



TechnoPro Group Financial Results for the 3rd Quarter of FYE June 2019

TechnoPro Holdings, Inc.

April 26, 2019



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* KPI excludes 'Other' business.

FY2019 Q3 Overview

- For year-to-date Q3 FY2019, revenue increased JPY 22.2 billion (up 26.3%) year on year, operating profit increased JPY 2.4 billion (up 28.7%) year on year
Organic growth excluding impact from M&As in FY2019; up 14.2% in revenue, up 14.7% in operating profit (performance of subsidiaries acquired in FY2018 was calculated using average monthly earnings after acquisition)
- Earnings from SOFTWAREWORKS has been consolidated as of January 2019; Earnings from TECHNO BRAIN (acquisition announced on February 28, 2019) to be consolidated as of April 2019
- Reaffirms full year guidance for FY2019 considering unsettled items to be evaluated at the year-end closing such as PPA*** results of acquired subsidiaries, etc., although expecting to deliver better results than the guidance

(JPY in millions)

	Nine Months Ended			Q3			Full Year		
	FY2018 (Actual)	FY2019 (Actual)	YOY	FY2018 (Actual)	FY2019 (Actual)	YOY	FY2018 (Actual)	FY2019 (Guidance)	YOY
Revenue	84,344	106,544	+26.3%	28,943	36,430	+25.9%	116,529	135,000	+15.9%
Gross profit (GP)	21,388	26,816	+25.4%	7,624	9,337	+22.5%	29,475	34,000	+15.4%
<i>GP margin</i>	25.4%	25.2%		26.3%	25.6%		25.3%	25.2%	
SG&A expenses	12,596	15,787	+25.3%	4,533	5,528	+21.9%	18,237	20,500	+12.4%
<i>Ratio on revenue</i>	14.9%	14.8%		15.7%	15.2%		15.7%	15.2%	
Operating profit (OP)	8,647	11,131	+28.7%	3,093	3,745	+21.1%	11,238	13,500	+20.1%
<i>OP margin</i>	10.3%	10.4%		10.7%	10.3%		9.6%	10.0%	
Profit before income taxes	8,560	11,085	+29.5%	3,056	3,757	+23.0%	11,163	13,500	+20.9%
Net profit**	6,437	7,341	+14.1%	2,298	2,487	+8.2%	8,498	8,900	+4.7%

* Amounts are rounded down to the nearest unit

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

*** 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

Business Line Results FY2019 Q3

- Provides earnings information (managerial) for each line of business, considering expanding business portfolio other than engineer staffing
- Contribution margin of 11.1% (Q3 FY2018: 10.9%) in *Engineer staffing*, offset expenses related to headquarters functions provided by TechnoPro Holdings from operating profit
- Aims to maintain approx. 10% OP margin for *Overseas* regardless of unit sales price trends in Japan, as the earnings structure differs from each other
- Engineers totaled 19,709: 18,060 in Japan / 1,649 in other countries

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

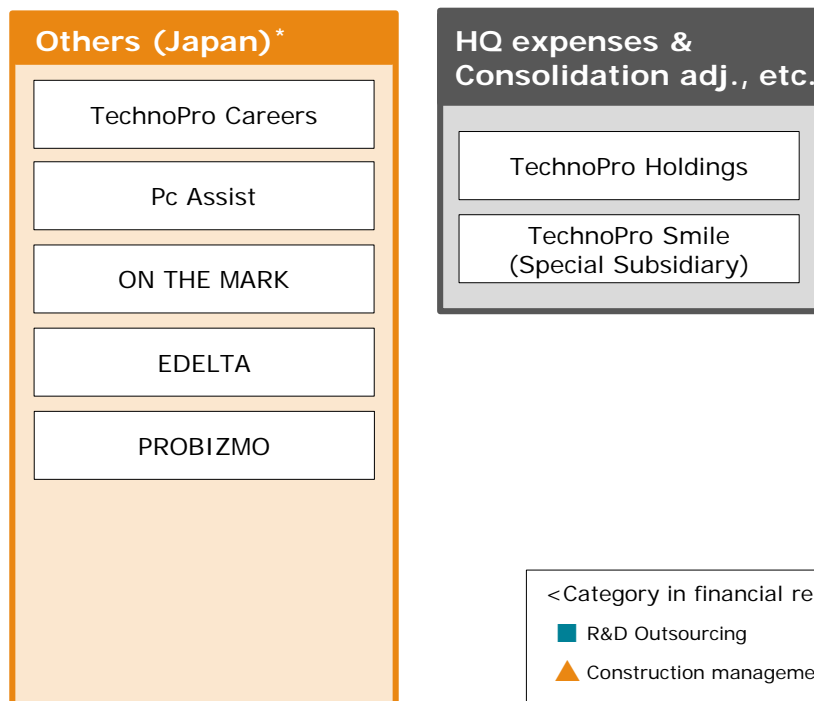
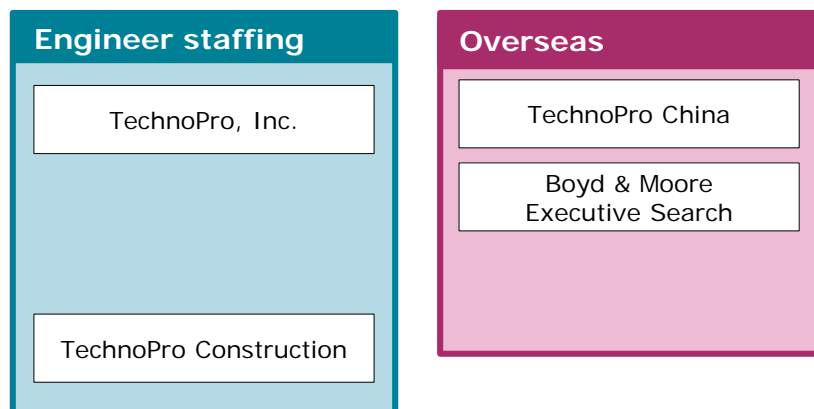
	Engineer staffing (Japan, two subsidiaries)			Others (Japan)			Overseas			HQ expenses & Consolidation adj., etc.			Consolidated		
	YTD Q3 FY2018 (Actual)	YTD Q3 FY2019 (Actual)	YOY	YTD Q3 FY2018 (Actual)	YTD Q3 FY2019 (Actual)	YOY	YTD Q3 FY2018 (Actual)	YTD Q3 FY2019 (Actual)	YOY	YTD Q3 FY2018 (Actual)	YTD Q3 FY2019 (Actual)	YOY	YTD Q3 FY2018 (Actual)	YTD Q3 FY2019 (Actual)	YOY
	Revenue	79,952	92,469	+15.7%	3,570	6,747	+89.0%	1,530	8,400	+449.0%	(707)	(1,072)	-	84,344	106,544
Operating profit (OP)	12,042	13,901	+15.4%	328	778	+137.2%	180	852	+373.3%	(3,905)	(4,400)	-	8,647	11,131	+28.7%
OP margin	15.1%	15.0%	-	9.2%	11.5%	-	11.8%	10.1%	-	-	-	-	10.3%	10.4%	-
Contribution margin	10.9%	11.1%	-	-	-	-	-	-	-	-	-	-	-	-	-

												Consolidated (excl. overseas)			
No. of engineers	15,077	17,526	+16.2%	416	534	+28.4%	-	-	-	-	-	-	15,493	18,060	+16.6%
Non-Japanese	700	916	+30.9%	-	6	-	-	-	-	-	-	-	700	922	+31.7%
No. of engineers (overseas)	-	-	-	-	-	-	302	1,649	446.0%	-	-	-	-	-	-
Utilization rate	96.3%	96.3%	-	96.6%	95.8%	-	-	-	-	-	-	-	96.3%	96.3%	-
Sales per head (JPY in thousands)	629	632	-	-	-	-	-	-	-	-	-	-	-	-	-

