

TechnoPro Holdings, Inc.

Q3 Financial Results Briefing for the Fiscal Year Ending June 2019

April 26, 2019

Presentation

◆ Financial Results for the 3rd Quarter of FYE June 2019

Sato: Ladies and gentlemen. My name is Sato, and I'm the CFO. Thank you very much for your participation on this busy day. First of all, I would like to explain the outline of the financial results for the third quarter.

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

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Net sales for the nine months ended March 31, 2019 increased 26.3% year on year to 106.544 billion yen. Operating income increased 28.7% to 11.131 billion yen. Net income increased 14.1% to 7.341 billion yen, absorbing the higher normal tax rate.

On the right side, if we look only at the three months of the third quarter, sales rose 25.9% to 36.430 billion yen. Operating income increased 21.1% to 3.745 billion yen. Net income increased 8.2% to 2.487 billion yen.

As I mentioned in the announcement of the first-half financial results, the full-year financial results are expected to exceed the initial forecasts. However, as there are many items for evaluation at the end of the fiscal year, such as PPAs, for which we have acquired five companies this year, and also the Company's structure is also getting prone to be influenced by the exchange rate, we have left the forecast unchanged.

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 adv., 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	+26.3%
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	-	-	-	-	-	-	-	-	-	-	-	-	-

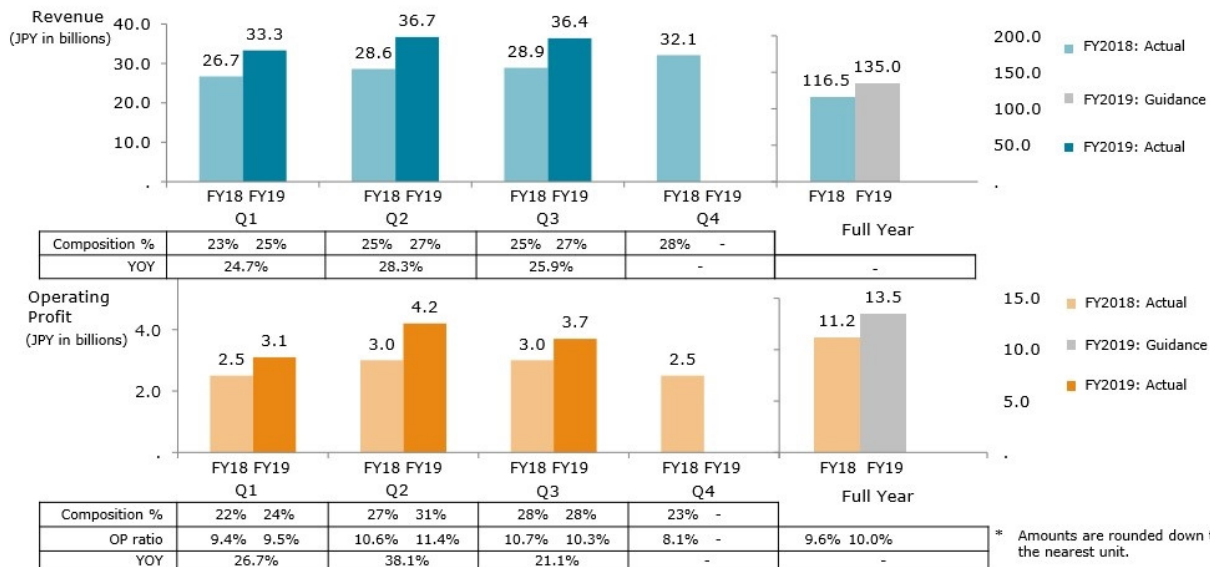
* Amounts are rounded down to the nearest unit.

This shows the management-based performance by business unit. Considering that the headquarters of the two companies that dispatch engineers are adopting a holding company system, the contribution margin is 11.1%. Unit prices are not consolidated in the overseas segment because of differences in the business models between Japan and other countries. The number of engineers in Japan is 18,060. As there are 1,649 engineers at our overseas bases, the total number for the Group is 19,709, which is close to 20,000.

