TechnoPro Group Financial Results for the 1st Quarter of FYE June 2021

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

October 30, 2020

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Contents

		Page
Ⅰ	FY2021 Q1 Financial Overview	2
Ⅱ	KPI Analysis	6
ⅰ	Number of Engineers & Utilization Ratio	6
ⅱ	Unit Sales prices	10
Ⅲ	Shareholder Return	11
Ⅳ	Outlook & Strategies	12
Ⅴ	FY2021 Guidance	13
Ⅵ	Appendix	15
Ⅶ	Data References	19

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* Accounting figures are rounded down to the nearest unit unless otherwise stated;
KPI figures exclude "*Other Businesses in Japan*" and "*Overseas*" segments

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FY2021 Q1 Financial Overview

- Q1 FY21.6 revenue was **39.1 billion yen**, up 0.8% year-on-year; operating profit was **4.35 billion yen** (including 495 million yen of government subsidy for continuous employment in Japan), up 12.2% year-on-year; net profit was **2.97 billion yen**, up 11.8% year-on-year
- Q1 FY21.6 gross profit margin **decreased 1.9 pts** year-on-year, mainly due to 1) increased standby cost (0.9 pts) resulting from decline in utilization ratio and 2) lowering of unit sales price (0.8 pts) impacted by decrease in working days/hours; SG&A expenses ratio on revenue **improved 2.2 pts** year-on-year, driven by continued cost-saving efforts
- Began to provide "Core operating profit" which is calculated by subtracting SG&A expenses from gross profit (excluding effect from extraordinary items such as government subsidy, foreign exchange profit/loss, impairment loss and others)

(yen in millions, except per share amounts)

	Q1 (three-months-period)							Full-Year	
	FY20.6 (Results)	Progress on full-year	FY21.6 (Guidance)	FY21.6 (Results)	vs. Guidance	YOY		FY20.6 (Results)	FY21.6 (Guidance)
Revenue	38,896	24.6%	37,500	39,195	+1,695	+299	*+0.8%*	158,407	—
Gross profit (GP)	9,547	23.7%	—	8,892	—	(654)	*(6.9%)*	40,226	—
GP margin	*24.5%*			*22.7%*		*(1.9 pts)*		*25.4%*	
SG&A expenses	5,850	24.4%	—	5,040	—	(810)	*(13.8%)*	23,960	—
Ratio on revenue	*15.0%*			*12.9%*		*(2.2 pts)*		*15.1%*	
Core operating profit	3,696	22.7%	—	3,851	—	+155	*+4.2%*	16,265	—
Core operating profit margin	*9.5%*			*9.8%*		*+0.3 pts*		*10.3%*	
Other income	200	—	—	579	—	+379	—	649	—
Other expenses	12	—	—	74	—	+62	—	1,143	
Operating profit (OP)	3,884	24.6%	3,200	4,357	+1,157	+472	*+12.2%*	15,772	—
OP margin	*10.0%*		*8.5%*	*11.1%*	*+2.6 pts*	*+1.1 pts*		*10.0%*	
Profit before income taxes	3,875	24.5%	3,150	4,311	+1,161	+435	*+11.2%*	15,843	—
Net profit*	2,658	24.6%	2,150	2,971	+821	+313	*+11.8%*	10,825	—
Net profit margin	*6.8%*		*5.7%*	*7.6%*	*+1.9 pts*	*+0.7 pts*		*6.8%*	
Earnings per share	73.42	24.5%	59.87	82.75	+22.88	+9.33	*+12.7%*	299.97	—
Dividend per share	—	—	—	—	—	—	—	150.00	—

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

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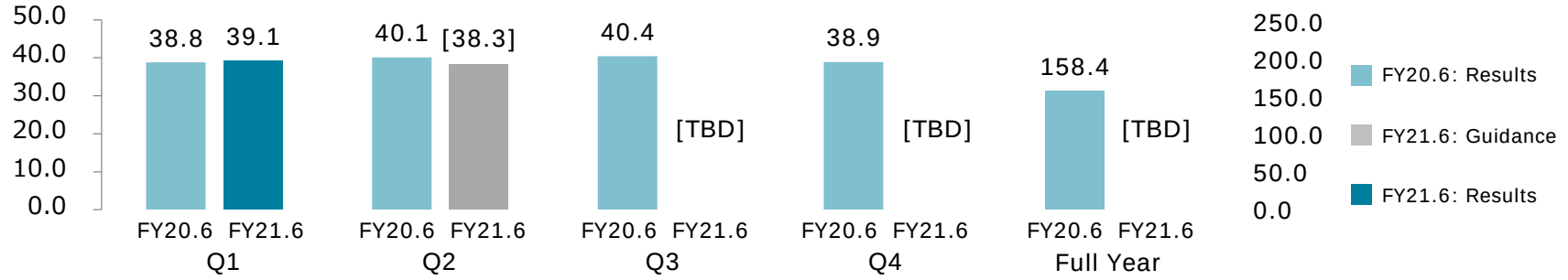
Quarterly Performance

- Due to COVID-19 impact, in Japan engineer staffing business, working hours per day were **8.44 hours** (down 0.12 hours or 1.4% year-on-year) for Q1 FY21.6

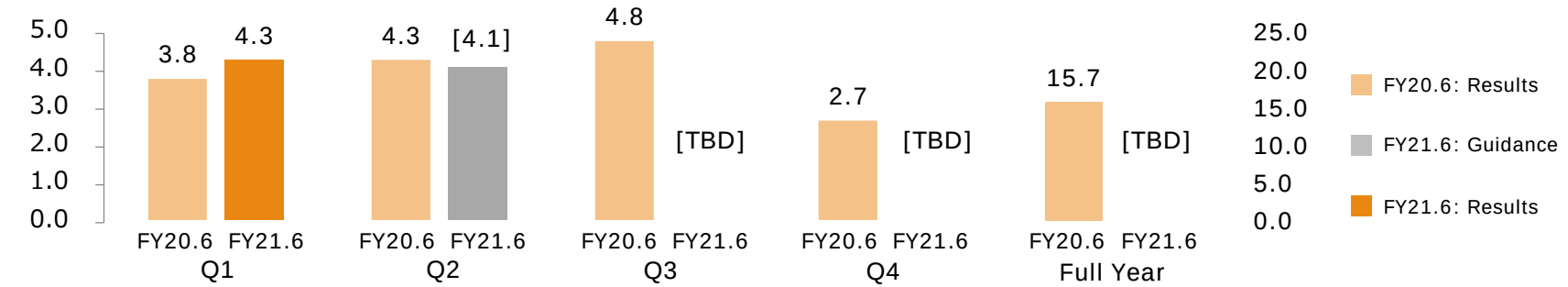
(yen in billions)

Revenue



	Q1		Q2		Q3		Q4		Full Year	
Progress on full-year %	*24.6%*	—	*25.3%*	—	*25.5%*	—	*24.6%*	—		
Working days	56.5	56.2	58.1	[58.6]	55.8	[55.8]	56.7	[57.6]	227.1	[228.2]
Working hours per day	8.56	8.44	8.56	[8.41]	8.56	—	8.39	—	8.52	—
YOY	*+0.8%*		*[(4.6%)]*		—		—		—	

Operating Profit



	Q1		Q2		Q3		Q4		Full Year	
Progress on full-year %	*24.6%*	—	*27.5%*	—	*30.7%*	—	*17.1%*	—		
OP margin	*10.0%*	*11.1%*	*10.8%*	*[10.8%]*	*12.0%*	—	*6.9%*	—	*10.0%*	—
YOY	*+12.2%*		*[(4.5%)]*		—		—		—	

* Figures in brackets indicate forecast at the time of publication

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FY2021 Q1 Segment Results

- Companies included in each segment are described in “Appendix: Reportable Segments”

(yen in millions, except engineer headcounts)

	R&D Outsourcing				Construction Management Outsourcing				Other Businesses in Japan				Japan Total			
	FY19.6 Q1	FY20.6 Q1	FY21.6 Q1	YOY	FY19.6 Q1	FY20.6 Q1	FY21.6 Q1	YOY	FY19.6 Q1	FY20.6 Q1	FY21.6 Q1	YOY	FY19.6 Q1	FY20.6 Q1	FY21.6 Q1	YOY
Revenue	26,965	30,819	31,256	+1.4%	4,149	4,824	4,975	+3.1%	742	1,008	863	(14.4%)	31,857	36,653	37,095	+1.2%
Ratio to consolidated revenue	*80.9%*	*79.2%*	*79.7%*		*12.4%*	*12.4%*	*12.7%*		*2.2%*	*2.6%*	*2.2%*		*95.6%*	*94.2%*	*94.6%*	
Operating profit	2,491	2,924	3,433	+17.4%	502	549	785	+42.8%	75	107	(12)	—	3,069	3,582	4,206	+17.4%
OP margin	*9.2%*	*9.5%*	*11.0%*		*12.1%*	*11.4%*	*15.8%*		*10.2%*	*10.7%*	*(1.5%)*		*9.6%*	*9.8%*	*11.3%*	
OP before PPA asset amortization*	2,511	2,944	3,453	+17.3%	502	549	785	+42.8%	75	107	(12)	—	3,089	3,602	4,226	+17.3%
OP margin before PPA asset amortization	*9.3%*	*9.6%*	*11.0%*		*12.1%*	*11.4%*	*15.8%*		*10.2%*	*10.7%*	*(1.5%)*		*9.7%*	*9.8%*	*11.4%*	
PPA asset amortization	20	20	20	—	—	—	—	—	—	—	—	—	20	20	20	—
Impairment loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
No. of engineers (period-end)	14,976	17,045	17,984	+5.5%	2,236	2,605	2,647	+1.6%	—	—	—	—	17,212	19,650	20,631	+5.0%
o/w Non-Japanese in Japan	763	984	1,001	+1.7%	46	64	89	+39.1%	—	—	—	—	809	1,048	1,090	+4.0%

	Overseas				Reporting Segment Total				Corporate/Eliminations				Consolidated Total			
	FY19.6 Q1	FY20.6 Q1	FY21.6 Q1	YOY	FY19.6 Q1	FY20.6 Q1	FY21.6 Q1	YOY	FY19.6 Q1	FY20.6 Q1	FY21.6 Q1	YOY	FY19.6 Q1	FY20.6 Q1	FY21.6 Q1	YOY
Revenue	1,709	2,586	2,414	(6.6%)	33,567	39,239	39,510	+0.7%	(232)	(343)	(315)	—	33,334	38,896	39,195	+0.8%
Ratio to consolidated revenue	*5.1%*	*6.6%*	*6.2%*		*100.7%*	*100.9%*	*100.8%*		*(0.7%)*	*(0.9%)*	*(0.8%)*		*100.0%*	*100.0%*	*100.0%*	
Operating profit	176	184	162	(11.8%)	3,245	3,766	4,368	+16.0%	(62)	118	(11)	—	3,183	3,884	4,357	+12.2%
OP margin	*10.3%*	*7.1%*	*6.7%*		*9.7%*	*9.6%*	*11.1%*		—	—	*3.8%*		*9.5%*	*10.0%*	*11.1%*	
OP before PPA asset amortization*	220	234	212	(9.1%)	3,310	3,836	4,439	+15.7%	(62)	53	(11)	—	3,247	3,889	4,427	+13.8%
OP margin before PPA asset amortization	*12.9%*	*9.1%*	*8.8%*		*9.9%*	*9.8%*	*11.2%*		—	—	*3.8%*		*9.7%*	*10.0%*	*11.3%*	
PPA asset amortization	44	50	50	—	64	70	70	—	—	—	—	—	64	70	70	—
Impairment loss	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Changes in fair value amount and early exercise of put option liabilities	—	—	—	—	—	—	—	—	—	65	—	—	—	65	—	—
Changes in fair value amount of earn-out liabilities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
No. of engineers (period-end)	994	1,566	1,482	(5.4%)	18,206	21,216	22,113	+4.2%	—	—	—	—	18,206	21,216	22,113	+4.2%

