# **TECHNOPRO**

# TechnoPro Group Business Environment and Management Policies

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

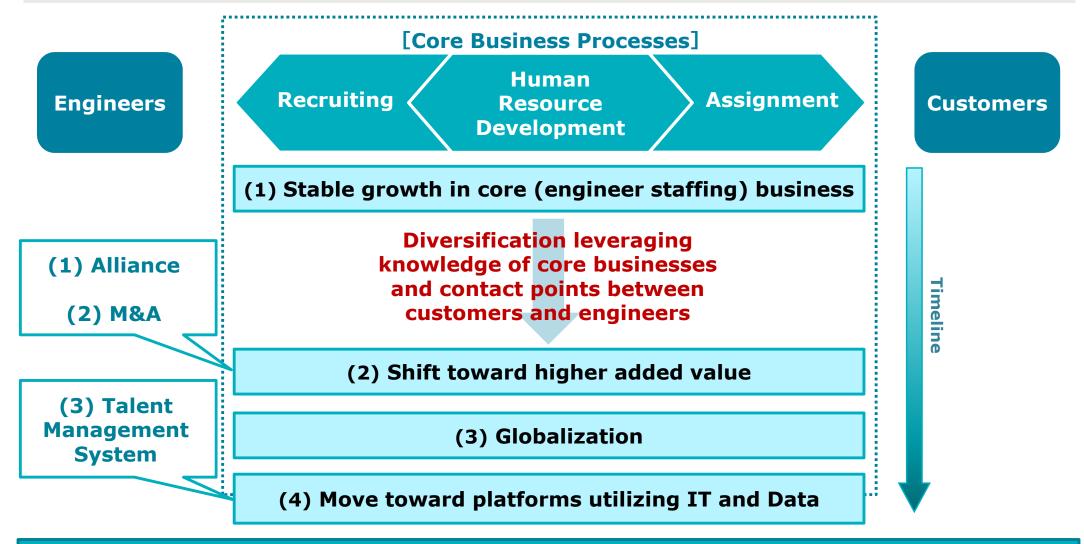
August 7, 2020



# **Contents**

|   |   | Page |  |
|---|---|------|--|
| 1 | : Progress of Current Medium-Term Management Plan | 2    |  |
| 2 | : Management Policies in COVID-19 Environment     | 8    |  |
| 3 | : Our Path to Regrowth                            | 11   |  |

# 1. Progress of Current Medium-Term Management Plan



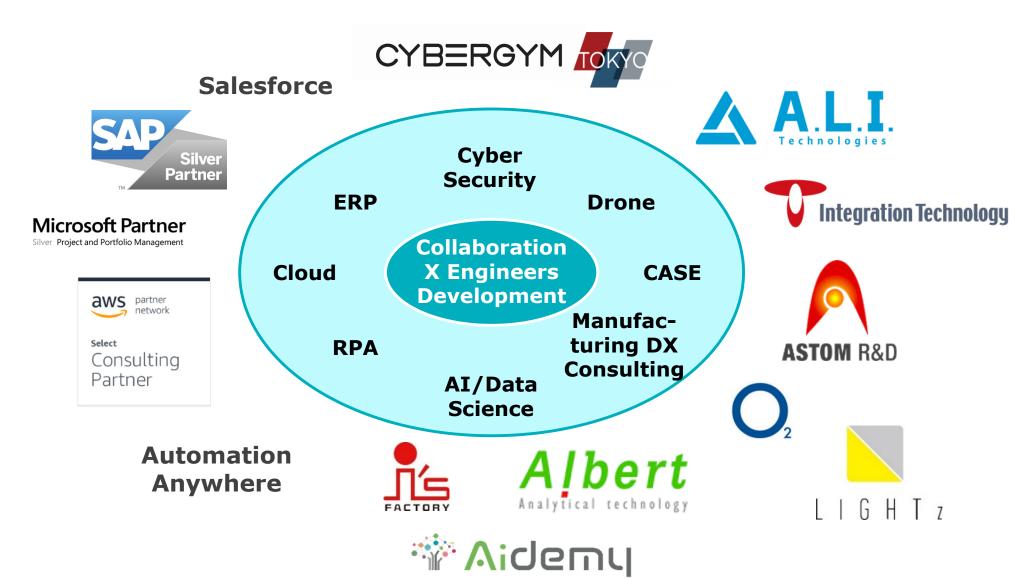
Pursue aggressive M&A activity as a means to promote growth strategies (five-year investment budget of 20.0 billion yen)