The next page shows what companies are added to which term by the management-based business unit. Please take a look at the page later.

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

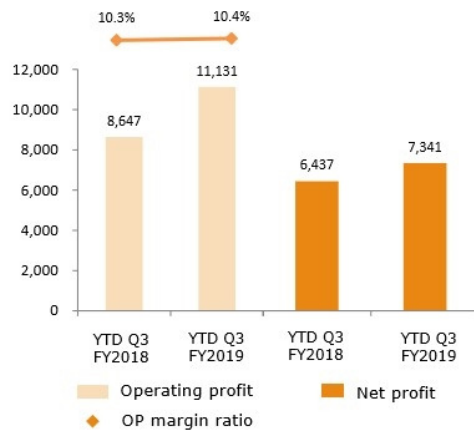


Quarterly trends are shown here. Up until the third quarter, the rate of progress against the full-year earnings forecast was 79% for net sales and 82% for operating income. From these figures, I believe that we are certain to see an increase in earnings.

Our performance has a fluctuation by seasonality particularly in the fourth quarter, due to evaluation items such as training expenses for new graduates, non-operation expenses, and exchange rates at the end of the fiscal year, as I mentioned earlier. In addition, the number of new graduate engineers in April 2019 was 1,048, an increase of 159 from the previous year.

P&L Summary

(JPY in millions)



* Amounts are rounded down to the nearest unit.
 ** Includes figures of Technopro, Inc. and Technopro Construction, Inc.

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(JPY in millions)	YTD Q3 FY2018	YTD Q3 FY2019	Diff. YOY	YOY (%)
Revenue	84,344	106,544	+22,200	+26.3%
<i>Impact of Engineer increase**</i>			+12,214	
<i>Impact of unit sales price increase**</i>			+286	
<i>M&A contribution, etc.</i>			+9,700	
CoGs	62,956	79,728	+16,772	+26.6%
<i>Ratio to revenue</i>	74.6%	74.8%	+0.2pt	
Gross profit	21,388	26,816	+5,427	+25.4%
<i>Ratio to revenue</i>	25.4%	25.2%	(0.2pt)	
SG&A	12,596	15,787	+3,191	+25.3%
<i>Ratio to revenue</i>	14.9%	14.8%	(0.1pt)	
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%

This is the structure of profit and loss for the third quarter. Net sales increased by 22.2 billion yen from the previous fiscal year, and this was attributable to 12.2 billion yen of an increase in engineers, 286 million yen of an increase in unit prices, and 9.7 billion yen of M & A factors, and others.

Below are gross profit margin and SG&A expense ratio. The SGA ratio is slightly different from the previous year. The main reason for this is the difference in the cost structure of the two overseas companies. The two overseas companies have lower gross profit margins than those of our core businesses, while the ratio of SGA is even lower, which is the main factor behind this fluctuation.

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%	

*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

Q3 FY2019 Cash Flow

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

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* Amounts are rounded down to the nearest unit.