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* OP before PPA asset amortization: 1) amortization of client related asset incurred by Purchase Price Allocation at M&As, 2) impairment loss, 3) changes in fair value amount and early exercise of put option liabilities, and 4) changes in fair value amount of earn-out liabilities, to be adjusted to OP

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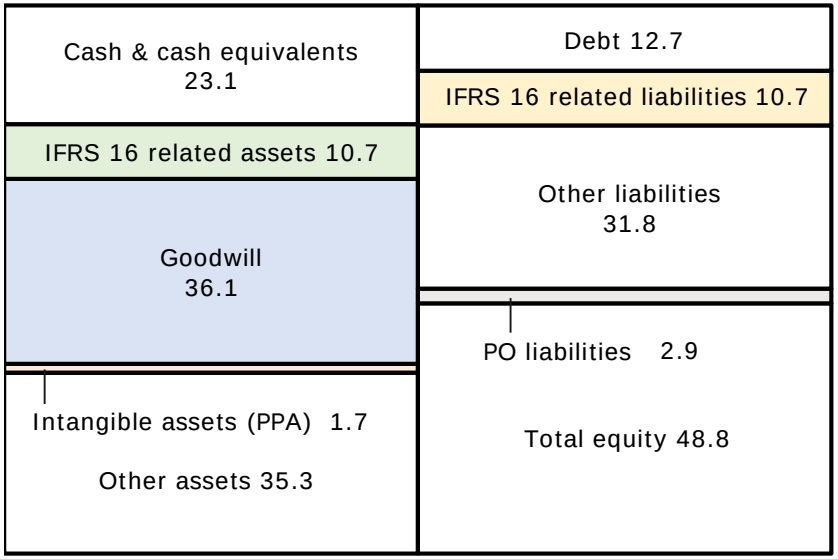
FY2021 Q1 Balance Sheet & Cash Flows

- Procured a total of **10 billion yen** through syndicated loan (five-year fully amortizing payment) in order to extend the loan maturity and normalize annual debt servicing; contributes to improve financing cash flows (existing loan of 2.7 billion yen, which is an amount exceeding 10 billion yen, to be voluntarily prepaid in Q2 FY21.6 with cash on hand)
- Established a total of **12 billion yen** (amount equivalent to revenue for **0.9 months**) commitment lines for the purpose of working capital, ensuring sufficient level of funds to prepare for unexpected cash demands

Q1 FY21.6 End: B/S

(yen in billions)



Equity Ratio*:	**45.7%**
D/E Ratio*:	**0.26x**
D/OP Ratio**:	**0.79x**

Q1 FY21.6: Cash Flows

(yen in millions)

・Operating CF	**601**
Corporate income tax payment	(2,623)
・Investing CF	**(167)**
・Financing CF	**(114)**
IFRS 16 related lease liability repayment***	(1,713)
Net cash from loan procurement and repayment	+5,181
Dividend payment	(3,582)
Net CF	**+325**

*** Reclassified to Financing CF, previously recognized in Operating CF as lease payment until FY19.6

Commitment Lines

(yen in millions)

Purpose	Credit line	Used	Unused	Expiration
1 Working capital	10,000	0	10,000	Jun. 2021
2 Working capital	1,000	0	1,000	Sep. 2021
3 Working capital	1,000	0	1,000	Oct. 2021
4 M&A	10,000	0	10,000	Dec. 2020
Total	22,000	0	22,000	

* Total equity includes non-controlling interests
** Calculated using LTM operating profit

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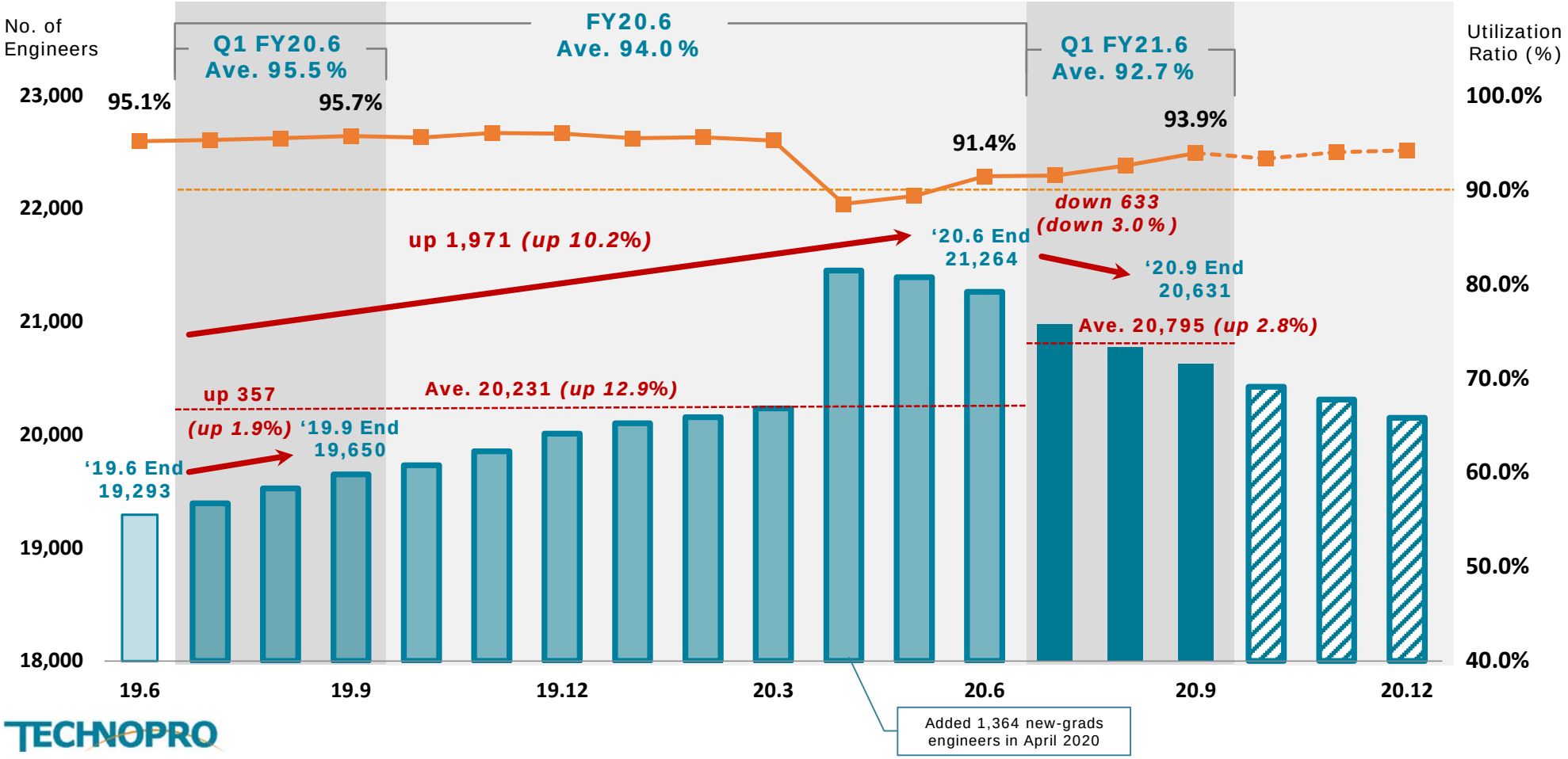
Number of Engineers & Utilization Ratio [Japan]

- Engineers in Japan at the end of Q1 FY21.6 totaled **20,631** (down 633 from FY20.6 end), including **1,090** non-Japanese engineers working in Japan (down 88 from FY20.6 end)
- Average utilization ratio was **92.7%** for Q1 FY21.6 (down 2.8 pts year-on-year); expects **93.9%** on average for Q2 FY21.6 (down 2.0 pts year-on-year)



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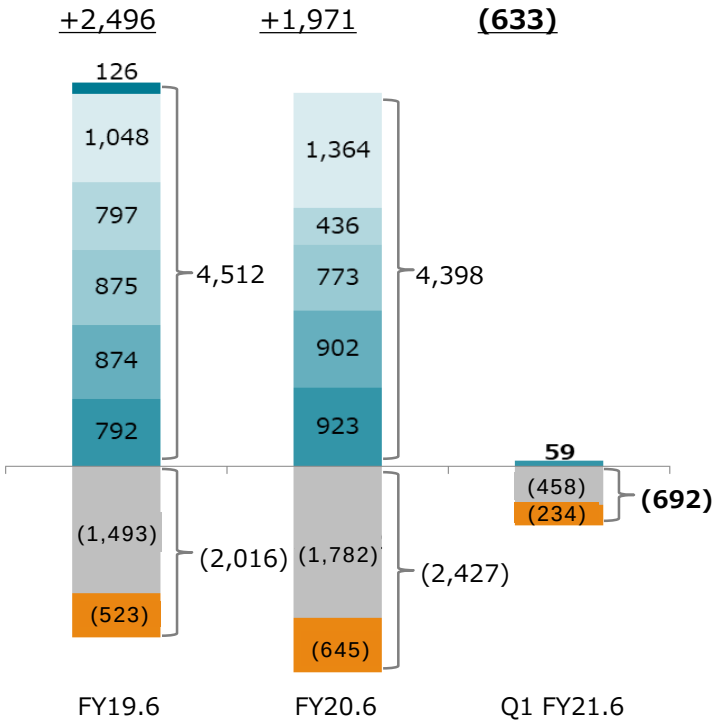
Recruitment/Turnover [Japan]

- Mid-carrier engineers hired in Q1 FY21.6 totaled **59** (down 864 or 93.6% year-on-year) due to temporary freeze on new hiring as a response to COVID-19 crisis
- **692** engineers left in Q1 FY21.6: permanent employees of **458** (up 37 year-on-year) and fixed-term employees of **234** (up 89 year-on-year)
- Turnover ratio for permanent employees* was **8.8%** (up 0.2 pts year-on-year) for Q1 FY21.6, and **8.9%** (up 0.4 pts year-on-year) for the last twelve months
- Net engineer decrease of **633** for Q1 FY21.6; focusing on retention efforts to maintain sufficient engineering resources

Net Increase (Decrease)



Recruitment/Turnover

No. of Engineers

		FY19.6	FY20.6	Q1 FY21.6	YOY	
	Hired Total	**4,512**	**4,398**	**59**	—	—
	M&A	126	0	—	—	—
	New-grads joined in April	1,048	1,364	—	—	—
	Mid-carrier: Q4	797	436	—	—	—
	Mid-carrier: Q3	875	773	—	—	—
	Mid-carrier: Q2	874	902	—	—	—
	Mid-carrier: Q1	792	923	59	*(864)*	*(93.6%)*
	Turnover Total	**2,016**	**2,427**	**692**	—	—
	Permanent employees	1,493	1,782	458	—	—
	Contract terms matured, others	523	645	234	—	—