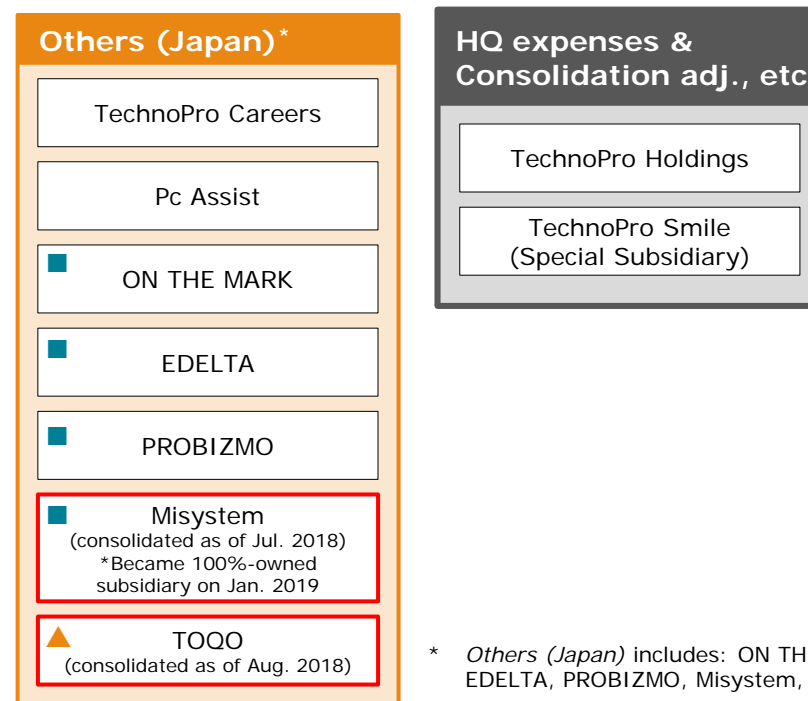
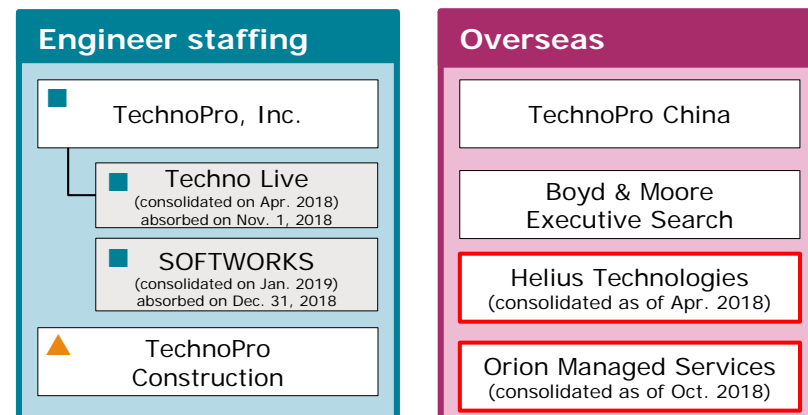
* Amounts are rounded down to the nearest unit.

Companies in Each Business Line [managerial]

As of March 31, 2018



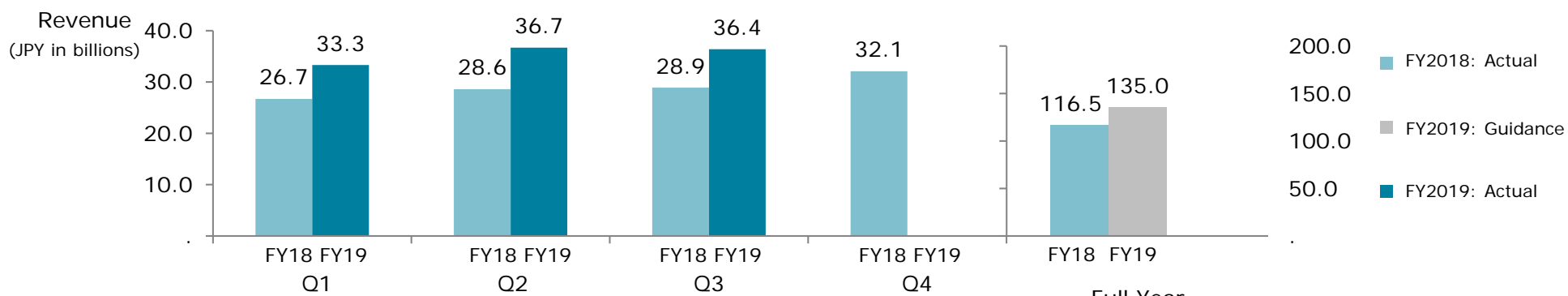
As of March 31, 2019



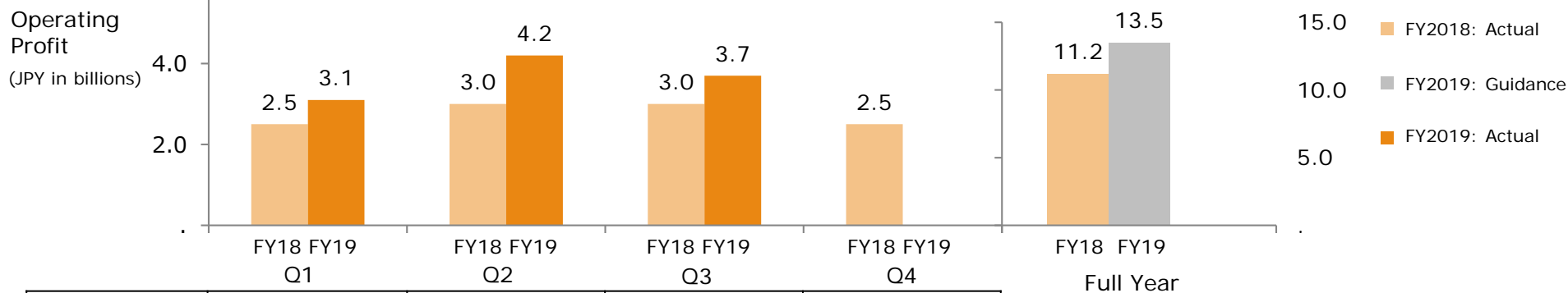
* Others (Japan) includes: ON THE MARK, EDELTA, PROBIZMO, Misystem, TOOO

Quarterly Performance

- Progress vs. full year guidance: 79% for revenue, 82% for operating profit, maintaining the solid growth momentum as prior year period
- Expects seasonal uncertainty in Q4 such as increase of training and idle period expenses for new graduate engineers (hired 1,048 new-grads in April 2019, up 159 year on year), and unsettled accounting items to be evaluated at year-end closing



Composition %	Q1	Q2	Q3	Q4	Full Year
	23% 25%	25% 27%	25% 27%	28% -	-
YOY	24.7%	28.3%	25.9%	-	-