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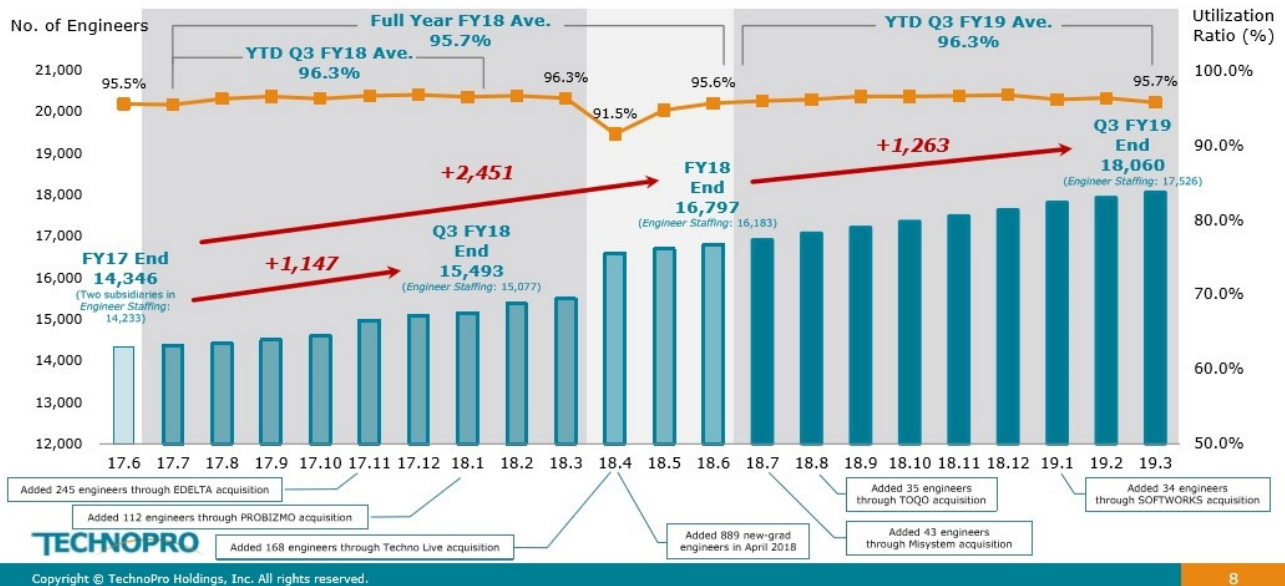
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This shows the condition of cash flows and balance sheet. Techno Brain Co., Ltd., of which we announced its acquisition on February 28, and has been consolidated from its balance sheet as of the end of March. Operating results will be consolidated in April. There are no major changes in the balance sheet. The shareholders' equity ratio is 46.9%, and the D/E ratio is 0.2 times. We are maintaining a sound balance sheet.

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)



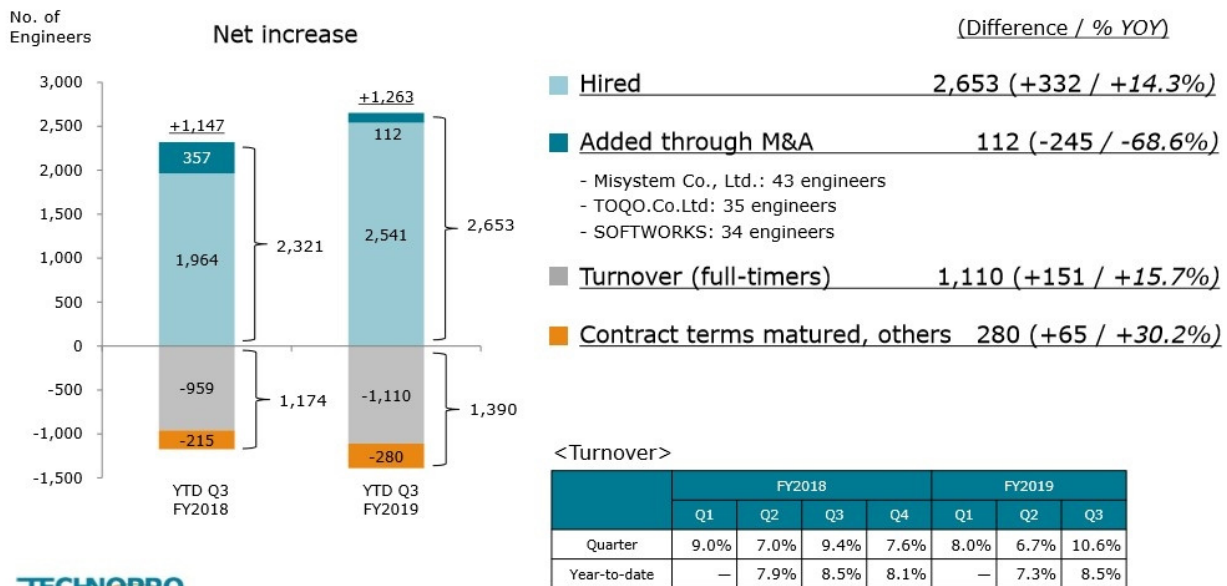
The number of engineers and operation rate in Japan are shown here. The number of registered engineers in Japan was 18,060 as of the end of the third quarter. This is an increase of 1,263 from the previous fiscal year. Of these, the number of foreign engineers was 922, an increase of 166 from the end of the previous fiscal year.