Turnover Ratio for Permanent Employees*

	FY19.6				FY20.6				FY21.6			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Quarter	*8.0%*	*6.7%*	*10.6%*	*8.0%*	*8.6%*	*7.8%*	*8.6%*	*10.1%*	*8.8%*	—	—	—
Year-to-date	—	*7.3%*	*8.5%*	*8.3%*	—	*8.2%*	*8.3%*	*8.8%*	—	—	—	—
Last Twelve Months	*8.0%*	*7.9%*	*8.2%*	*8.3%*	*8.5%*	*8.7%*	*8.3%*	*8.8%*	*8.9%*	—	—	—

* Turnover ratio for permanent employees was calculated excluding fixed-term employees left at the end of contract term

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Assigned Engineers Portfolios by “Technology” [Japan]

- Number of assigned engineers began to decrease year-on-year in Machinery and Electric/Electronic (collectively “mechanical engineers”); growth in other technologies also slows down (total number of assigned engineers down 69 or 0.4% compared to FY20.6 end)
- IT engineers account for more than half of the total and continue to grow, while the share of mechanical engineers is on a declining trend due to weakening demand

Q1 FY20.6 End

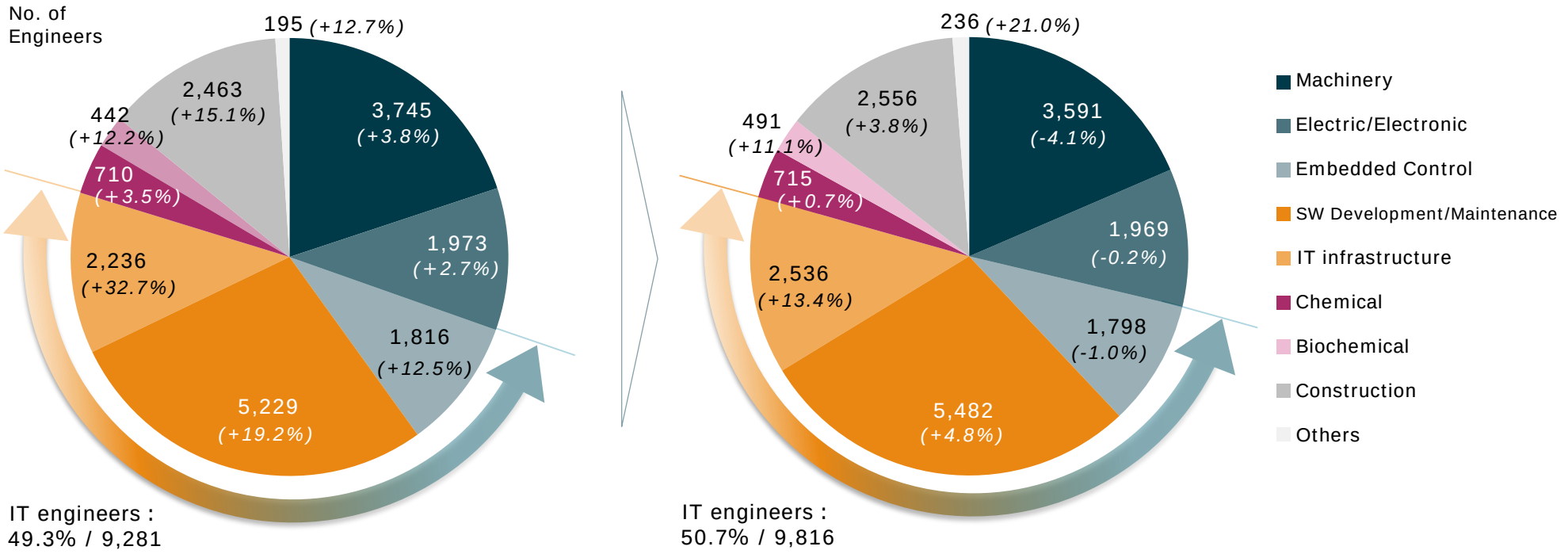
Assigned Engineers: **18,809**

up 3.0%

up 565

Q1 FY21.6 End

Assigned Engineers: **19,374**



* Figures in parenthesis indicate year-on-year % change

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Assigned Engineers Portfolios by “Industry” [Japan]

- Transportation Equipment such as automotive related sectors has decreased year-on-year and compared to FY20.6 end, mainly due to COVID-19 impact, while specifically semiconductor related fields in various industries began to show a recovery trend
- IT industry maintains robust assignments, while skill requirements are getting higher; promote investment in the training of current engineers and prioritize mid-career recruitment of well experienced talent

Q1 FY20.6 End

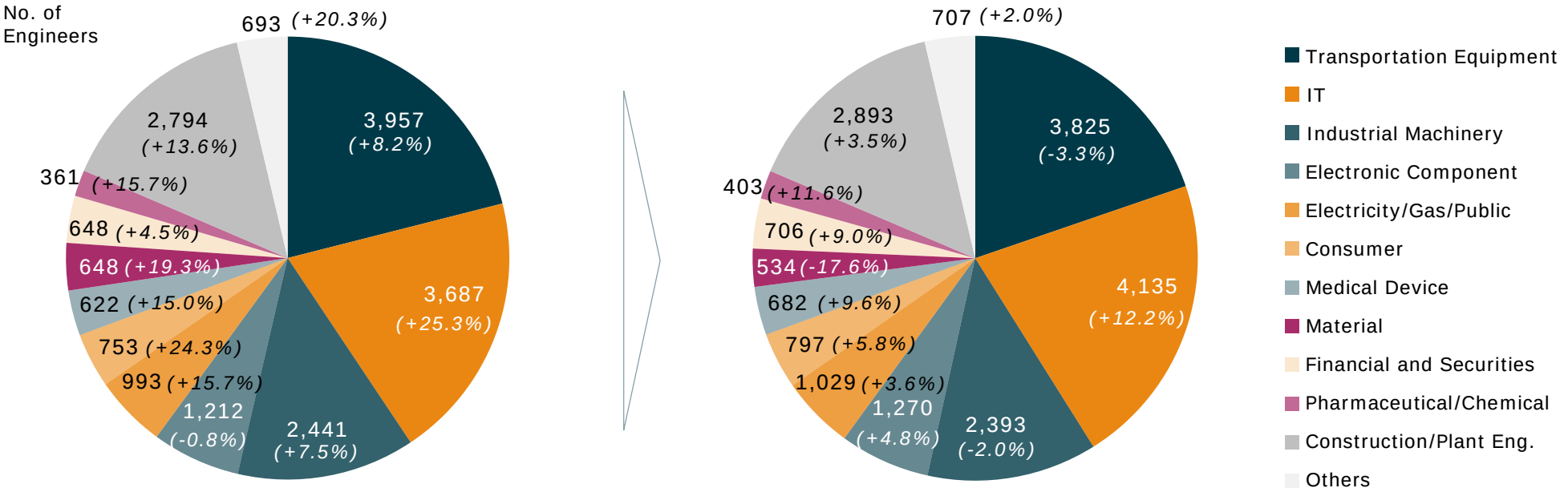
Assigned Engineers: **18,809**

up 3.0%

up 565

Q1 FY21.6 End

Assigned Engineers: **19,374**



* Figures in parenthesis indicate year-on-year % change

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Average Monthly Unit Sales Price

Two Major Subsidiaries in Japan: TechnoPro, Inc. & TechnoPro Construction, Inc.

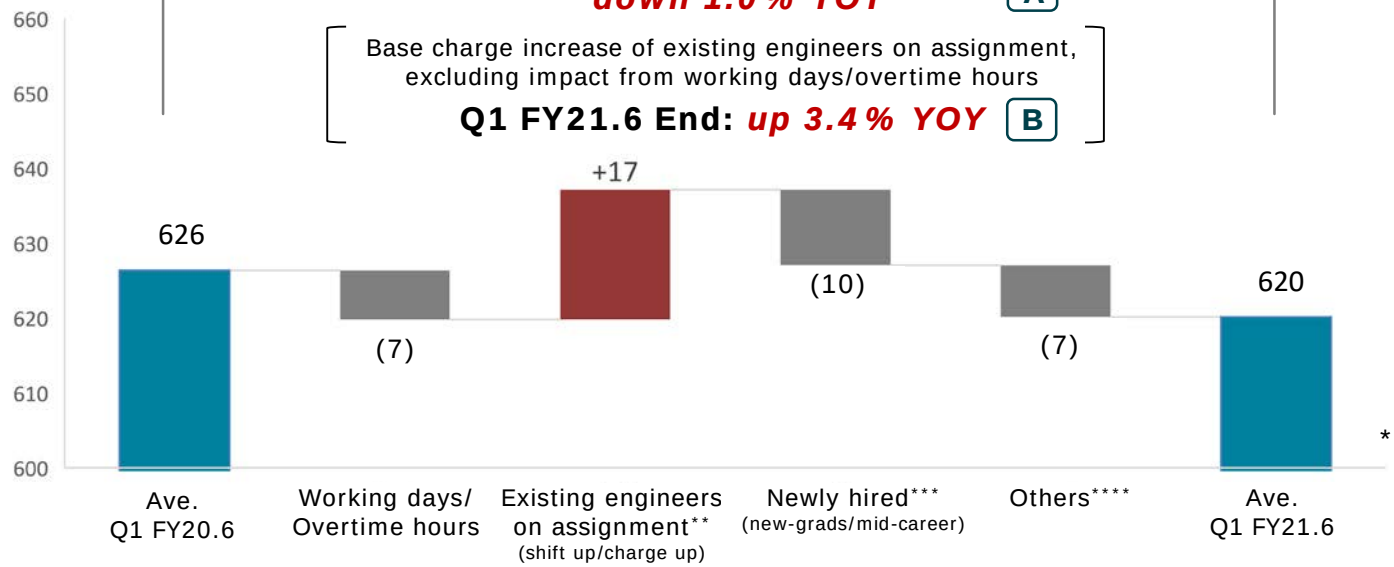
- Q1 FY21.6 average monthly unit sales price* decreased to **620K yen** (down 6K yen/month or 1.0% year-on-year)
- Decreased 7K yen/month impacted by fewer working days (down 0.08 days/month) and shorter overtime hours (down 2.43 hours/month)
- Increased 17K yen/month driven by base charge increase for existing engineers on assignment through shift-up/charge-up
- Diluted 10K yen/month due to first assignment of newly hired new-grads/mid-career engineers

(yen in thousands)

Unit Sales Price Bridge:
down 1.0% YOY **A**

Base charge increase of existing engineers on assignment, excluding impact from working days/overtime hours

Q1 FY21.6 End: ***up 3.4% YOY*** **B**



* Unit sales price
Average monthly sales per engineer, which includes base charge, overtime charges and others

** Existing 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-grads/mid-career engineers

**** Others
Increase(decrease) of prices from other factors than described above (e.g. project-based contracts)

Price Development

		FY20.6				FY21.6			
		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Unit Sales Price (yen in thousands, year-to-date)		626	631	633	630	620	—	—	—
Year-on-year	**A**	*+0.8%*	*(0.3%)*	*+0.3%*	*(0.1%)*	*(1.0%)*	—	—	—

		Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Base Charge Increase of Existing Engineers on Assignment ** Year-on-year comparison for each quarter end*	**B**	*+3.6%*	*+3.4%*	*+3.0%*	*+3.7%*	*+3.4%*	—	—	—