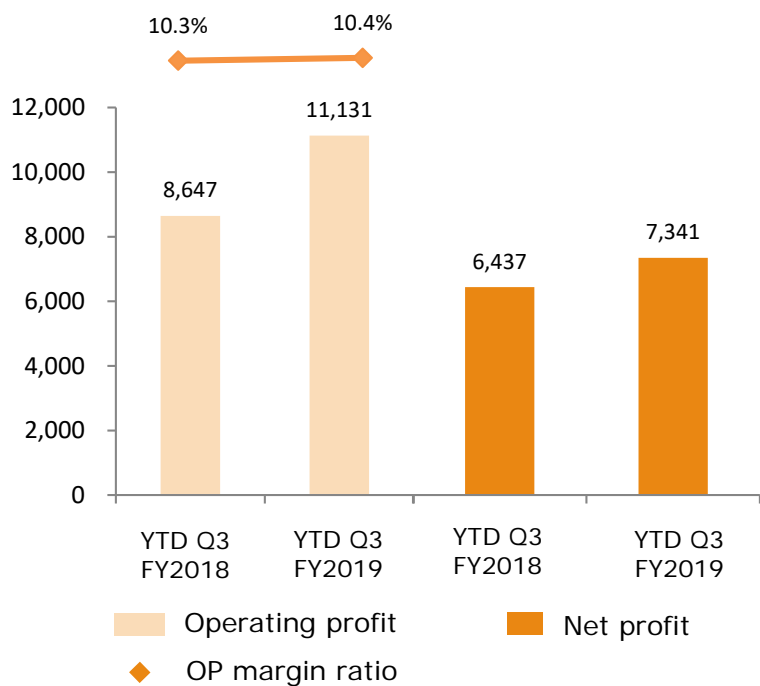


Composition %	Q1	Q2	Q3	Q4	Full Year
	22% 24%	27% 31%	28% 28%	23% -	-
OP ratio	9.4% 9.5%	10.6% 11.4%	10.7% 10.3%	8.1% -	9.6% 10.0%
YOY	26.7%	38.1%	21.1%	-	-

* Amounts are rounded down to the nearest unit.

P&L Summary

(JPY in millions)



(JPY in millions)

	YTD Q3 FY2018	YTD Q3 FY2019	Diff. YOY	YOY (%)
Revenue	84,344	106,544	+22,200	+26.3%
Impact of Engineer increase**			+12,214	
Impact of unit sales price increase**			+286	
M&A contribution, etc.			+9,700	
CoGs	62,956	79,728	+16,772	+26.6%
Ratio to revenue	<u>74.6%</u>	<u>74.8%</u>	<u>+0.2pt</u>	
Gross profit	21,388	26,816	+5,427	+25.4%
Ratio to revenue	<u>25.4%</u>	<u>25.2%</u>	<u>(0.2pt)</u>	
SG&A	12,596	15,787	+3,191	+25.3%
Ratio to revenue	<u>14.9%</u>	<u>14.8%</u>	<u>(0.1pt)</u>	
Other income – Other expenses	(144)	103	+247	
Operating profit	8,647	11,131	+2,484	+28.7%
Financial income	6	38	+31	
Financial expenses	95	82	(12)	
Net profit before income taxes	8,560	11,085	+2,525	+29.5%
Corporate / income taxes	2,122	3,602	+1,479	
Net Profit	6,437	7,341	+904	+14.1%

* Amounts are rounded down to the nearest unit.

** Includes figures of TechnoPro, Inc. and TechnoPro Construction, Inc.

Balance Sheet & Cash Flow

- Cash and cash equivalents decreased JPY 2.9 billion compared to the balance sheet at June 2018, due to acquisition of subsidiaries, payment of dividend, etc.
- The balance sheet includes TECHNO BRAIN (acquisition announced on February 28, 2019) as of the end of March

(JPY in billions)

June 2018		March 2019	
Cash & cash equivalents 21.6	Debt 11.6	Cash & cash equivalents 18.6	Debt 10.2
Goodwill 34.4	Other liabilities 33.7	Goodwill 37.7	Other liabilities 40.4
Deferred tax assets 3.9		Deferred tax assets 4.8	
Intangible assets (PPA ^{†1}) 2.9	Total equity 42.9	Intangible assets (PPA ^{†1}) 3.4	Total equity 44.5
Other assets 25.4		Other assets 30.6	
Total assets 88.2	Total liabilities & equity 88.2	Total assets 95.1	Total liabilities & equity 95.1
D/E Ratio ^{†2} :	0.3 x	D/E Ratio ^{†2} :	0.2 x
Net D/E Ratio ^{†3} :	(0.2) x	Net D/E Ratio ^{†3} :	(0.2) x
Net worth ratio:	48.7%	Net worth ratio:	46.9%

Q3 FY2019 Cash Flow

• Operating CF	7.3
• Investing CF	(4.1)
• Financing CF	(6.1)
Net CF	(2.9)

FCF 3.1

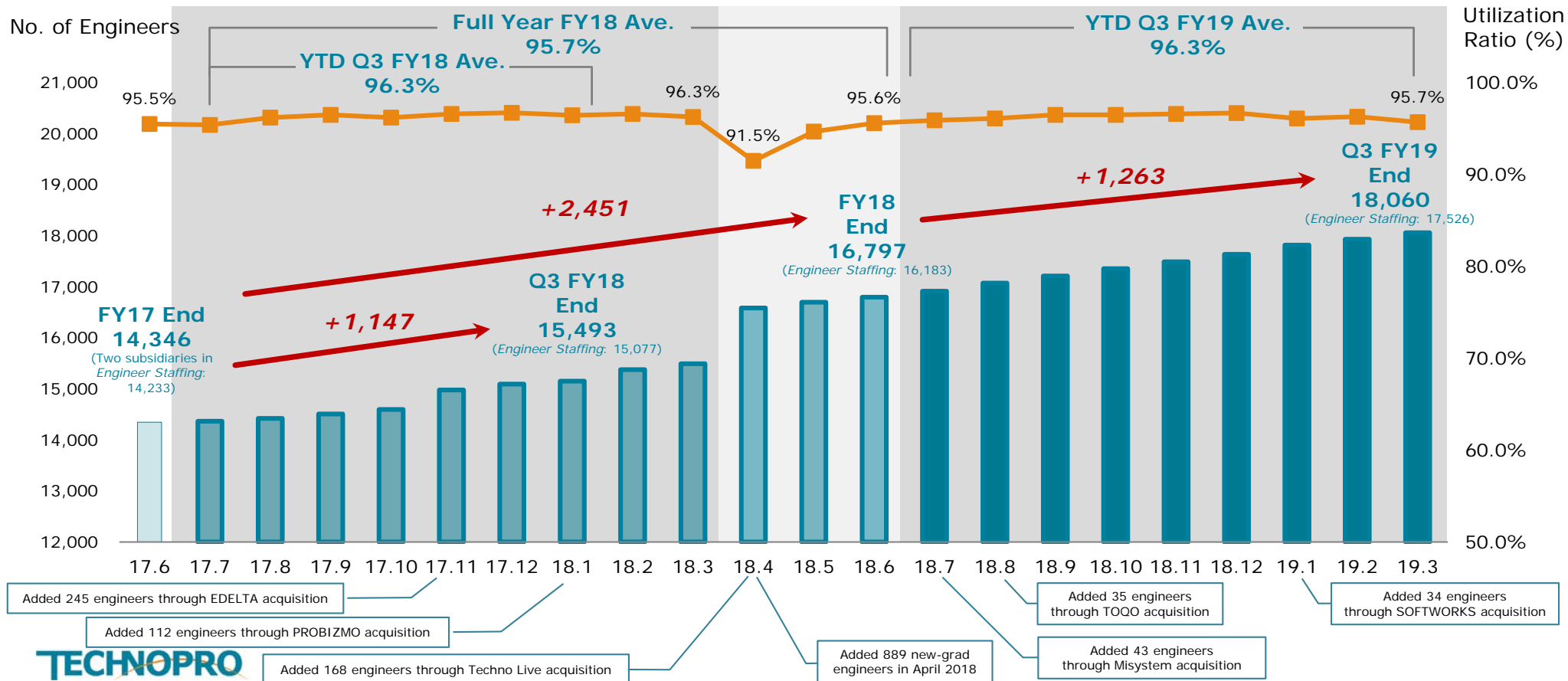
^{†1} PPA (Purchase Price Allocation): An operation allocating the purchase price to the assets and liabilities of the acquired company at fair value in the acquirer's consolidated balance sheet

^{†2,3} Including non-controlling interests

* Amounts are rounded down to the nearest unit.