On the other hand, the operation rate was 96.3%, the same as in the previous year.

This figure does not include 1,649 engineers from overseas bases. As I mentioned earlier, the number of new graduates in this April was 1,048. As of April 26, 70% to 80% of our new graduate engineers are still being trained, but their assigned destinations have already been decided. There are two more months to go till the end of the trainings, and we expect them to be in operation almost in June.

Recruitment/Turnover [Japan]

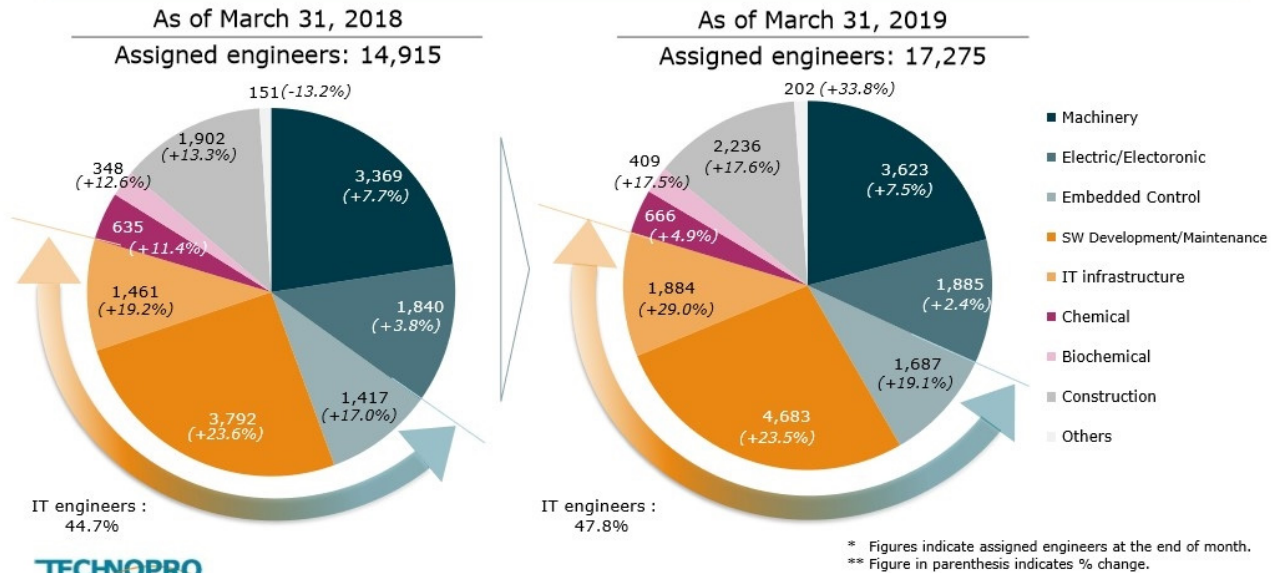
- Hired 2,653 engineers (up 14.3% year on year)
- Turnover rate (full-timers) for year-to-date FY2019: 8.5% (Q3 FY2018: 8.5%)



This explains recruitment and retirement. The accumulated number of recruits up to the third quarter was 2,653. On the other hand, the turnover rate for permanent employees was 8.5%, which is the same as last year. Despite a sharp increase in the number of employees hired, the number of retirees also increased slightly. Although there are seasonal factors, there is a tendency for relatively the people who recently hired to quit their jobs. It is said that mobility and labor market movements are becoming more active. So, the increasing number of recruits means that we are making success in recruitment.