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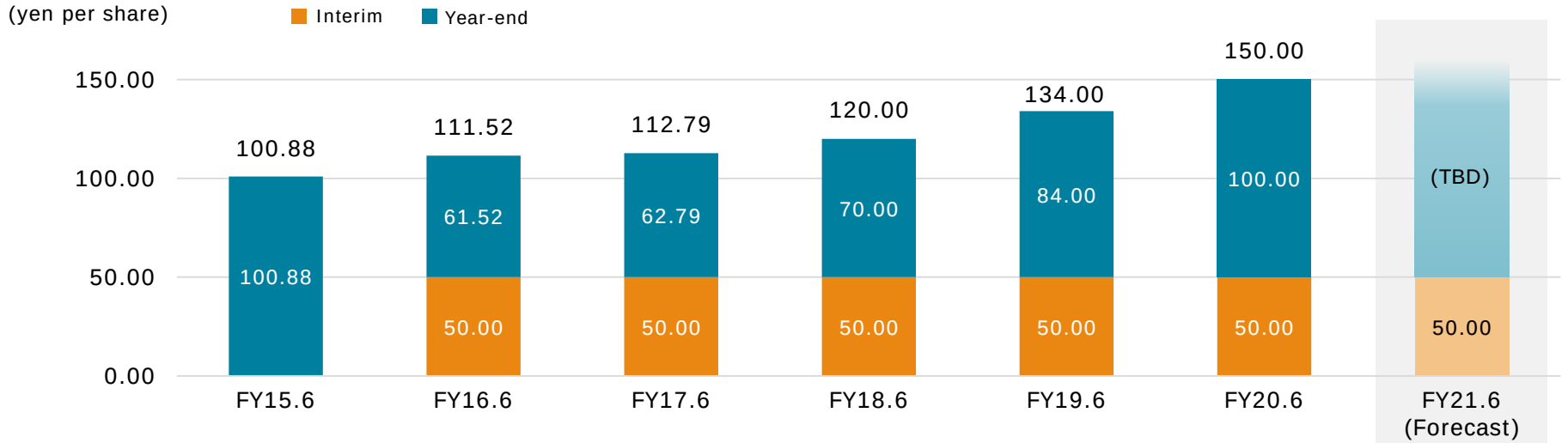
Shareholder Return

- Assures basic policy to make dividend payment steadily twice a year in the form of interim and year-end dividend; For FY21.6, **annual dividend payout ratio of 50%** remains unchanged despite the expected financial impact by COVID-19 (forecasts interim dividend of 50 yen per share for FY21.6, the same amount as previous years)
- Free cash flows retained after returning 50% cash dividend to shareholders will be spent for growth investment such as M&A; in case of being unable to find justifiable investment opportunities which may generate sufficient return (ROIC) exceeding the cost of capital, flexibly considers carrying out share repurchase as a way of shareholder return in light of capital efficiency

Dividend History & Forecast, Payout / Total Return Ratio



	FY15.6	FY16.6	FY17.6	FY18.6	FY19.6	FY20.6	FY21.6 (Forecast)
EPS (yen)	201.76	215.80	225.58	244.81	266.86	299.97	
Payout ratio	***50.0%***	***51.7%***	***50.0%***	***50.0%***	***50.2%***	***50.0%***	***50.0%***
Total dividend amount (yen in millions)	3,437	3,808	3,858	4,250	4,864	5,397	
Share repurchase (yen in millions)	—	—	—	—	—	2,063	
Total return ratio	***50.0%***	***51.7%***	***50.0%***	***50.0%***	***50.2%***	***68.9%***	***N/A***

* Dividends in FY15.6, first year after listing, were wholly distributed at year-end payout

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Outlook & Strategies

1. R&D/Construction Management Outsourcing (% of consolidated revenue: 92.4%)

Contract Renewal	Contract renewal ratio in September 2020 was **92.5%**, almost same level as previous year Renewal ratio in March 2021 might be affected by clients' budget for the new fiscal year, therefore requires close attention
New Allocation	Went smoothly than expected as clients and we got used to new sales activity under "with COVID-19" environment Meanwhile, lead time for allocations tends to become longer since peers actively place many bids for each order inquiry
Utilization Ratio	Expects **93-94% utilization ratio** until March 2020, given above mentioned contract renewal ratio and progress of new allocation Facing difficulty allocating mechanical engineers, will take some time to get back to comfortable level 95%
Recruitment	Gradually sees shortage of resources in IT/biochemical/construction; plans to **resume new hiring, mainly mid-careers with certain experiences and skill sets** Adjusts recruitment strategy opportunistically in response to utilization ratio and number of new order acquisitions (plans to **hire 300 new-grads engineers** in April 2021)
Unit Sales Price	Base charge improved year-on-year, driven by charge up negotiations at contract renewal in March 2020 Expects average monthly unit sales price to **decrease by 1-2%** year-on-year due to decline of working hours per day impacted by reduced overtime

2. Other Businesses in Japan (% of consolidated revenue: 2.2%)

Permanent Placement	Clients' unwillingness to hire continues because of economic uncertainty, preparing for challenging business environment
Technical Education	Strong demands from individuals; promotes development of new contents in order to raise fees for each course

3. Overseas (% of consolidated revenue: 6.2%)

Situation by Country	**UK:** Revenue shows a recovery trend after hitting bottom in Q4 FY20.6 while profit margin is also improving driven by cost-cutting efforts **Singapore:** Recovery in revenue will take some time; expedites improvement of profit margin for a while **China:** Revenue and profit have been already recovered; expects both to exceed previous year results **India:** Start-up operation of new subsidiary became delayed, although financial impact is negligible as the business is small

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* % of consolidated revenue was calculated using revenue for Q1 FY21.6

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FY2021 Guidance Update (First Half)

- **Provides FY2021 guidance only for the first half period** where the reasonable forecast can be made at present; full-year guidance to be announced as soon as the reasonable estimate becomes available
- **Revised the first half FY21.6 guidance upward**, as the KPIs for Q2, particularly utilization ratio, are significantly updated to reflect the contract renewal ratio in September 2020 and the result of new allocation of engineers for Q1 FY21.6
- Expects to record additional 500 million yen of government subsidy in Q2 FY21.6 as well as in Q1; incorporated such amount into the updated guidance below

(yen in millions, except per share amounts and headcounts)

	Q2 (three-months-period)				First Half (six-months-period)							Full-Year	
	FY20.6	FY21.6	YOY		FY20.6		FY21.6	FY21.6		YOY		FY20.6	FY21.6
	(Results)	(Updated guidance)			(Results)	Progress on full-year	Original guidance	Updated guidance	vs. Original guidance			(Results)	(Guidance)
Revenue	40,141	38,304	(1,836)	*(4.6%)*	79,037	*49.9%*	74,000	77,500	+3,500	*(1,537)*	*(1.9%)*	158,407	—
Operating profit (OP)	4,337	4,142	(194)	*(4.5%)*	8,221	*52.1%*	5,500	8,500	+3,000	*+278*	*+3.4%*	15,772	—
OP margin	*10.8%*	*10.8%*	*+0.0 pts*		*10.4%*		*7.4%*	*11.0%*	*+3.6 pts*	*+0.6 pts*		*10.0%*	—
Profit before income taxes	4,315	4,088	(227)	*(5.3%)*	8,191	*51.7%*	5,400	8,400	+3,000	*+208*	*+2.5%*	15,843	—
Net profit	2,996	2,828	(167)	*(5.6%)*	5,654	*52.2%*	3,700	5,800	+2,100	*+145*	*+2.6%*	10,825	—
Net profit margin	*7.5%*	*7.4%*	*(0.1 pts)*		*7.2%*		*5.0%*	*7.5%*	*+2.5 pts*	*+0.3 pts*		*6.8%*	—
Earnings per share	82.94	78.77	(4.17)	*(5.0%)*	156.35	*52.1%*	103.03	161.52	+58.49	+5.17	*+3.3%*	299.97	—
Dividend per share	—	—	—	—	50.00	*33.3%*	—	50.00	—	0.00	*0.0%*	150.00	—

Key KPIs	Q2 (three-months-period)				First Half (six-months-period)							Full-Year	
	FY20.6	FY21.6	YOY		FY20.6		FY21.6	FY21.6		YOY		FY20.6	FY21.6
	(Results)	(Updated guidance)			(Results)	Progress on full-year	Original guidance	Updated guidance	vs. Original guidance			(Results)	(Guidance)
Engineers (quarter end)	20,012	20,200	+188	*+0.9%*	20,012	—	20,150	20,200	+50	+188	*+0.9%*	21,264	—
Ave. utilization ratio	*95.9%*	*93.9%*	*(2.0 pts)*	—	*95.7%*	—	*89.0%*	*93.2%*	+4.2 pts	*(2.5 pts)*	—	*94.0%*	—
Ave. monthly unit price* (yen in thousands)	635	629	(6)	*(0.9%)*	631	—	618	624	+6	(6)	*(1.1%)*	630	—

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* Figures of two major subsidiaries in Japan (TechnoPro, Inc. & TechnoPro Construction, Inc.)

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Reference: FY2021 Segment Guidance Update (First Half)

- *R&D Outsourcing*: Profit to surpass slightly year-on-year results thanks to income from government subsidy, although gross profit may decrease due to decline in utilization ratio
- *Construction Management Outsourcing*: Expects significantly higher profit compared to previous year period driven by financial effects from cost-cutting efforts, with high utilization ratio maintained
- *Other Businesses in Japan*: Aims to avoid falling into deficit by strictly controlling expenses, although the previous guidance to be revised downward in light of the results of Q1 FY21.6
- *Overseas*: Stays focused on maintaining profitability for a while, although risks of recording deficit are considered to be limited as the business structures differ from those in Japan

(yen in millions, except engineer headcounts)

	R&D Outsourcing				Construction Management Outsourcing				Other Businesses in Japan				Japan Total			
	FY19.6 H1	FY20.6 H1	FY21.6 H1	YOY	FY19.6 H1	FY20.6 H1	FY21.6 H1	YOY	FY19.6 H1	FY20.6 H1	FY21.6 H1	YOY	FY19.6 H1	FY20.6 H1	FY21.6 H1	YOY
Revenue	55,861	62,676	62,600	*(0.1%)*	8,602	9,768	9,600	*(1.7%)*	1,499	2,044	1,600	*(21.7%)*	65,963	74,488	73,800	*(0.9%)*
Ratio to consolidated revenue	*79.7%*	*79.3%*	*80.8%*		*12.3%*	*12.4%*	*12.4%*		*2.1%*	*2.6%*	*2.1%*		*94.1%*	*94.2%*	*95.2%*	
Operating profit	5,544	6,431	6,700	*+4.2%*	1,069	1,157	1,500	*+29.6%*	160	262	0	—	6,775	7,850	8,200	*+4.4%*
OP margin	*9.9%*	*10.3%*	*10.7%*		*12.4%*	*11.8%*	*15.6%*		*10.7%*	*12.8%*	*0.0%*		*10.3%*	*10.5%*	*11.1%*	
OP before PPA asset amortization	5,584	6,471	6,740	*+4.2%*	1,069	1,157	1,500	*+29.6%*	160	262	0	—	6,815	7,890	8,240	*+4.4%*
OP margin before PPA asset amortization	*10.0%*	*10.3%*	*10.8%*		*12.4%*	*11.8%*	*15.6%*		*10.7%*	*12.8%*	*0.0%*		*10.3%*	*10.6%*	*11.2%*	
No. of engineers (period-end)	15,350	17,365	17,620	*+1.5%*	2,288	2,647	2,580	*(2.5%)*	—	—	—	—	17,638	20,012	20,200	*+0.9%*
o/w non-Japanese in Japan	816	1,042	—	—	51	69	—	—	—	—	—	—	867	1,111	—	—