Number of Engineers & Utilization Rate [Japan]

- Engineers on payroll in Japan at the end of Q3 FY2019 totaled 18,060 (up 1,263 from the end of prior year), including 922 non-Japanese engineers (up 166 from the end of prior year); employs 17,526 at two companies in *Engineer staffing* (TechnoPro, Inc. and TechnoPro Construction, Inc.)
- Average utilization rate of 96.3% for year-to-date Q3 FY2019 (same as prior year period)
- Employs 1,649 engineers at overseas subsidiaries (not included in numbers above)
- 1,048 new graduate engineers joined on April 1, 2019 (up 159 year on year)



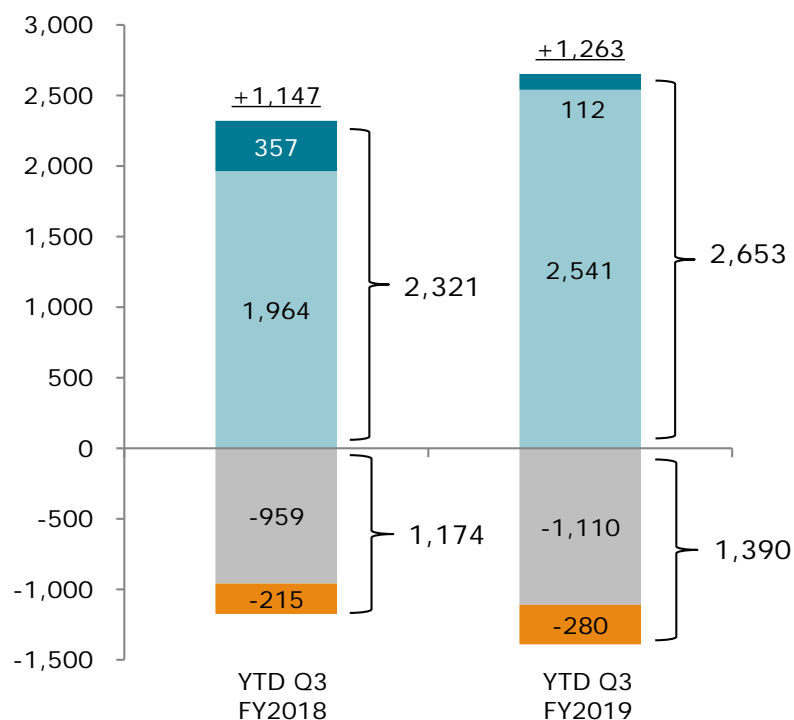
Recruitment/Turnover [Japan]

- Hired 2,653 engineers (up 14.3% year on year)
- Turnover rate (full-timers) for year-to-date FY2019: 8.5% (Q3 FY2018: 8.5%)

No. of Engineers

Net increase

(Difference / % YOY)



Hired	2,653 (+332 / +14.3%)
Added through M&A	112 (-245 / -68.6%)
- Misystem Co., Ltd.: 43 engineers	
- TOOO.Co.Ltd: 35 engineers	
- SOFTWORKS: 34 engineers	
Turnover (full-timers)	1,110 (+151 / +15.7%)
Contract terms matured, others	280 (+65 / +30.2%)

< Turnover >

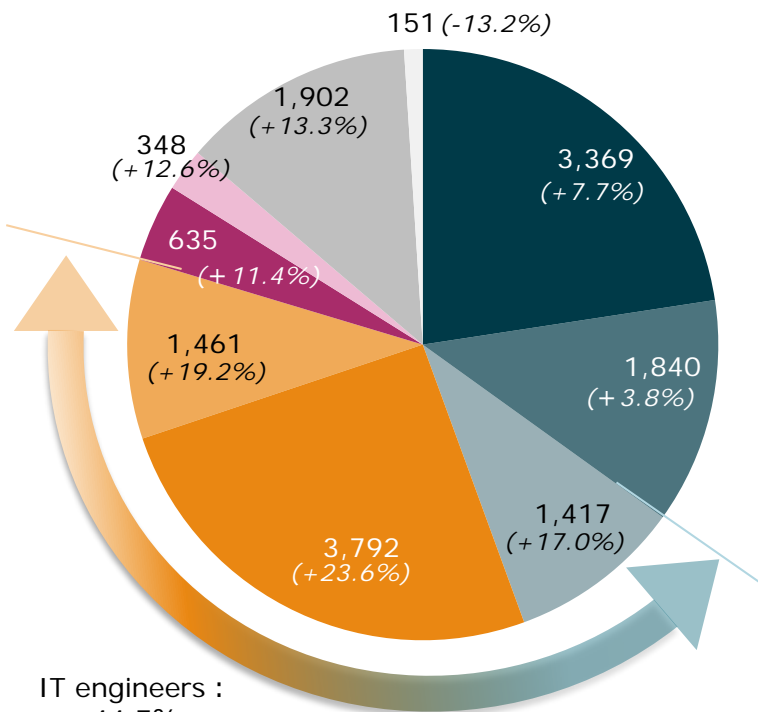
	FY2018				FY2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Quarter	9.0%	7.0%	9.4%	7.6%	8.0%	6.7%	10.6%
Year-to-date	—	7.9%	8.5%	8.1%	—	7.3%	8.5%

Assigned Engineers by Technology [Japan]

- Number of assigned engineers* increased in all technologies
- Strong demand for IT engineers continues
- Engineers increased driven by acquisition: SW for Misystem, Machinery/Embedded Control/SW for Techno Live; Construction for TOQO, and Embedded Control for SOFTWORKS