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

# (1) Alliance (1/2)

Establish "Ecosystems" involving various partners with advanced technologies





# (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

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### **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.

# (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,<br>Elect/Electronics | IT<br>Infrastructure | Other  | Invested<br>Capital<br>(JPY) | ROIC                 |
|--|---------------------------------|----------------------|--|------------------------------|----------------------|
| (1) Stable growth in core (engineer staffing) business |                                 | EDELTA CO.,LTD.      | <br>   | 1,104M                       | 15.3%                |
| (2) Shift toward<br>higher added<br>value              |                                 | PROB ZMO             | 1: TechnoBrain  BOYD & MOORE  EXECUTIVE SEARCH | 4,358M                       | 7.3%                 |
| (3) Globalization                                      | orion orient that works         | HELIUS               | <br>   | 4,238M                       | 6.8%                 |
| Invested Capital<br>(JPY)                              | 1,660M                          | 5,214M               | 2,826M   | Invested Ca                  | pital 9,700M<br>8.0% |
| ROIC   | 9.2%                            | 8.4%                 | 6.4%   | Cost of Capi                 | tal 7.9%             |

<sup>\*</sup> 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

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

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

# Reference: Toward Higher Added Value

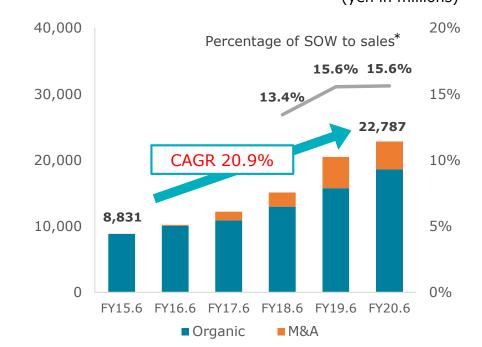
#### **SOW Strategy (Contract Services/ Solution)**

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**

(yen in millions)



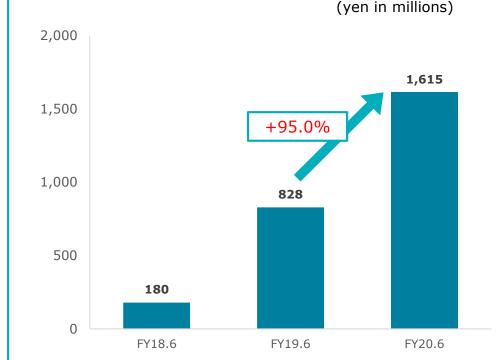
### Alliance Strategy (Ecosystem)

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



(yen in millions)





<sup>\*</sup> Sales total of R&D outsourcing and Construction Management outsourcing segment

# (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 Enhanced retention by retirement analyses
- Proper engineer allocation by matching analyses

### **Population** formation

### Talent development/ **Resource planning**

- New college graduate training portal for Career Advisors (May 2019)
- Training suggestion (July 2020)
- Chat Bot AI

# **Training**

- Adopted LMS (learning management system) (May 2018)
- Centralized training program search engine including external training

### **Platform incorporating Analytical Engine /Personal Portal**

- O Data Storage, Maintenance, Analysis, Automation (June 2019)
- Start personalized portal for engineers ⇒ Promote self-awareness and proactiveness of engineers (July 2020)

### Retention

■ New assignment suggestion (July 2020)