	Overseas				Reporting Segment Total				Corporate/Eliminations				Consolidated Total			
	FY19.6 H1	FY20.6 H1	FY21.6 H1	YOY	FY19.6 H1	FY20.6 H1	FY21.6 H1	YOY	FY19.6 H1	FY20.6 H1	FY21.6 H1	YOY	FY19.6 H1	FY20.6 H1	FY21.6 H1	YOY
Revenue	4,692	5,291	4,500	*(15.0%)*	70,655	79,780	78,300	*(1.9%)*	*(541)*	*(742)*	*(800)*	—	70,114	79,037	77,500	*(1.9%)*
Ratio to consolidated revenue	*6.7%*	*6.7%*	*5.8%*		*100.8%*	*100.9%*	*101.0%*		*(0.8%)*	*(0.9%)*	*(1.0%)*		*100.0%*	*100.0%*	*100.0%*	
Operating profit	474	353	300	*(15.0%)*	7,250	8,203	8,500	*+3.6%*	136	17	—	—	7,386	8,221	8,500	*+3.4%*
OP margin	*10.1%*	*6.7%*	*6.7%*		*10.3%*	*10.3%*	*10.9%*		—	—	—		*10.5%*	*10.4%*	*11.0%*	
OP before PPA asset amortization	564	455	400	*(12.1%)*	7,379	8,346	8,640	*+3.5%*	136	*(42)*	—	—	7,516	8,303	8,640	*+4.1%*
OP margin before PPA asset amortization	*12.0%*	*8.6%*	*8.9%*		*10.4%*	*10.5%*	*11.0%*		—	—	—		*10.7%*	*10.5%*	*11.1%*	
No. of engineers (period-end)	1,623	1,544	—	—	19,261	21,556	—	—	—	—	—	—	19,261	21,556	—	—

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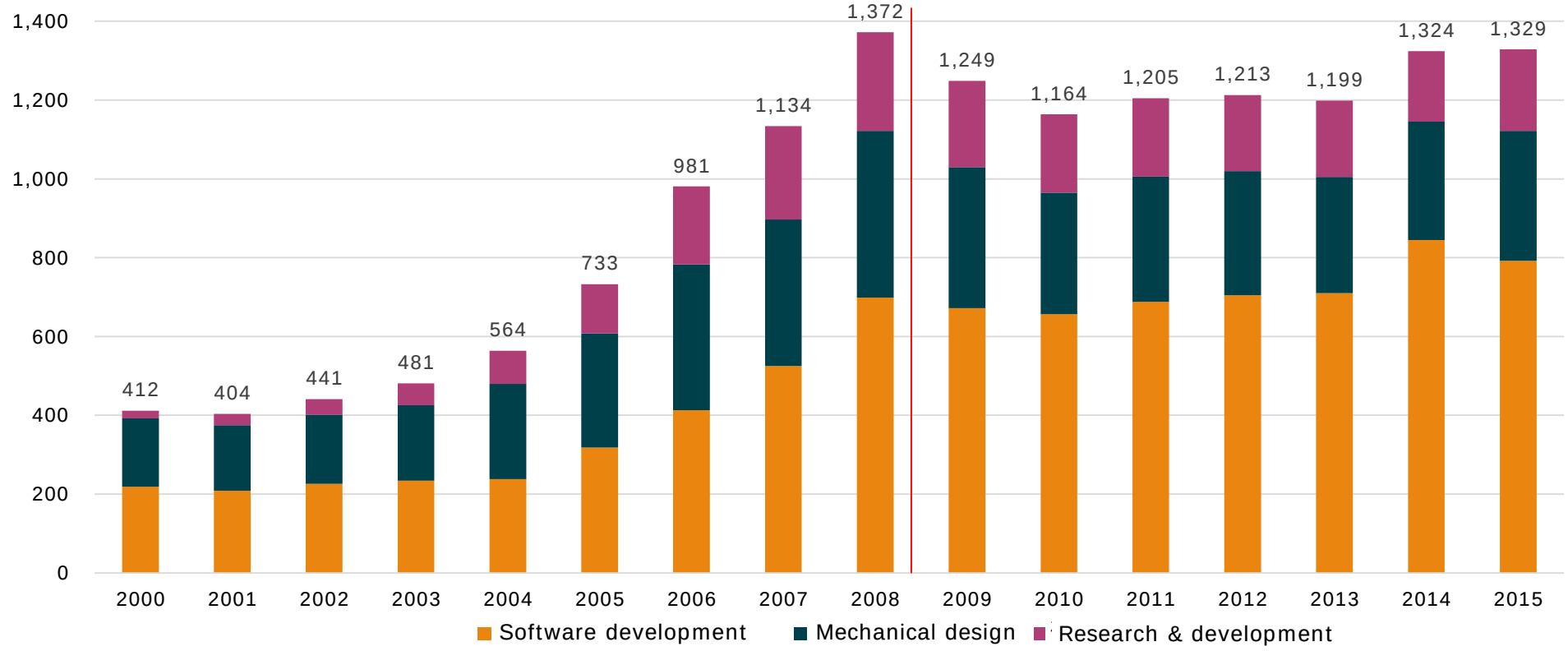
Appendix: Engineer Staffing Market Trends Since 2000

- Japan engineer staffing market temporarily shrunk approx. 15.2% compared to its peak, impacted by the global financial crisis began in September 2008
- Demand for engineer staffing remains robust, gradually recovered after hitting bottom in 2010

(yen in billions)



* Estimated by TechnoPro using formula: [average annual price (dispatching price)] by [headcount at June 1] by [250 days]
* Excluding construction management as its figures were not included in the census (specified 26 occupations) since 2016

Source: Ministry of Health, Labour and Welfare, *Summary of business report for a worker dispatching undertaking*

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Appendix: Reportable Segments (as of Q1 FY21.6 End)

R&D Outsourcing

Provides engineer staffing and project-based contract services related to mechanical design, electric/electronic design, embedded software development, IT network construction, business application development, IT maintenance and operations, bio research, etc.

TechnoPro, Inc.

- 3. TechnoPro Embedded (consolidated as of Dec. 2016) absorbed as of Oct. 1, 2017
- 12. SOFTWORKS (consolidated as of Jan. 2019) absorbed as of Dec. 31, 2018
- 8. Techno Live (consolidated as of Apr. 2018) absorbed as of Nov. 1, 2018
- 9. Misystem (consolidated as of Jul. 2018) absorbed as of May. 1, 2019
- 2. ON THE MARK (consolidated as of Mar. 2016) absorbed as of Jul. 1, 2020
- 5. EDELTA (consolidated as of Nov. 2017)
- 6. PROBIZMO (consolidated as of Feb. 2018)

Construction Management Outsourcing

Provides engineer staffing related to construction management (safety/quality/process/cost management) for construction, civil engineering, electrical equipment and plant engineering, and contract services for drafting of working drawings

- **TechnoPro Construction**
- 10. TOQO (consolidated as of Aug. 2018)

Other Businesses in Japan

Provides professional recruitment, technical education and training services

- 1. Pc Assist (consolidated as of Sep. 2015)
- 4. Boyd & Moore Executive Search (Japan) (consolidated as of Jul. 2017)
- 13. TechnoBrain (consolidated as of Apr. 2019)

Overseas

Technological outsourcing and professional recruitment services in China; IT engineer staffing service and contract services in Southeast Asis and India; engineer staffing and professional recruitment services in the UK

- TechnoPro China
- 4. Boyd & Moore Executive Search (overseas) (consolidated as of Jul. 2017)
- 7. Helius Technologies Pte. Ltd. (consolidated as of Apr. 2018)
- 11. Orion Managed Services Ltd. (consolidated as of Oct. 2018)
- TPRI Technologies (established on Sep. 2019)

Headquarters

Provides shared services to group companies, hires and supports disabled people

- **TechnoPro Holdings**
- TechnoPro Smile (Special Subsidiary)

* Initial numbers on company names indicate the order of M&A
* During current medium-term management plan (FY18.6 -), red frame indicates acquisitions in **FY18.6**, blue double line frame indicates ones in **FY19.6**
* In Overseas, holding 51.0% of Helius shares and 63.2% of Orion shares

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Appendix: Risk Assets (as of Q1 FY21.6 End)

- Major component of goodwill (**29.2 billion yen**) in *R&D/Construction Management Outsourcing* was derived from MBO transaction carried out by management and private equity fund; its fair market value, newly calculated with COVID-19 impact taken into account, well exceeds carrying amount of goodwill and consequently **impairment risks are very low**
- Proactively recorded impairment losses for goodwill of TOQO and TechnoBrain, which engage in one time fee businesses, in FY20.6; **risks of recording additional impairment are limited** even if COVID-19 crisis continues for the coming periods
- Boyd & Moore Executive Search engages in permanent placement business and therefore its earnings might be affected by economic fluctuation, but many customers in IT sector are currently showing strong performance despite COVID-19 pandemic; the estimated loss amount that may arise from impairment will not exceed **1.1 billion yen**
- Although two overseas subsidiaries still have impairment risks, slowdown in their earnings performance will reduce fair value of put option liabilities, accordingly such losses can be partially offset by profit from changes in fair value of these liabilities

(yen in millions)

Cash-generating unit (CGU)	Shareholding	Goodwill				PPA Assets		PO Liabilities	
		MBO	M&A*	Total	Ratio	M&A*	Amortization period (months)	M&A	Value calc. period (months)
R&D Outsourcing									
Machinery, Electric/Electronic	100.0%	13,674	977	14,651	40.5%				
Embedded control, IT infratructure	100.0%	7,969		7,969	22.1%				
Software dev./maintenance	100.0%	2,912	2,768	5,681	15.7%	694	up to 30.3		
Chemical, Biochemical	100.0%	1,262		1,262	3.5%				
Construction Mgmt. Outsourcing									
Construction management	100.0%	3,383		3,383	9.4%				
TOQO	100.0%		190	190	0.5%				
Other Businesses in Japan									
Pc Assist	100.0%		96	96	0.3%				
Boyd & Moore Executive Search	100.0%		1,104	1,104	3.1%				
TechnoBrain	100.0%		151	151	0.4%				
Overseas									
Helius	51.0%		661	661	1.8%	632	up to 26.3	1,677	17.4-22.6
Orion	63.2%		987	987	2.7%	459	up to 26.9	1,239	18.4-23.6
Total		**29,202**	**6,938**	**36,141**	**100.0%**	**1,786**		**2,916**	

* Including entities absorbed to TechnoPro, Inc.