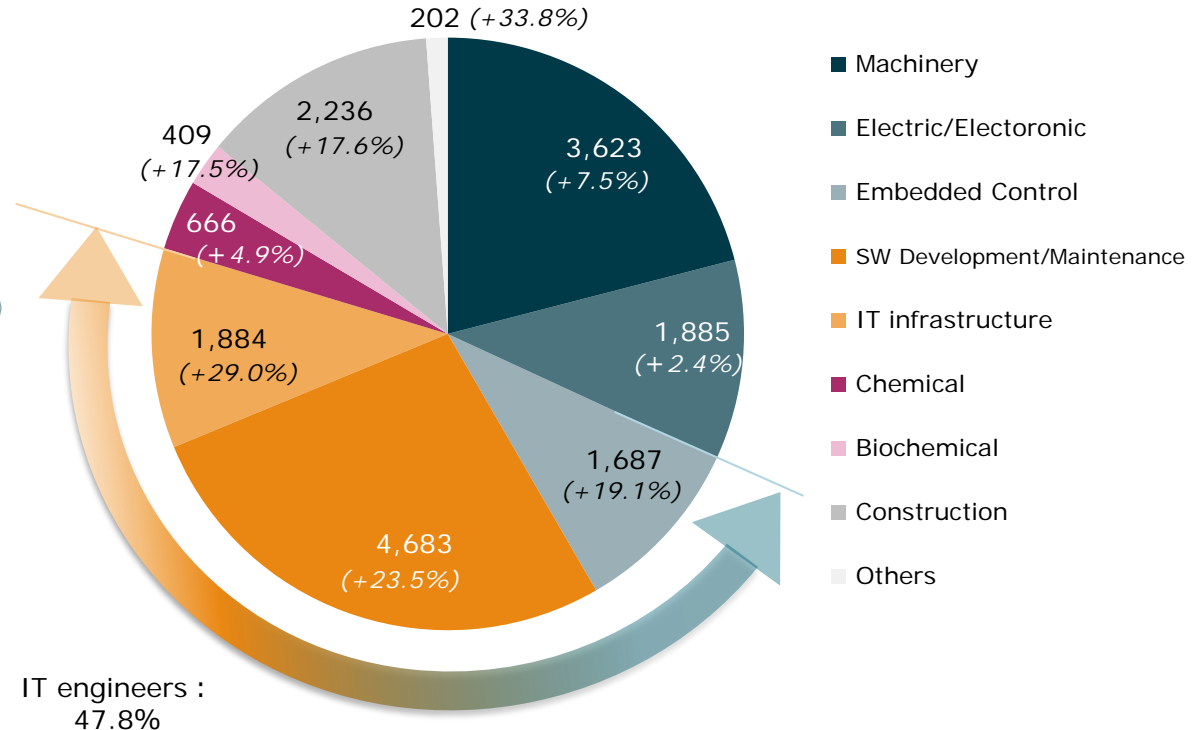
As of March 31, 2018

Assigned engineers: 14,915



As of March 31, 2019

Assigned engineers: 17,275



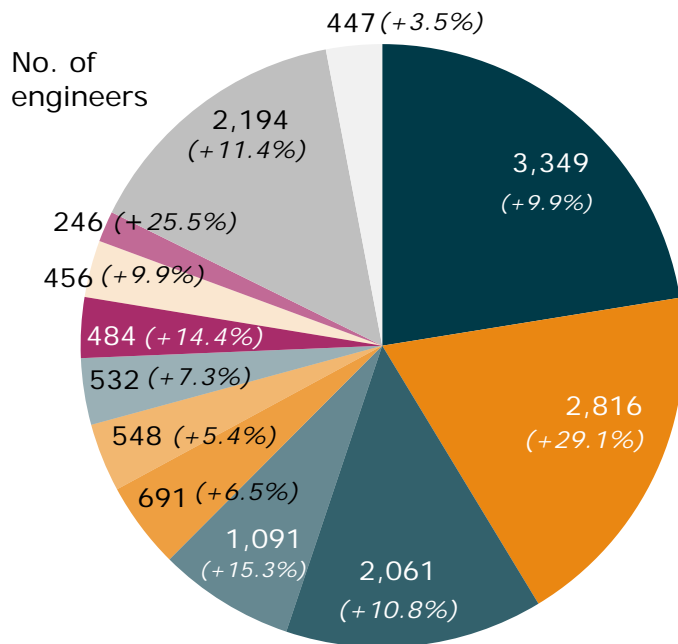
* Figures indicate assigned engineers at the end of month.
 ** Figure in parenthesis indicates % change.

Assigned Engineers by Industrial Sectors [Japan]

- Number of assigned engineers* increased in all industrial sectors

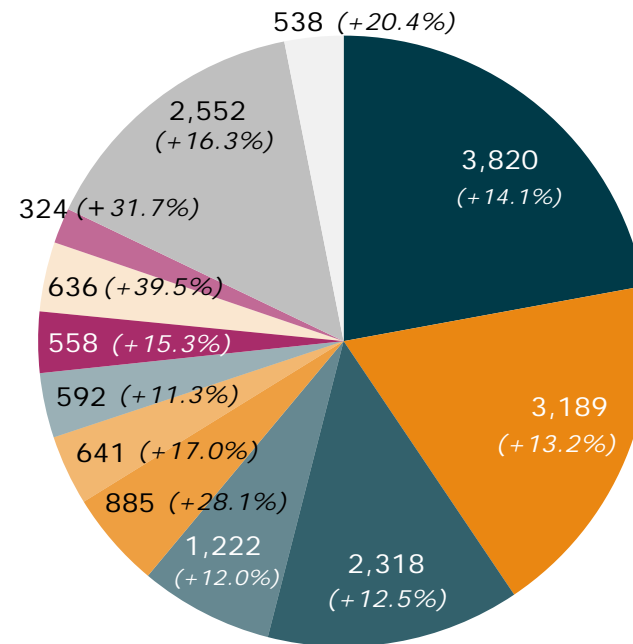
As of March 31, 2018

Assigned engineers: 14,915



As of March 31, 2019

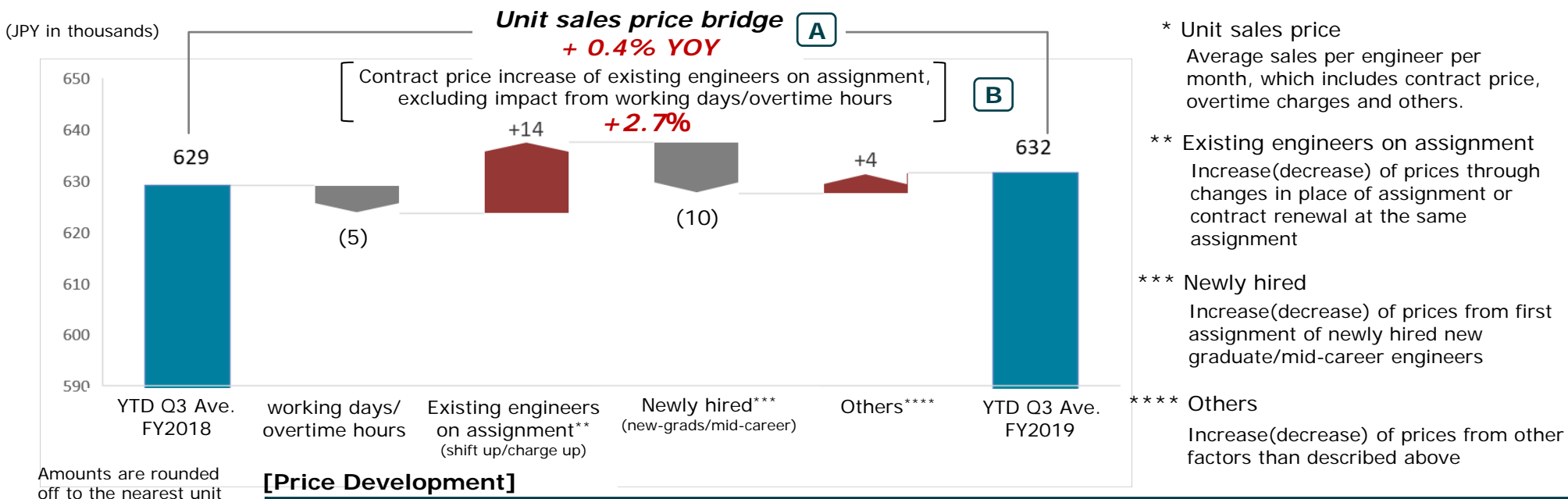
Assigned engineers: 17,275



Unit Sales Price

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

- Unit sales price* increased 0.4% (up JPY 2,300/month year on year) to JPY 632,000
- Decreased JPY 5,000/month year on year due to fewer working days (down 0.1 days/month) and shorter overtime hours (down 0.8 hours/month)
- Increased JPY 14,000/month driven by increased contract price for existing engineers on assignment
- Decreased JPY 10,000/month due to first assignment of newly hired new graduate/mid-career engineers
- New graduates (within 3 years after joining) account for 9.4% of total engineers as of Q3 FY2019 end (FY2018: 8.1%)



	FY2018				FY2019		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Unit Price (year-to-date) A	620	629	629	630	621	633	632
Year on year	+0.5%	+1.1%	+0.6%	+0.6%	+0.1%	+0.5%	+0.3%

	FY2018				FY2019		
Price increase of existing engineers on assignment B (figures calculated by comparing unit price at the end of period)	+3.0%	+2.8%	+2.7%	+3.0%	+3.0%	+2.8%	+2.7%

New Acquisition: TECHNO BRAIN COMPANY., LTD.