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



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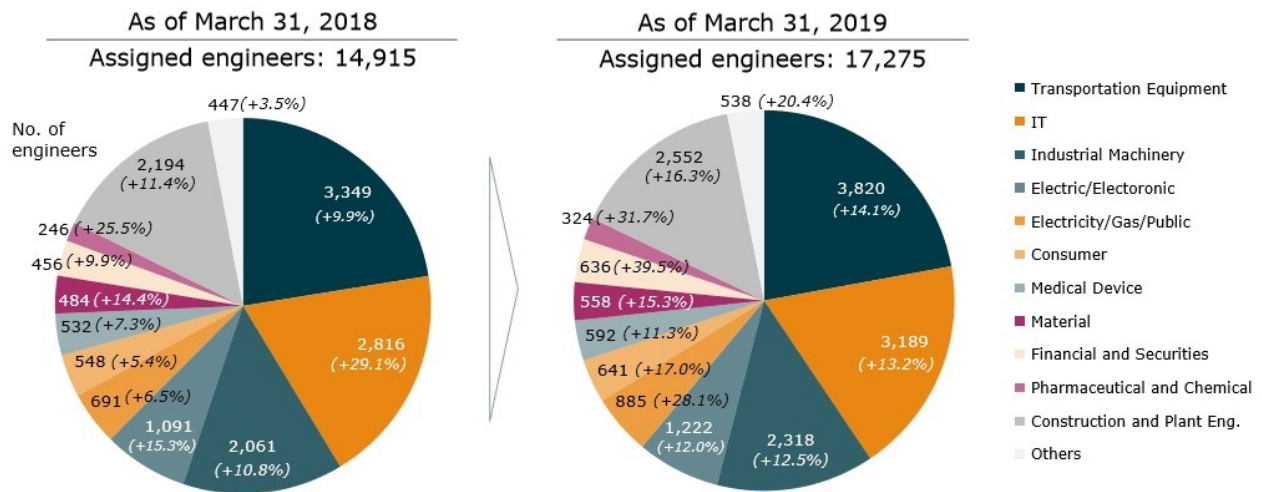
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The number of active engineers by technology area is shown in pie charts. Compared to the end of March last year, the number of engineers working in all technology areas has increased, while the shortage of IT and software engineers has continued. The number of IT engineers is growing, accounting for 47.8% of our portfolio as of the end of March.

On the other hand, compared to the end of December last year, there was a slight decrease in the number of job placement for machinery and electric/electronic equipment. This is due to the effects of industrial machinery and semiconductors. All of these engineers have been reallocated to other areas.

Assigned Engineers by Industrial Sectors [Japan]

- Number of assigned engineers* increased in all industrial sectors



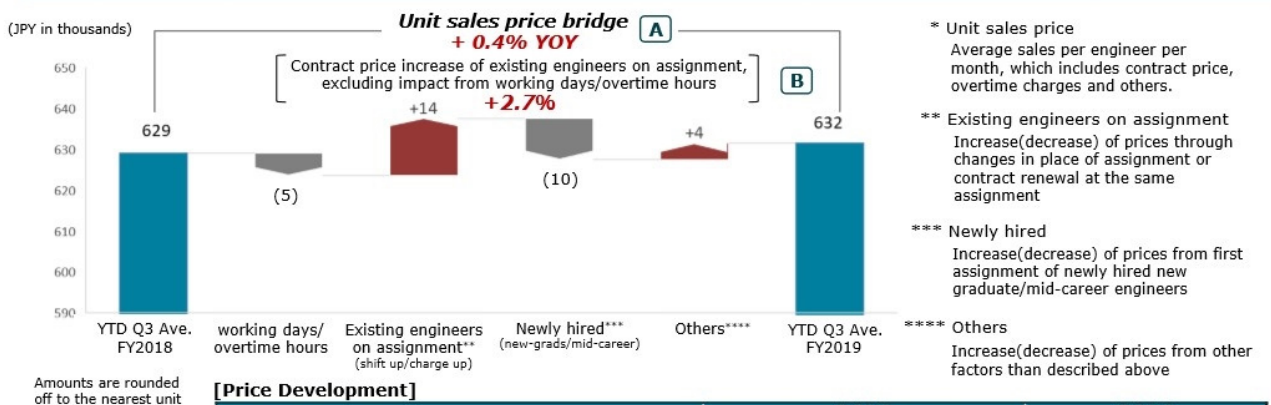
* Figures indicate assigned engineers at the end of month.
 ** Figure in parenthesis indicates % change.