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Contents

		Page
Ⅰ	FY2021 Q1 Financial Overview	2
Ⅱ	KPI Analysis	6
ⅰ	Number of Engineers & Utilization Ratio	6
ⅱ	Unit Sales prices	10
Ⅲ	Shareholder Return	11
Ⅳ	Outlook & Strategies	12
Ⅴ	FY2021 Guidance	13
Ⅵ	Appendix	15
Ⅶ	Data References	19

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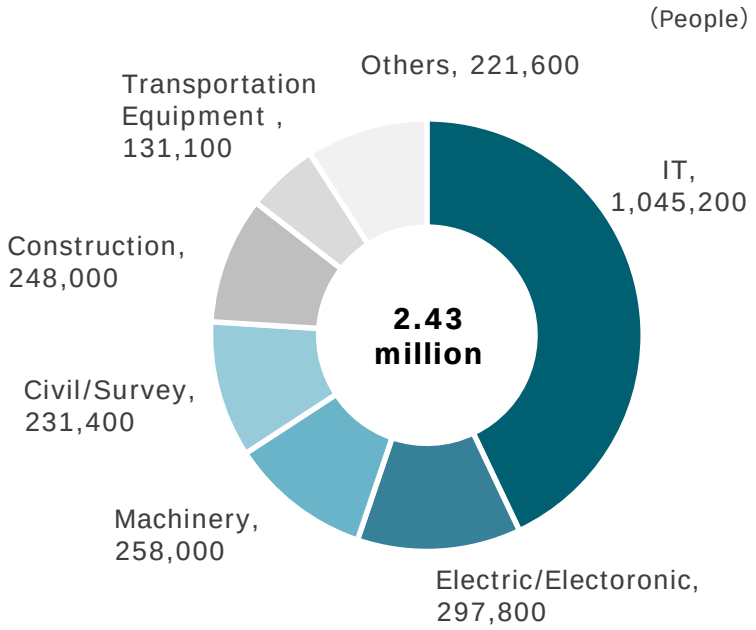
Distribution of Engineers in Japan

- According to the census in 2015, the number of engineers in Japan is 2.43 million and about 40% of them are IT engineers
- In terms of IT engineers, the outsourcing ratio is relatively high in Japan

1. Number of Engineers in Japan (2015)

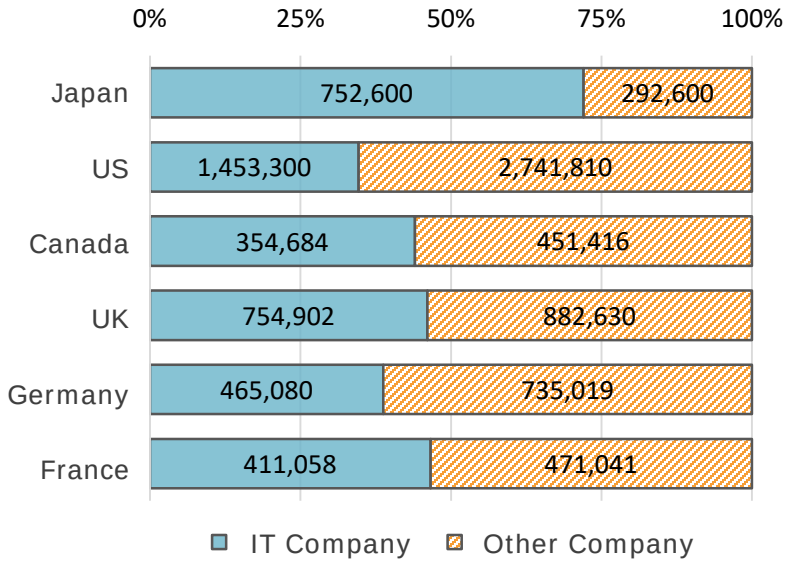
Source: Census 2015



2. Ratio of IT Talents at IT and Other Companies

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

Japan, US, UK, Germany, France: 2015 Canada: 2014



* "IT Company" means IT vendors and "Other Company" means IT user companies

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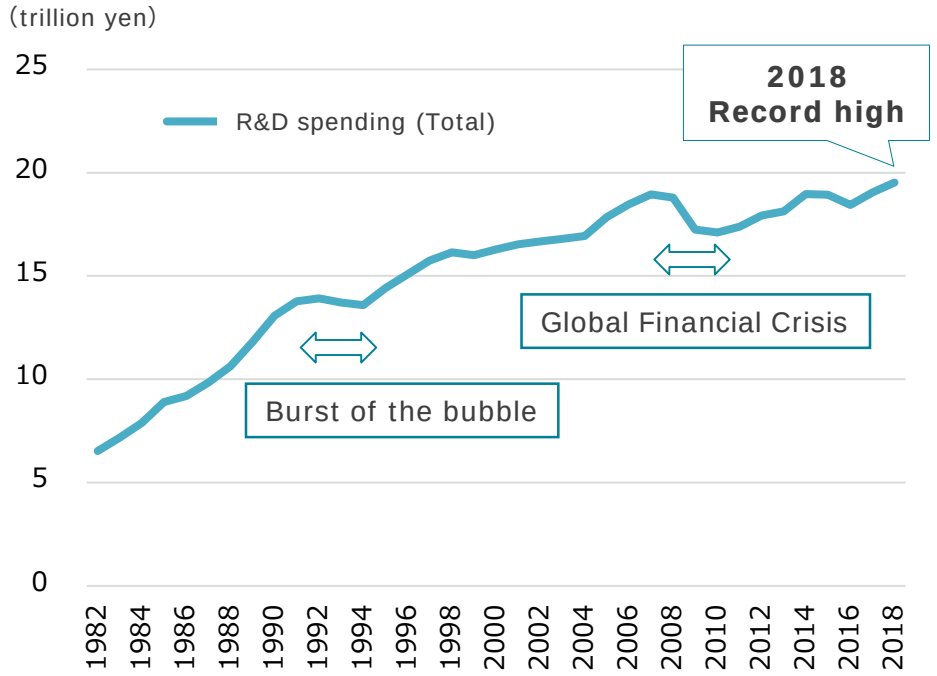
Trend of R&D Spending & ICT Investment

- R&D is a field less susceptible to impact of the economy; as a nation, Japan reported a record-high for R&D spending in 2018 and its growth is expected to continue in the future
- Japan's ICT investment is gradually shifting from “hardware” to “software”

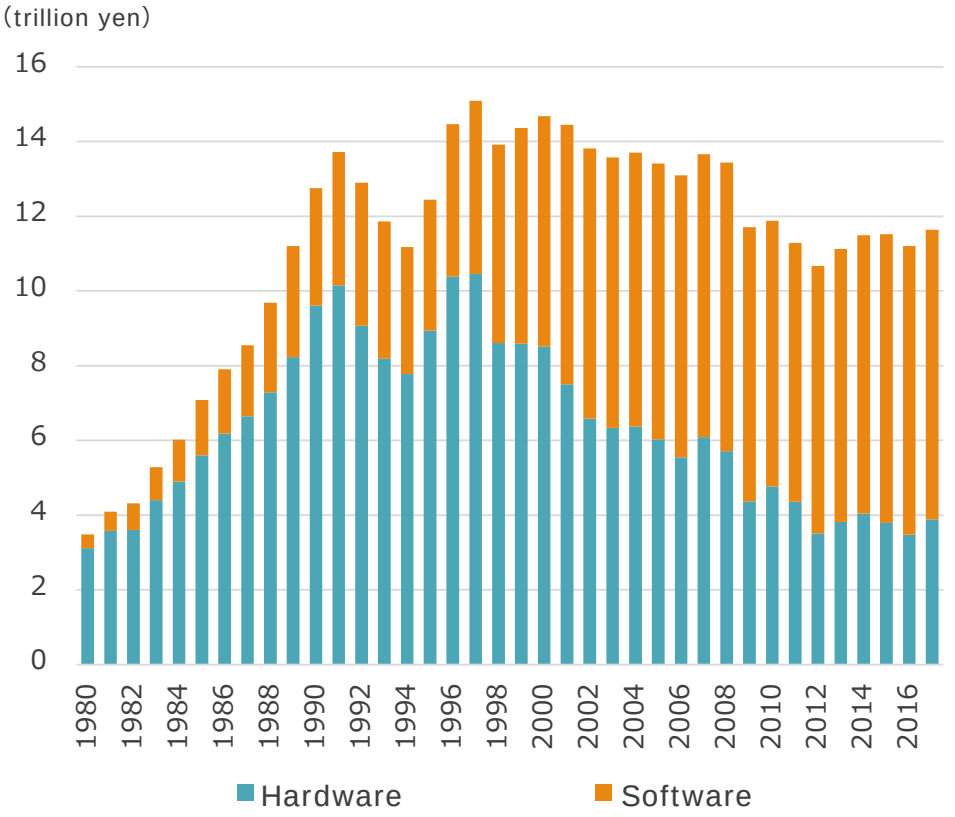
3. Trend of R&D Spending in Japan

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



4. The Breakdown of ICT Investment in Japan

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



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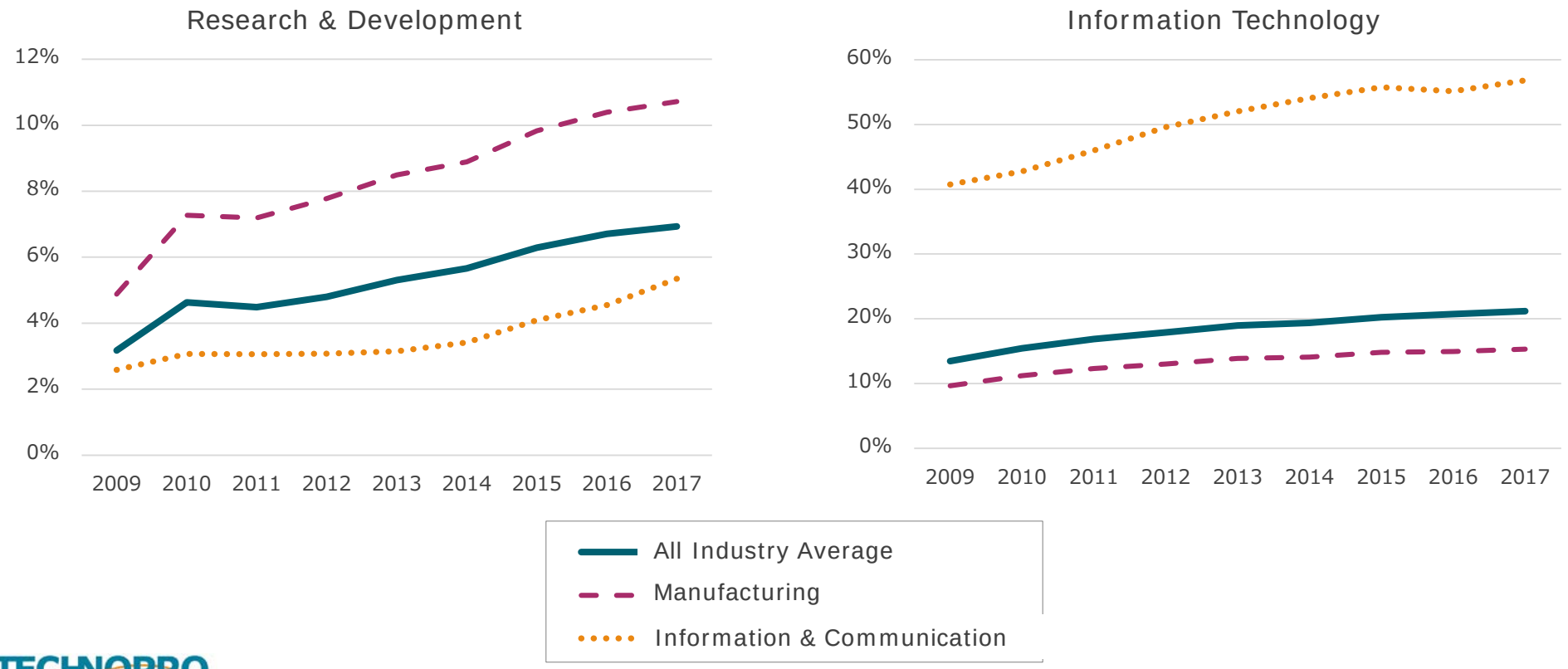
Outsourcing Ratio of R&D and IT Activity