Company Overview

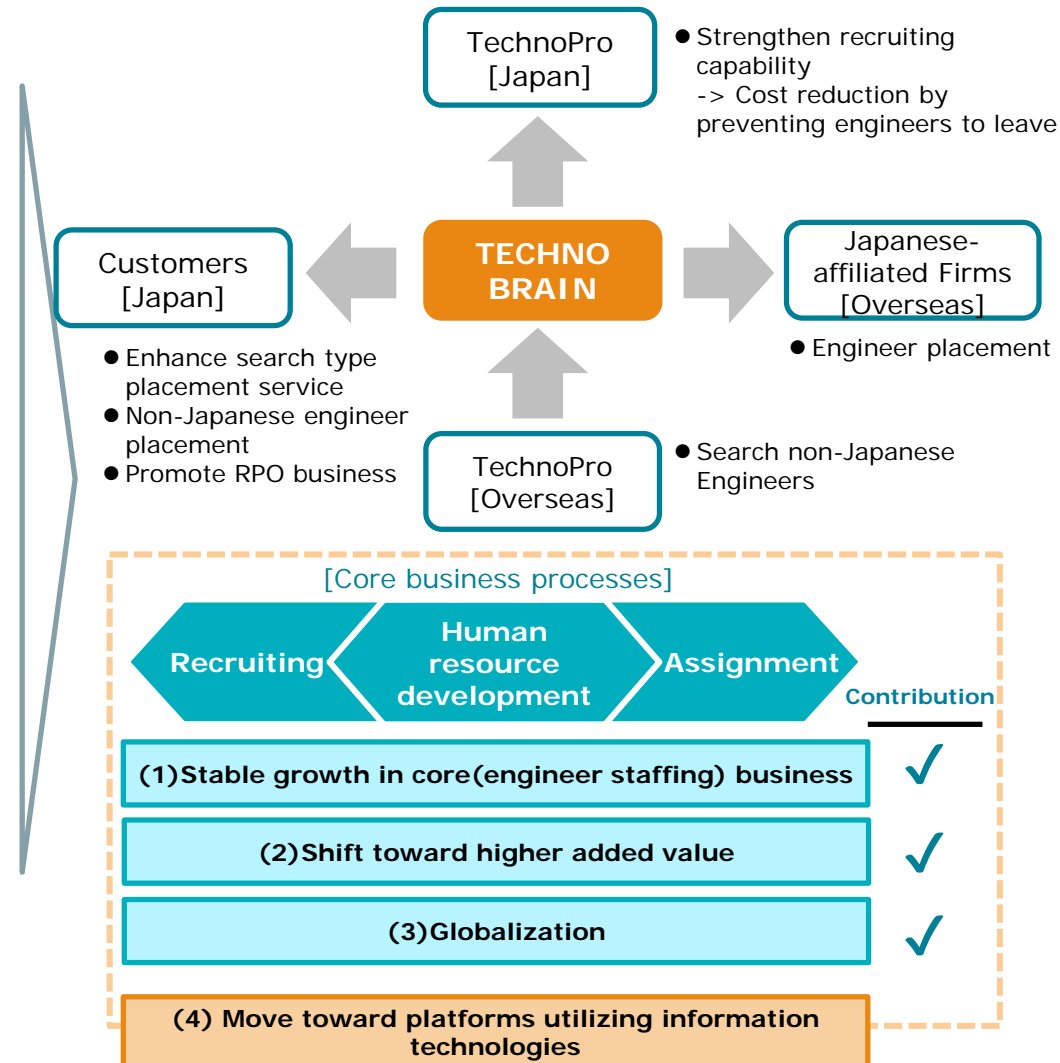
- Acquired to broaden the scope of technology-related services
- Search & scout type headhunting, RPO services, etc. focused on engineers
- Revenue: JPY 900 million
Operating profit: JPY 71 million (FY ended September 2018)
- Boasts talent pool DB of more than 600 thousand candidates and headhunting know-how
- Maintains less than 1% after-placement attrition rate representing high degree of satisfaction it has earned

Acquisition Summary

- Share transferred: Feb. 28, 2019 (to consolidate earnings as of April 2019)
- TECHNO BRAIN to absorb TechnoPro Career as of Jul. 1, 2019

TECHNOPRO

Expected Synergy



Dividend Forecast

- Reaffirms full year earnings guidance and annual dividend of 123.00 yen per share*
- Commits more than 50% dividend payout ratio at the year-end closing

(JPY per share)

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

* Does not include potential impact of share repurchase

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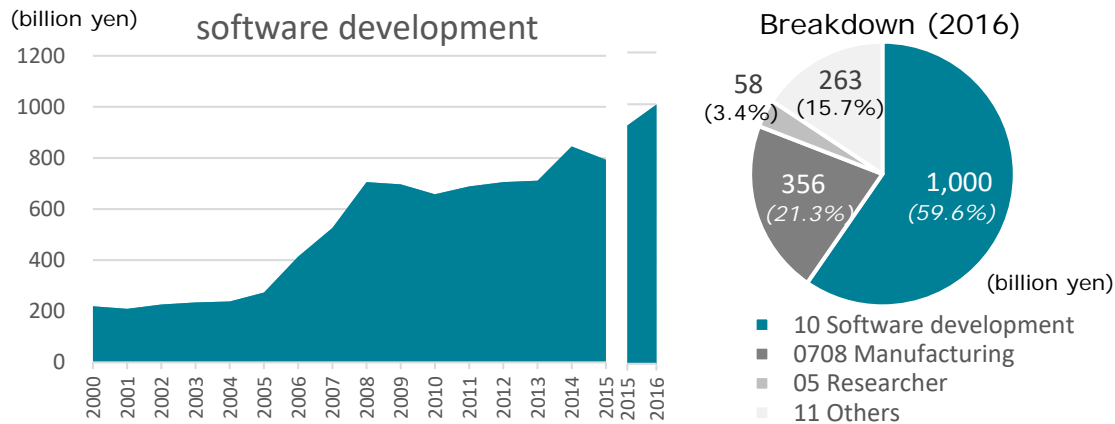
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Engineer Staffing Market Overview

- 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.

