each country (nominal, 1995 = 100)



Source: “2019 White Paper on Information and Communication” Japan Ministry of Internal Affairs and Communications

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(3) External Environment in the Medium-to Long-Term

Medium-to long-term global trends

Penetration of digital technology into society



Enhanced acceleration due to COVID-19
(Delayed digitalization by Japanese companies)

Decreasing labor force and aging



No resolution to structural shortages of Japanese engineers

Progression of globalization (Post COVID-19)



Significant importance of access to overseas human resources and cutting-edge technologies

Domestic technology-focused staffing market

Sustainable market growth and continued engineer shortages



Popularization of diverse work styles will enhance dependence on external human resources and technology

Employment laws in Japan remain rigid

Consolidation of small / medium players and reorganization of industries



The domestic economic downturn will accelerate an influx of clients and engineers to major players

Expanded market share for major players

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(4) Necessity for Business Transformation

Societal Needs

Creating a more convenient society through digitalization

Encourage shift of human resources across industries and companies

Solve supply-demand mismatch for new technology and human resources

Engineers

- Improve/convert technical skills
- Use untapped engineer resources (overseas, seniors, inexperienced individuals, etc.)

Companies

- Transform business model and digitize products and services
- Acquire technical resources to achieve transformation and digitalization
- Solve business issues using technology

×

Our Strengths

- Ability to grasp the latest R&D trends and technological shifts via our diverse client base
- Opportunities to identify challenges and propose solutions at development sites via our engineers
- Overwhelming recruitment ability and engineering talent base with diverse skills
- Track record of utilizing foreign human resources in Japan
- Development and transfer of engineer skills via education and training systems backed by R&D trends and technological shifts (re-skilling function)

To create value for society and clients, solving technical issues…

To sustain our competitive advantage…

Societal and client needs are evolving

Our capabilities must also evolve

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(5) Growth Strategy through M&A

To accelerate the transformation of our business and achieve sustainable growth, we will look actively for M&A opportunities

Target M&A Sectors

Shift toward high added value

Acquire resources (human resources/ technology) for upstream processes, both domestically and internationally

- Consulting/ project management / delivery functions
- Digital/ new technology fields
- COE (Center of Excellence)

Globalization

Acquire offshore delivery capabilities

- Delivery hubs in India and elsewhere
- U.S and European client bases for offshoring services

Sourcing

- Proactive approach that follows a clear medium to long term strategy, based on our target list
- Leverage our Indian subsidiary as a sourcing hub for M&A
- Strengthen early-stage collaborations among our M&A team, business units, and PMI team

Selection Criteria

- ROIC > 10% (to be achieved within two-to-three years following acquisition)
- Quality of management team
- Feasibility of group collaboration synergies by leveraging Japanese client base

We are currently formulating a new medium-term management plan (postponed due to COVID-19 impact), to be announced one year from now

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