# Recruiting

- Begin use with new graduate hires (Feb 2019), mid-career hires (July 2019)
- O Horizontal rollout from model BU to other BUs (June 2020)

### **Assignment** (Matching)

- Gathering new order info from on-site
- Developing a matching engine

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

# 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

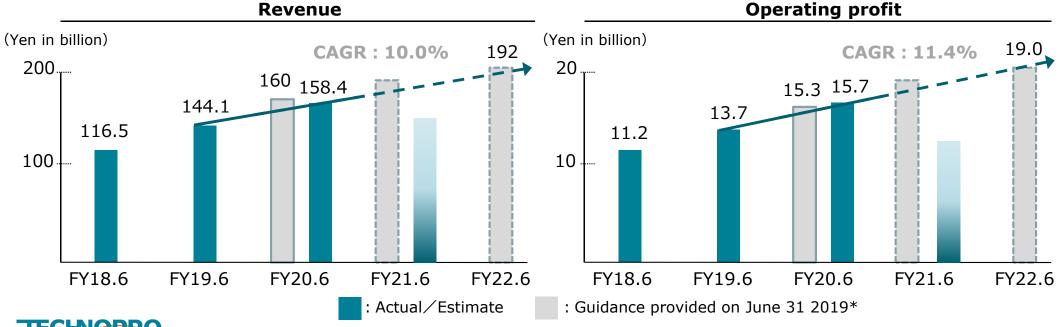
#### **Operating Profit**

- 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



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

# 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)

Current and contracted projects expected to continue Demand for experienced

personnel remains firm, but demand for inexperienced one is lacking

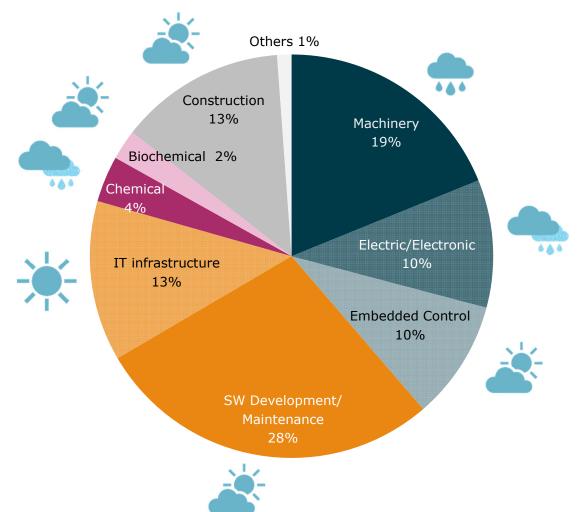
Demand remains strong, especially from pharmaceutical companies

Expectations of new projects from universities and public research institutions

Slightly decreased demand due to economic downturn

Semiconductor-related demand seems likely to recover

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



Decreased demand for design work on new product development

Tendency to be shifted overseas in every process level

Weak in overall demand, despite some semiconductor-related recovery

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

Demand remains strong, although mainly focused on upgrade and maintenance

Delays in start-up of new development projects

# 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)

inancial and

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

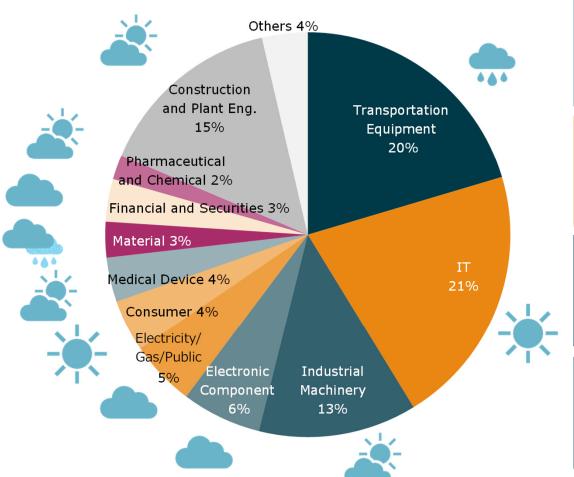
onsumer

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

ectricity/

Decrease in special demand due to energy deregulation

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



ispolitation juipment Start of budget controls due to decreased global demand for products