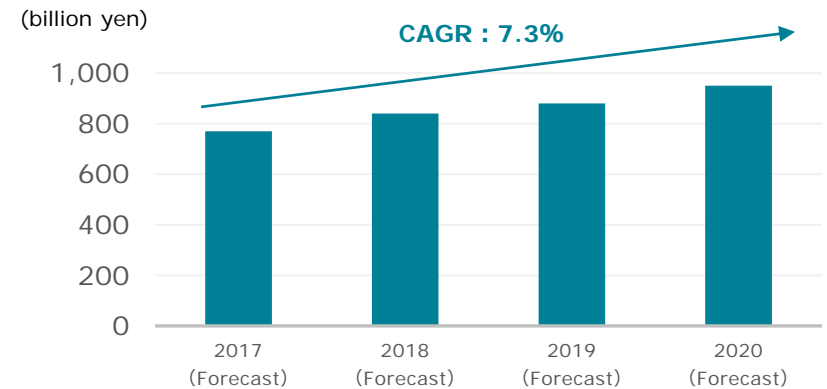
1. Transition of engineer staffing market size

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



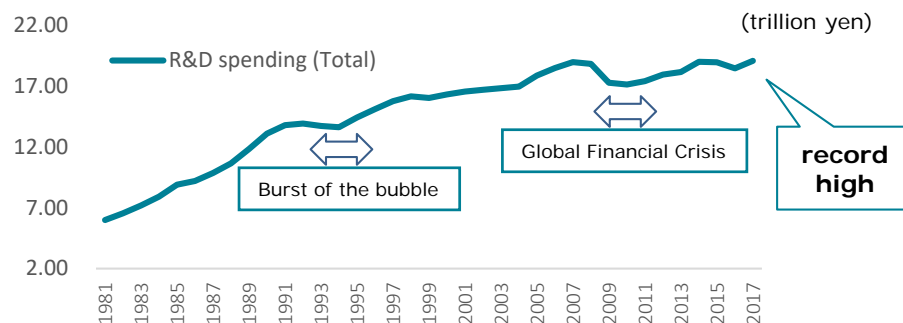
2. Forecast of engineer staffing market size

Yano Research Institute gathered information by research



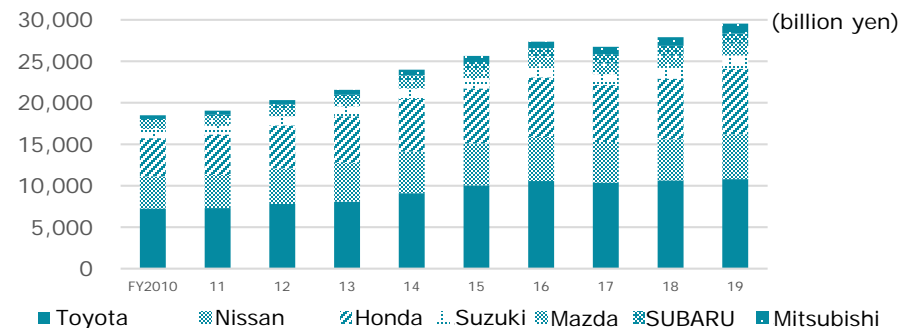
3. Transition of R&D spending in Japan

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



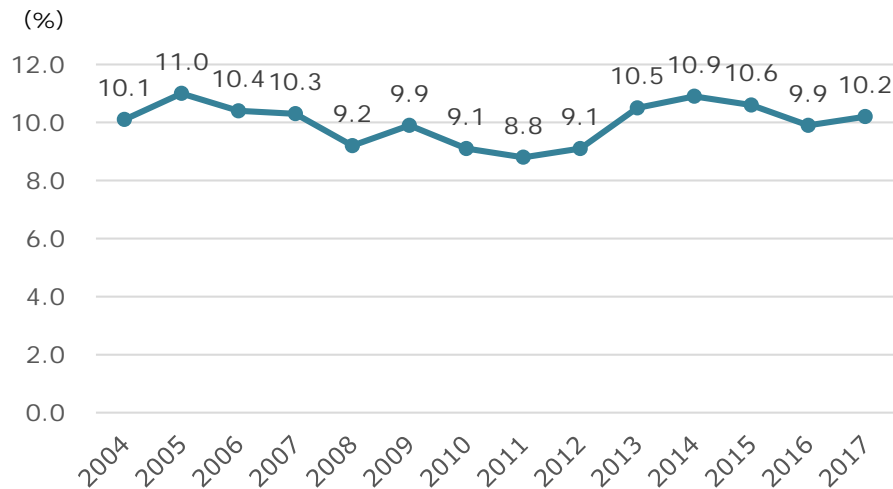
Appendix: Background of Engineer Staffing Market

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

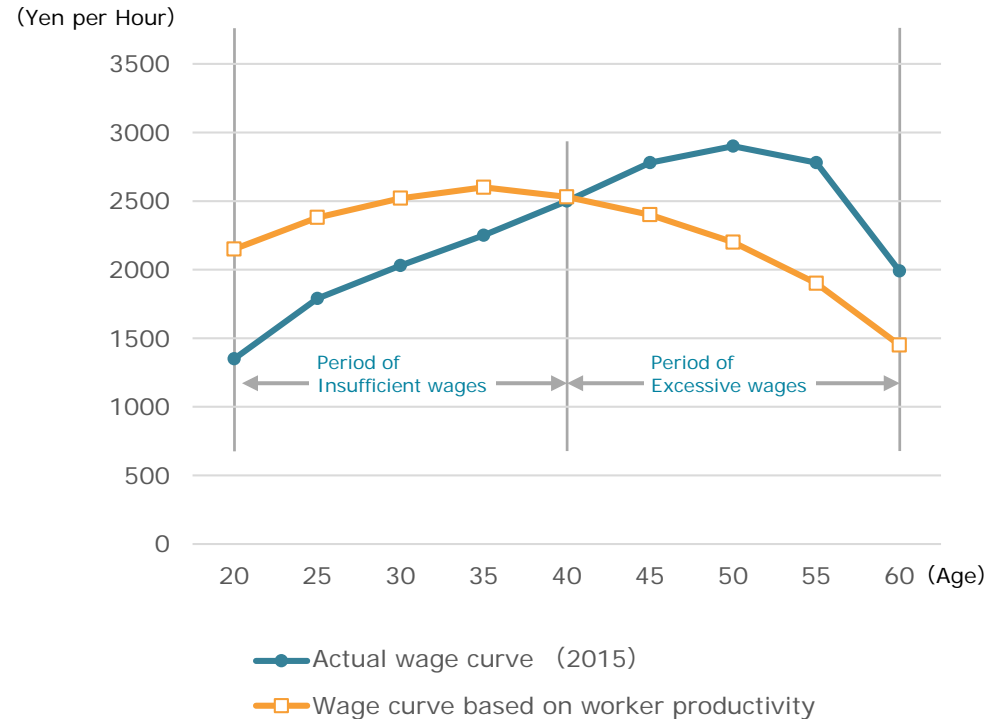
1. Turnover ratio in Japan

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



2. Seniority-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.



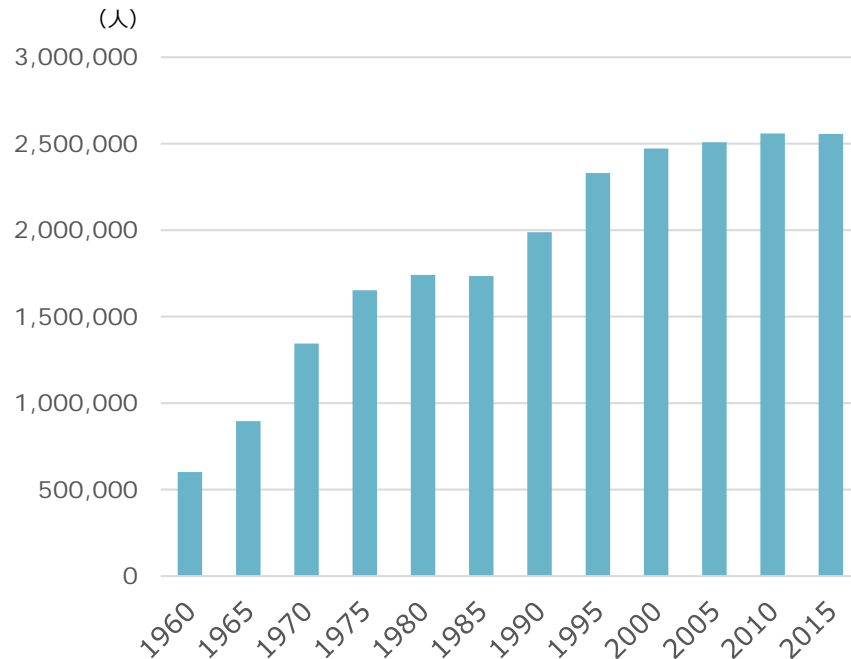
Appendix: Background of Engineer Staffing Market