- Outsourcing ratio of R&D and IT activity is gradually increasing overall
- Even information & Communication companies are using more outside resources in their IT activity

5. Outsourcing Ratio by Industry

Source: Ministry of Economy, Trade and Industry, Basic Business Activity Survey,
aggregation by the Doshisha University Research Institute for STEM Human Resources, Commissioned by TechnoPro in 2020



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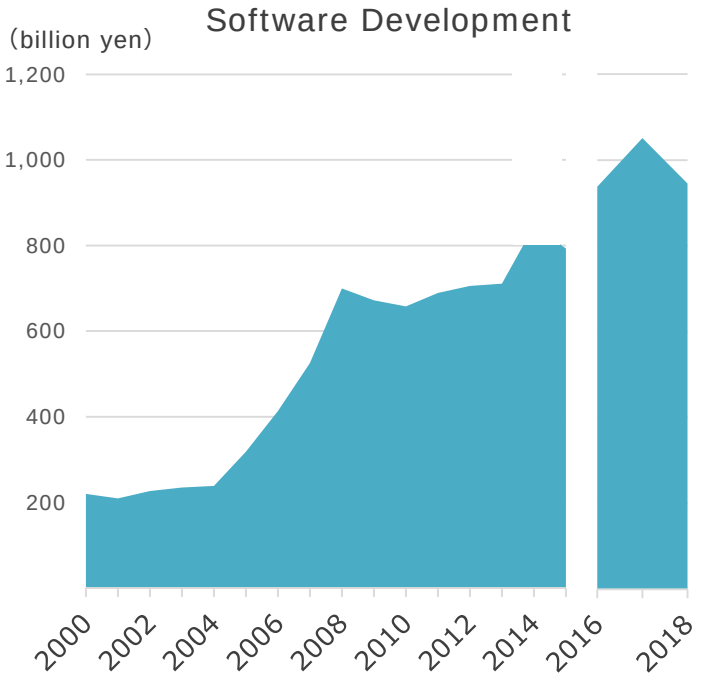
Engineer Staffing Market Overview

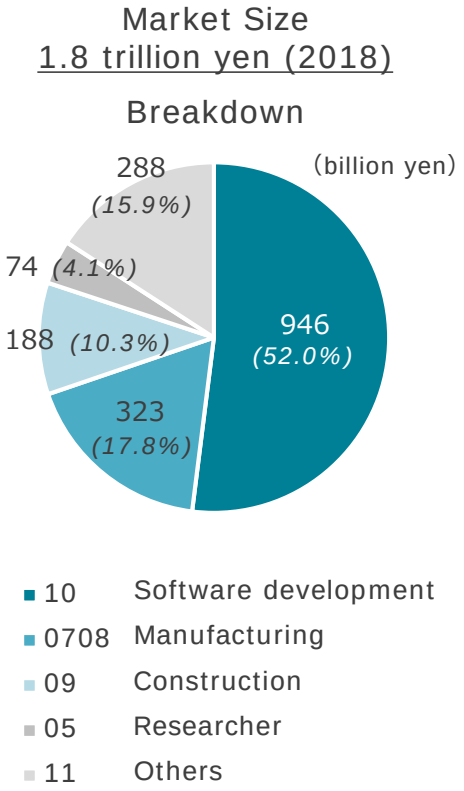
- Estimated the whole staffing market size is about 6.5 trillion yen (2018); of which, engineer staffing market size is about 1.8 trillion yen, about 250,000 engineers
- Yano Research Institute forecasts that the engineer staffing market in Japan is expected to grow at a CAGR of 8.0%

6. Engineer Staffing Market Size

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

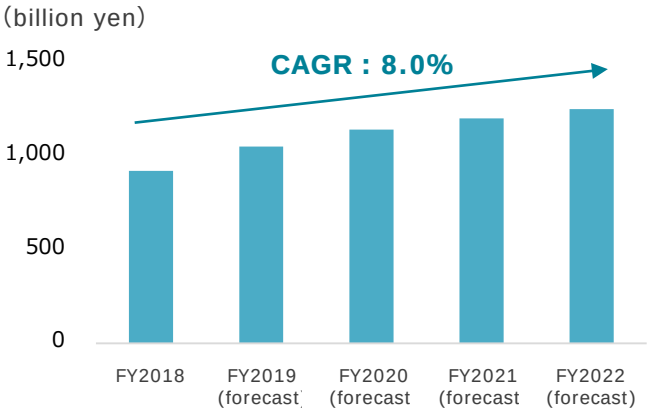


* The aggregate standard has been changed as of 2015 due to revision of the classification of occupation on September 30, 2015



7. Forecast of Engineer Staffing Market Size

Source: Human Resources Business 2019, Yano Research Institute Ltd.



* The market size is based on the sales of businesses; FY2019 onward is forecast (as of November 2019)

Note: Market size for large-scale providers calculated by Yano Research Institute based on an independent survey. Growth may be higher than the market as a whole.

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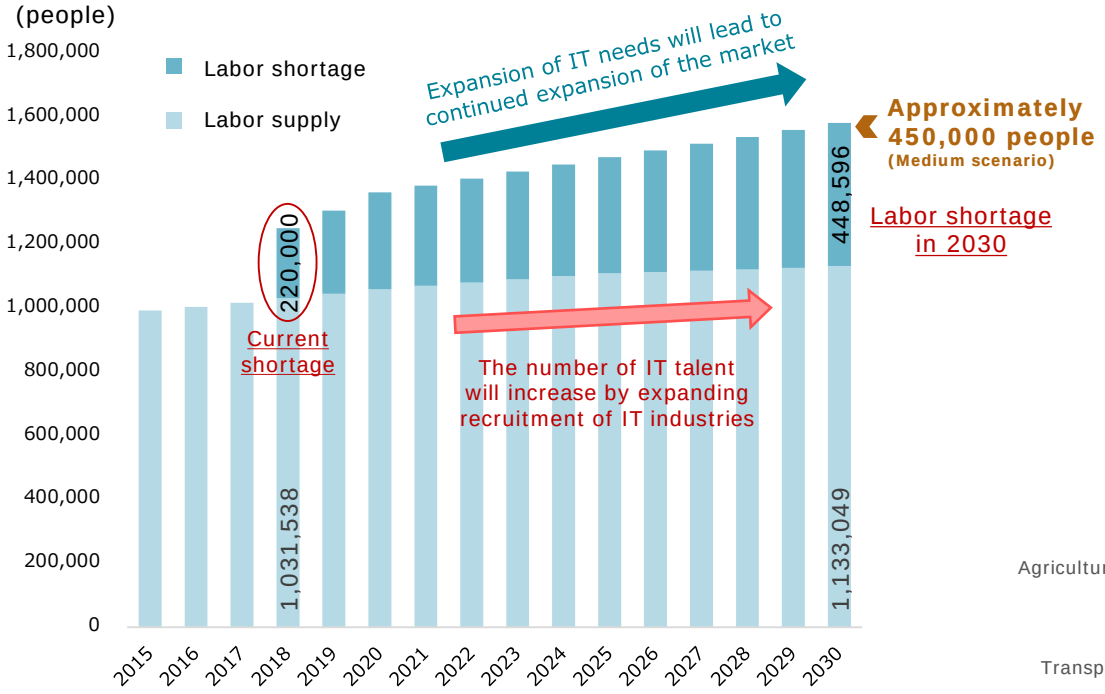
Background of Engineer Staffing Market Growth and Our Strengths – 1. Growing Demand

- IT-focused professional service provider is highly competitive because of a huge demand-supply gap in the IT sector
- Weakening demand for engineers with the spread of AI will be more than offset by the new demand for engineers

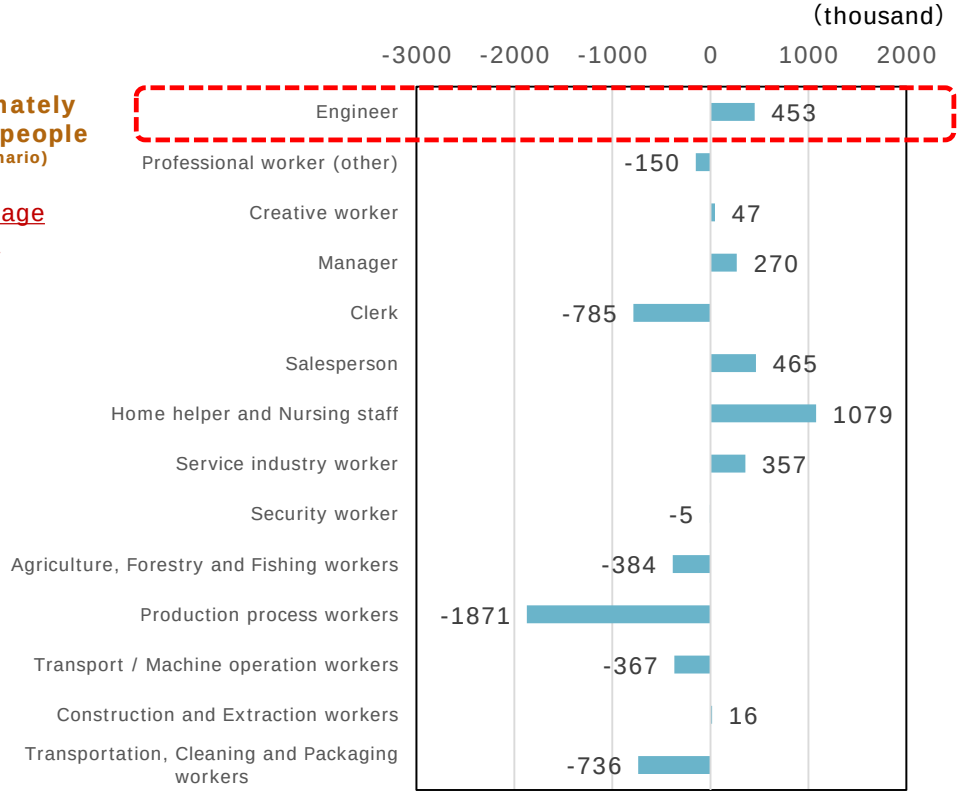
8. IT Talent Shortage Projections

Source: Ministry of Economy, Trade and Industry, "Survey report about supply and demand of IT talent"



9. Shift in Workforce due to Progression of AI

Source: Ministry of Health, Labor 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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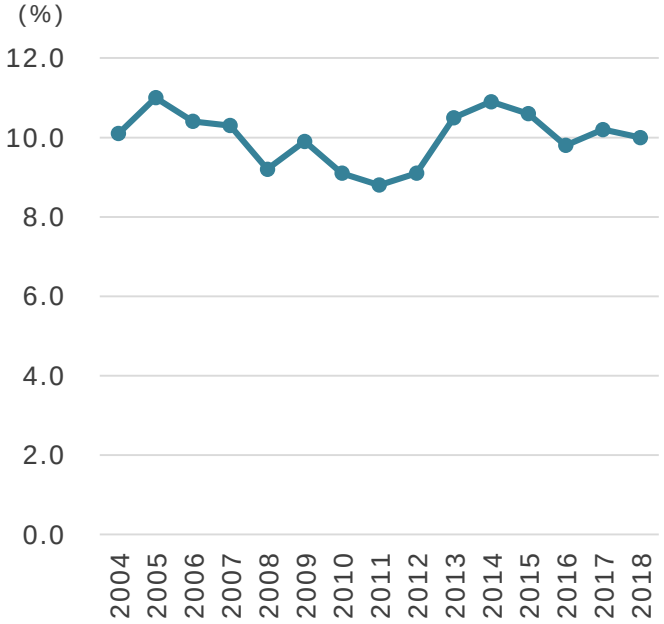
Background of Engineer Staffing Market Growth and Our Strengths – 2. Mid Careers Market