Looking at the results by industry, the number of engineers working in all industries is also increasing. As mentioned in the breakdown by technology area, the same thing applies to the numbers in industrial machinery and electronic components, which are slightly less than in December.

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%)



Amounts are rounded off to the nearest unit

[Price Development]

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

This shows changes in unit sales prices. The unit sales price was 632,000 yen, an increase of 2,300 yen from the previous year. The rate of increase is 0.4%. However, considering the impact of working days and overtime, the unit price of contracts for existing engineers, meaning how much the unit price of an engineer who worked in March last year increased in March of this year, was 2.7%.

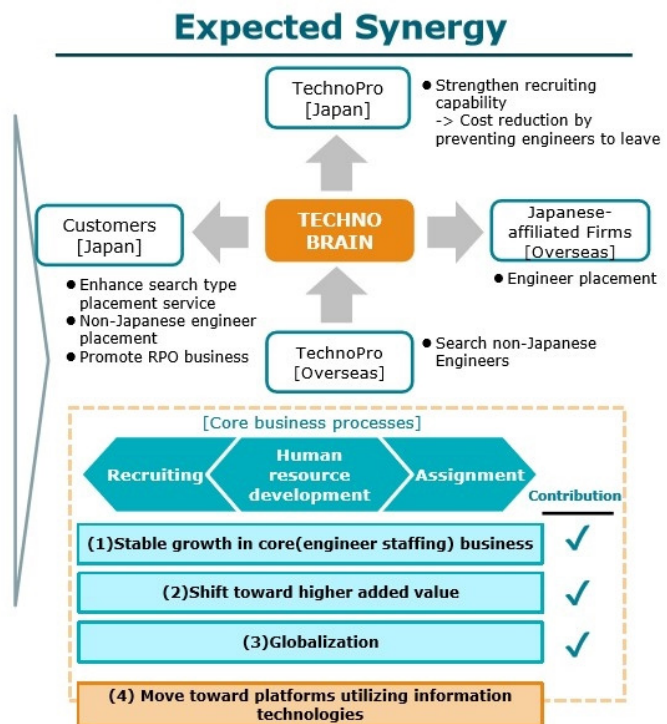
New Acquisition: TECHNO BRAIN COMPANY., LTD.

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



Let me briefly discuss the acquisition of Techno Brain Co., Ltd.

In this deal, we received a transfer of its shares on February 28 of this year. The balance sheet was consolidated in March, but its results are to be reflected in April.

This company was acquired for the purpose of diversifying technical services. It is a search-type recruitment agency specializing in engineers. Our customers tend to hire cutting-edge engineers in-house, and to outsource the recruitment of engineers for projects, relying on us. By acquiring Techno Brain Co., Ltd., we will be able to respond to all of our customers' needs, and also, we will be able to utilize the databases of Techno Brain Co., Ltd.

Specifically, some of these databases are excellent Japanese engineers who want to work abroad and are assigned to our subsidiary, Helius Technologies Pte Ltd.

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%

Lastly, in regard to the payment of dividends, we have left our earnings forecasts unchanged, so we have not changed our dividend forecasts. However, if our earnings exceed our forecasts, we, as always, will maintain a dividend payout ratio of 50% or more.

This concludes my explanation. Thank you very much.