Restrained investments in advanced technology likely in the short term

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 omponent

Demand remains solid due to improved semiconductor performance

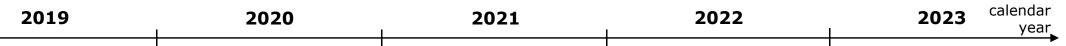
Expected increase in demand growth from developments including 5G

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

# 3. Our Path to Regrowth

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



Current medium-term management plan period

New medium-term management plan period

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

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

#### 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

# (1) Important Measures for Return to Growth

### Measures to return to growth while minimizing COVID-19 damages

### Objectives

### Minimizing Adverse Impact

### Preparation for Regrowth

Shift from Quantity to Quality

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#### **Details of Measures**

- KPI management on daily basis
- Expansion of financing sources
- Temporary freeze on new hiring
- Thorough cost management
- Introduction of order information sharing system
- Sales support by engineers
- Maintaining employment (securing of resources)
- Strengthen training curriculum in the digital domain
- Promote collaboration with leading-edge technology ventures and influential IT vendors

- 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
- 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)
- 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
- 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
- Eliminate engineer anxiety and prevent retirement by communicating management's strong will to protect employment status
- Expansion of training programs that utilize e-learning
- Utilize standby periods to support acquisition of digital skills expected to be in strong demand
- Training programs including data science and cybersecurity
- Increased numbers of engineers with IT vendor certifications

# (2) New Business Opportunities in the "New Normal"

# Digital Transformation (DX) needs accelerated by COVID-19

**Behaviors** 

Technology

Remote Work

Automation/
Productivity

**Contact Avoidance** 

Cloud, ERP

**Cyber Security** 

Networks (5G)

IoT, RPA, Robotics AI/Data Science

Voice Recognition

TT

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



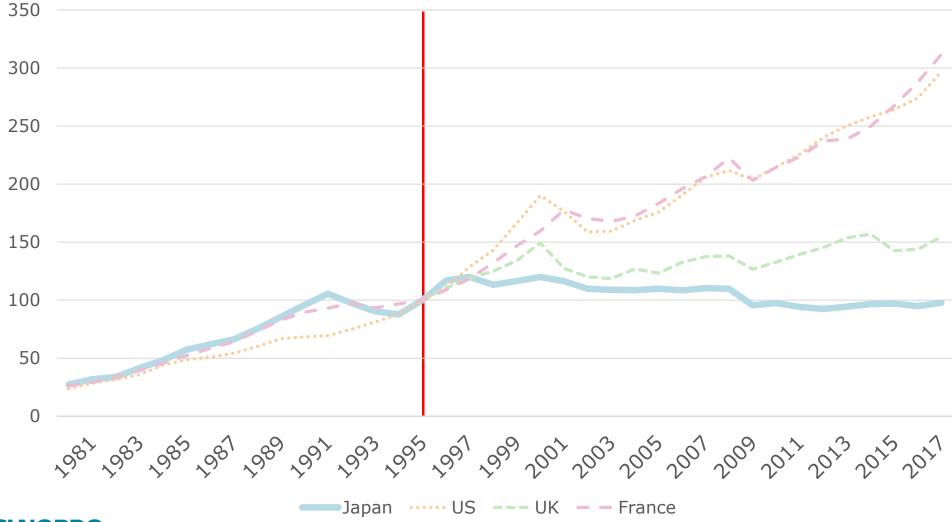
Leverage of our existing ecosystem



# 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)



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

# (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



# (4) Necessity for Business Transformation

### **Societal Needs**

Creating a more convenient society through digitalization

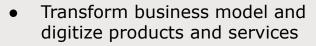
**Encourage shift of human resources across industries and companies** 

Solve supply-demand mismatch for new technology and human resources



**Companies** 

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





 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





# (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 mediumto 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-tothree 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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