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

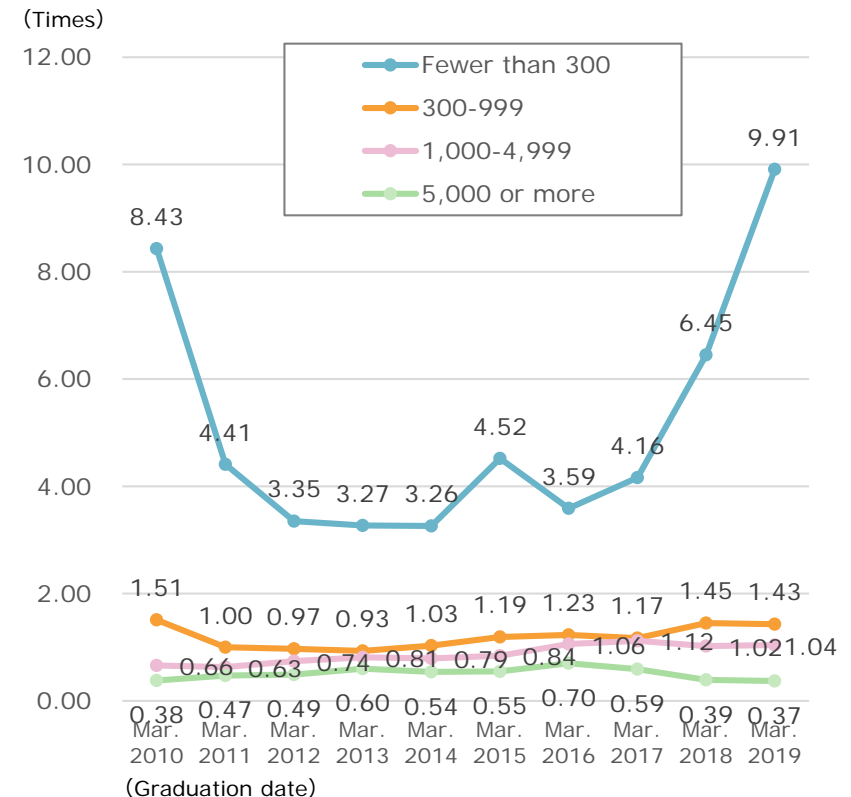
3. No. of university grads

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



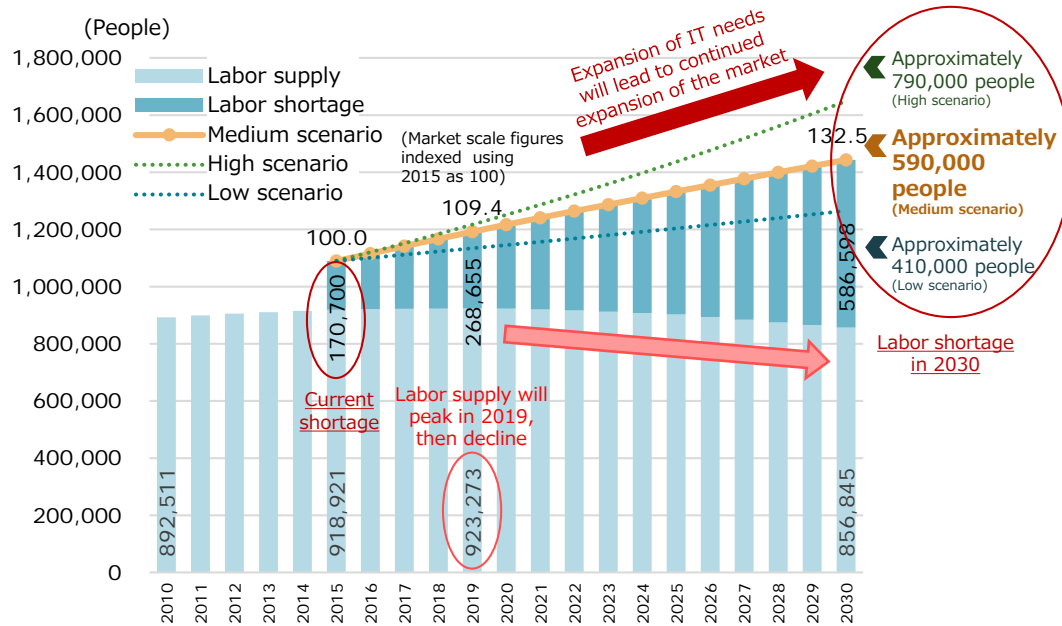
Appendix: Background of Engineer Staffing Market

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

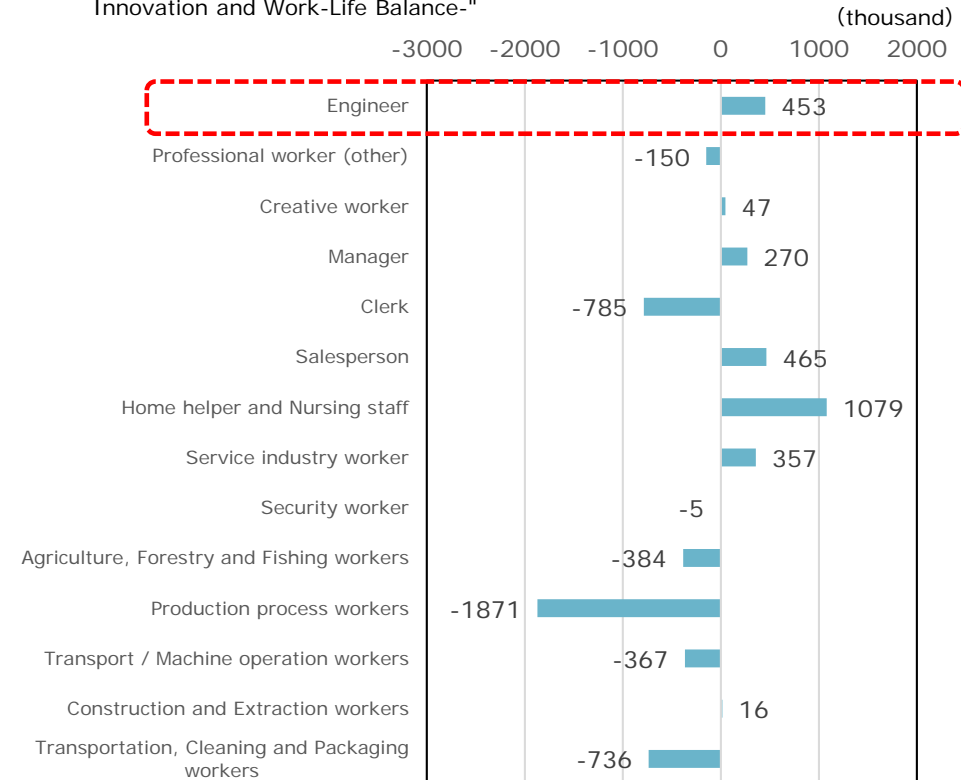
5. IT Staff Shortage Projections

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

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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.

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