- The turnover ratio in Japan remains around 10% which shows career-change market has a certain scale; more than 200,000 engineers per year
- Turnover ratio of IT engineers tends to be relatively higher than other type of engineers

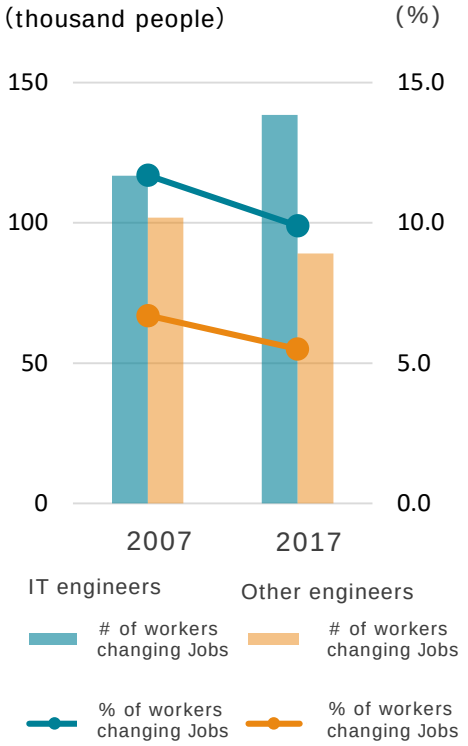
10. Turnover Ratio in Japan

Source: ”Employment Trends Survey, ” Ministry of Health, Labor and Welfare



11. Turnover of Engineers

Source: “Survey Report on Recent Characteristics in the Percentage of Japanese Engineers Changing Jobs”, the Doshisha University Research Institute for STEM Human Resources, Commissioned by TechnoPro in 2019



(%)

	1997	2007	2017
All sectors	11.0	11.7	10.7
Engineers	7.5	8.7	7.5
of which, IT engineers		11.7	9.9
of which, other engineers		6.7	5.5

(thousand people)

	1997	2007	2017
All sectors	7,391	7,717	7,066
Engineers	178	219	228
of which, IT engineers		117	138
of which, other engineers		102	89

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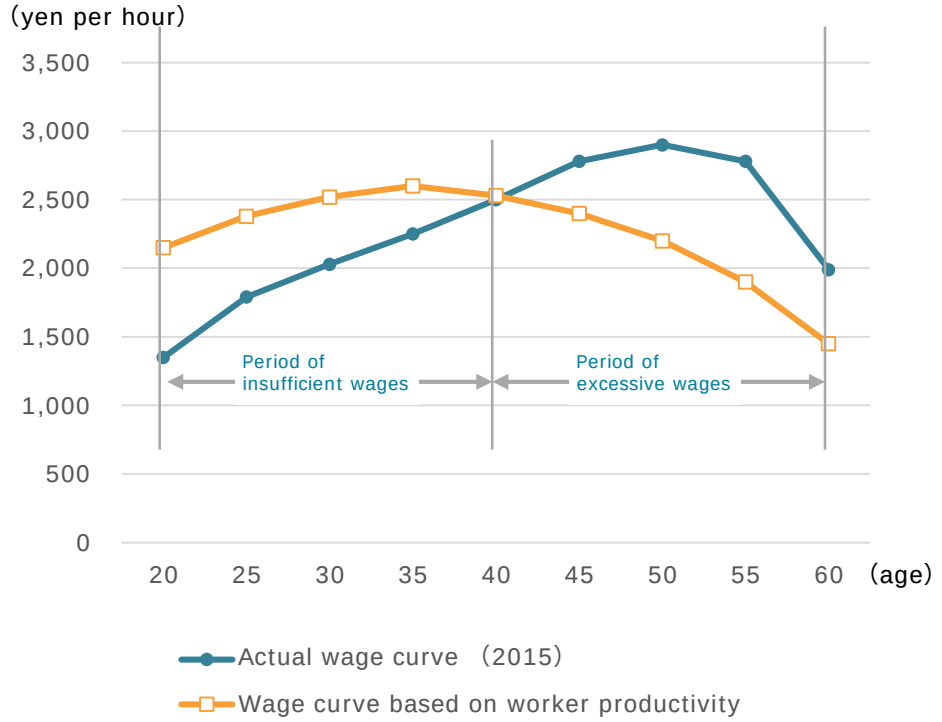
Background of Engineer Staffing Market Growth and Our Strengths – 2. Mid Careers Market (Cont.)

- The lifetime employment and seniority-based wage system have firmly remained in Japan
- The number of mid-career recruitment by blue-chip companies is limited due to the gap between productivity and salary

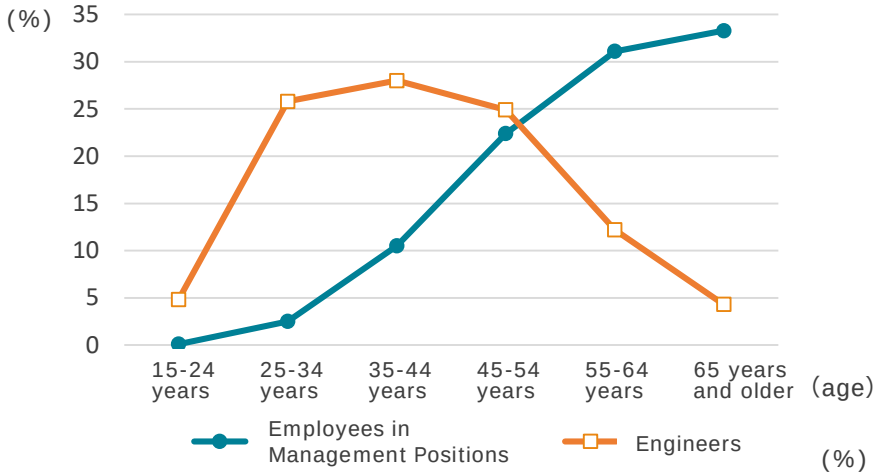
12. Seniority-Based Wages and Wages based on Work Productivity (Hourly-base)

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



13. Age Composition: Management and Technical Position (2017, Japan)

Source: "Survey Report on Recent Characteristics in the Percentage of Japanese Engineers Changing Jobs", the Doshisha University Research Institute for STEM Human Resources, Commissioned by TechnoPro in 2019



(%)

	Employees in Management Positions	Engineers
15-24 years	0.1	4.8
25-34 years	2.5	25.8
35-44 years	10.5	28
45-54 years	22.4	24.9
55-64 years	31.1	12.2
65 years and older	33.3	4.3

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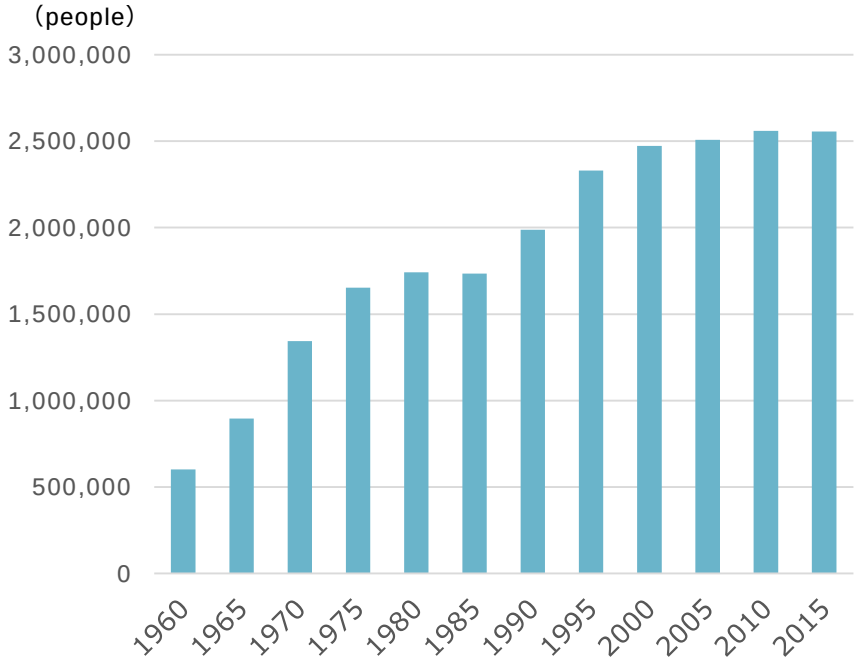
Background of Engineer Staffing Market Growth and Our Strengths – 3. New Grads Market

- While the young population is shrinking in Japan, the number of university graduate students is slightly increasing because of higher university entrance rate
- New grads tend to prefer blue-chip companies while such companies have limited number of job openings for them

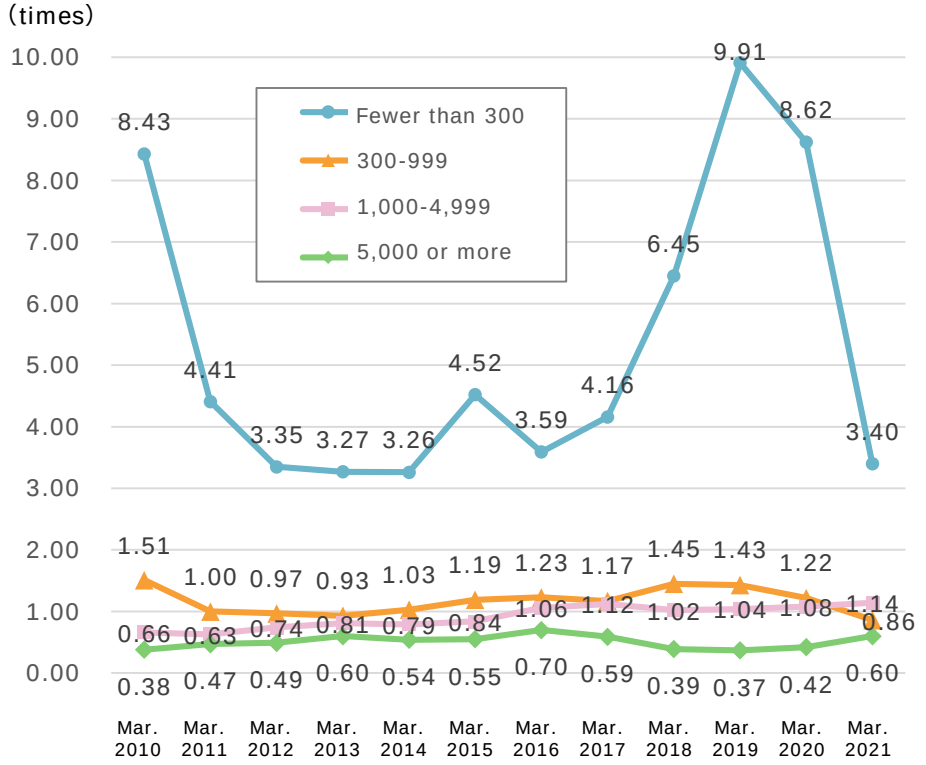
14. No. of University Students

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



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

Source : "36th College Graduates Job Opening Survey", Recruit Works Institute



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