Question & Answer

Questioner 1: Please let me ask three questions. First, could you tell me the difference between sales and profit growth in the last three months alone? If I look at this quarter alone, I feel that the profit growth is somewhat moderate compared to the sales growth. For example, do you think it is because of the number of operation days, etc.? Some comments were made at the briefing for the second half of the previous fiscal year that it would not be revised upward in consideration of the number of days in operation in the second half. Could you please tell us about this, including the concept of the number of days in operation for the fourth quarter? This is the first one.

Second, I would like to know how you are looking at items such as gross profit margin, etc.? My understanding is that an increase in the overseas mix in the future would lead to a further decline in the gross profit margin, etc. and a decline in the SG&A ratio, which would lead to an increase in the operating profit margin the long-term perspective. Is my understanding correct?

Finally, please tell us about share buybacks. At the end of November last year, a buyback limit was set. I believe that the deadline will be until November this year. Could you tell us about your current stance on this issue? This is all from me.

Sato: In regard to the relationship between sales and profits for the three months of the third quarter alone, the operation rate is the main factor behind the slight decline in the profit margin growth. As the number of engineers returning to the company in March was higher than usual, the operation rate for the entire nine-month period was the same as in the previous year. However, the operation rate fell slightly in the third quarter amid the high level of the first and second quarters. As a result, all of the job placements have been completed since April, but I believe there was some impact of that operation rate. This is what I think first. Second, since some companies acquired in the same period of the previous fiscal year were suffering from a decline in their business performance, this is also making the growth of these companies seem to be lower.

Second, with regard to the gross profit margin, since the gross profit margin of overseas companies is low, and SGA is lean, I think that if the percentage of overseas mix increases, it will tend to do so.

We are currently releasing the share buyback to a securities company, but the actual results are now zero. I would like to refrain from answering any further questions on this. This is all.

Questioner 1: I understand. Thank you very much.

Questioner 2: Thank you for your explanation. Please let me ask you two questions. One thing, this might have been explained earlier. The operation rate was declined slightly from January to March. What I would like to confirm is that the business performance of machinery, electronic components, and semiconductors was fairly bad from January to March, and it affected the decline. Is my understanding correct?

Second, this is associated with the first question. I would like to ask you about the situation at the end of March this year. What is the status of inquiries from customers? What is the status of orders received? Is it particularly getting worse, better, or unchanged? Please tell us just about the trend.

Sato: Yes, as you stated, due to the impact of the operation rate, the number of engineers working in machinery and semiconductors area has decreased since the end of December. It is a fact that our customers in the industries as a whole received the impact of this third quarter on their business performances, and the

impact also came to us. However, as I mentioned earlier, most people have been repositioned in their jobs since April, and I believe this 3Q has had a certain impact. The current status of orders received, however, is extremely strong in general. Nevertheless, some companies are weak on a company level, as explained by Mr. Nishio in the previous briefing session. Although there are weaknesses at the company level, there are areas that are very strong, and we are fully covered or staying in a position. Therefore, our economic situation basically does not have a significant impact on our business performance. However, when we look at a certain period of time, we receive the impact, and it continues for one or two months. Therefore, we have a slight impact on the operation rate until reallocation. I believe that this happened to the third quarter.

Questioner 2: Thank you very much.

Questioner 3: Let me ask one question. You told us that the turnover rate has risen in the 3Q. Looking at the latest quarterly data, it seems that it has suddenly risen. You also told us that some employees work for a short time of period and leave the company. Could you please tell us more details about this? Thank you very much.

Sato: Yes, as shown in the data, the third quarter is a quarter in which the turnover rate rises every year due to seasonal factors. This is because we pay bonuses to engineers in December, and then they start to think about changing their jobs. There is such a general trend.

Second, we hired a large number of recruits this year. I understand that the number of recruits was too large to take good care of them. So, I am thinking about how to increase the number of recruits and take care of them. Also, demand is extremely strong, so I am thinking about firmly managing the area around it. I don't think it's a matter of the fact that a large number of retirements took place in a specific company.

Questioner 3: Thank you very much.

Sato: Thank you very much.

[END]