

TechnoPro Group

Business Environment and Management Policies

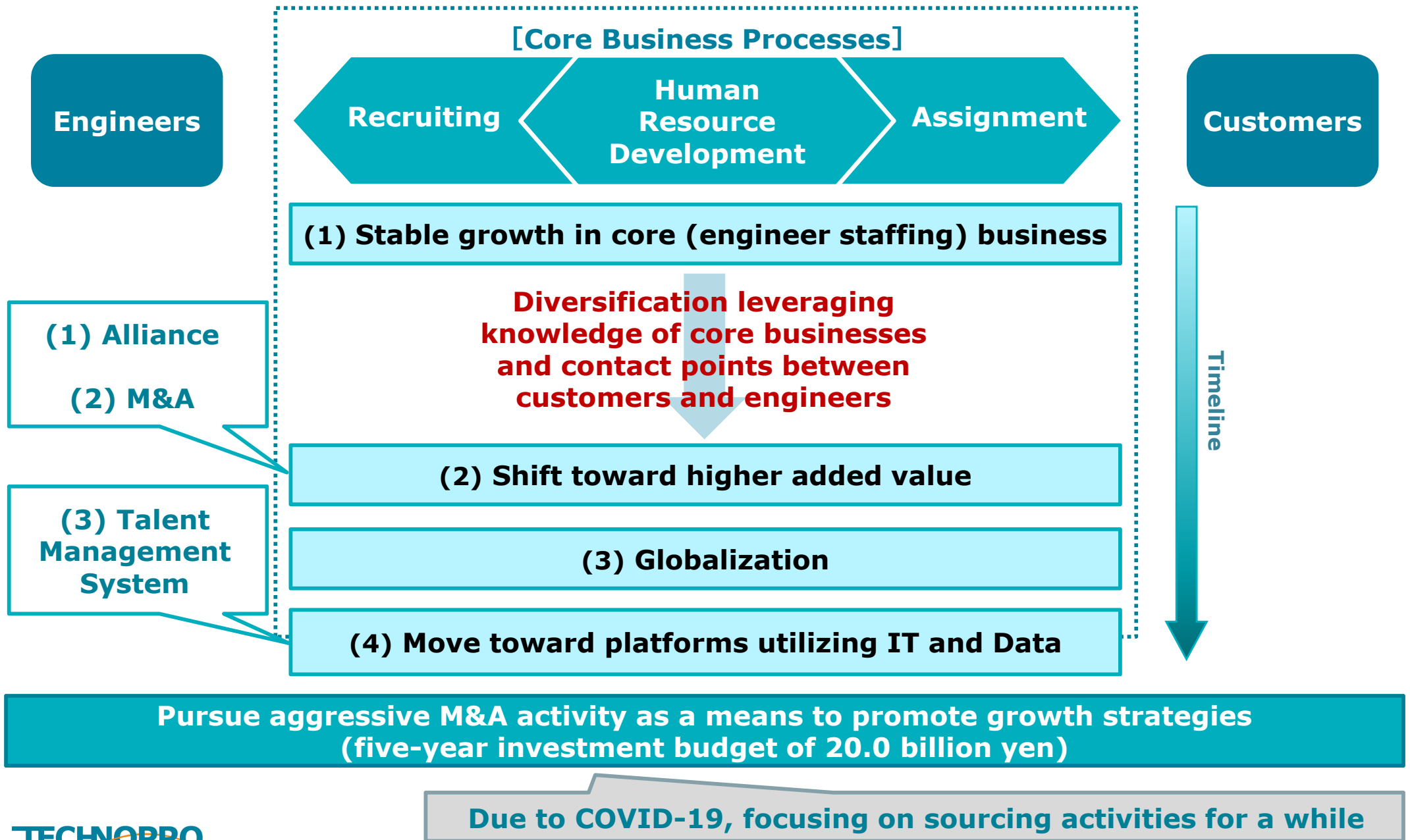
TechnoPro Holdings, Inc. (code: 6028,TSE)

August 7, 2020

Contents

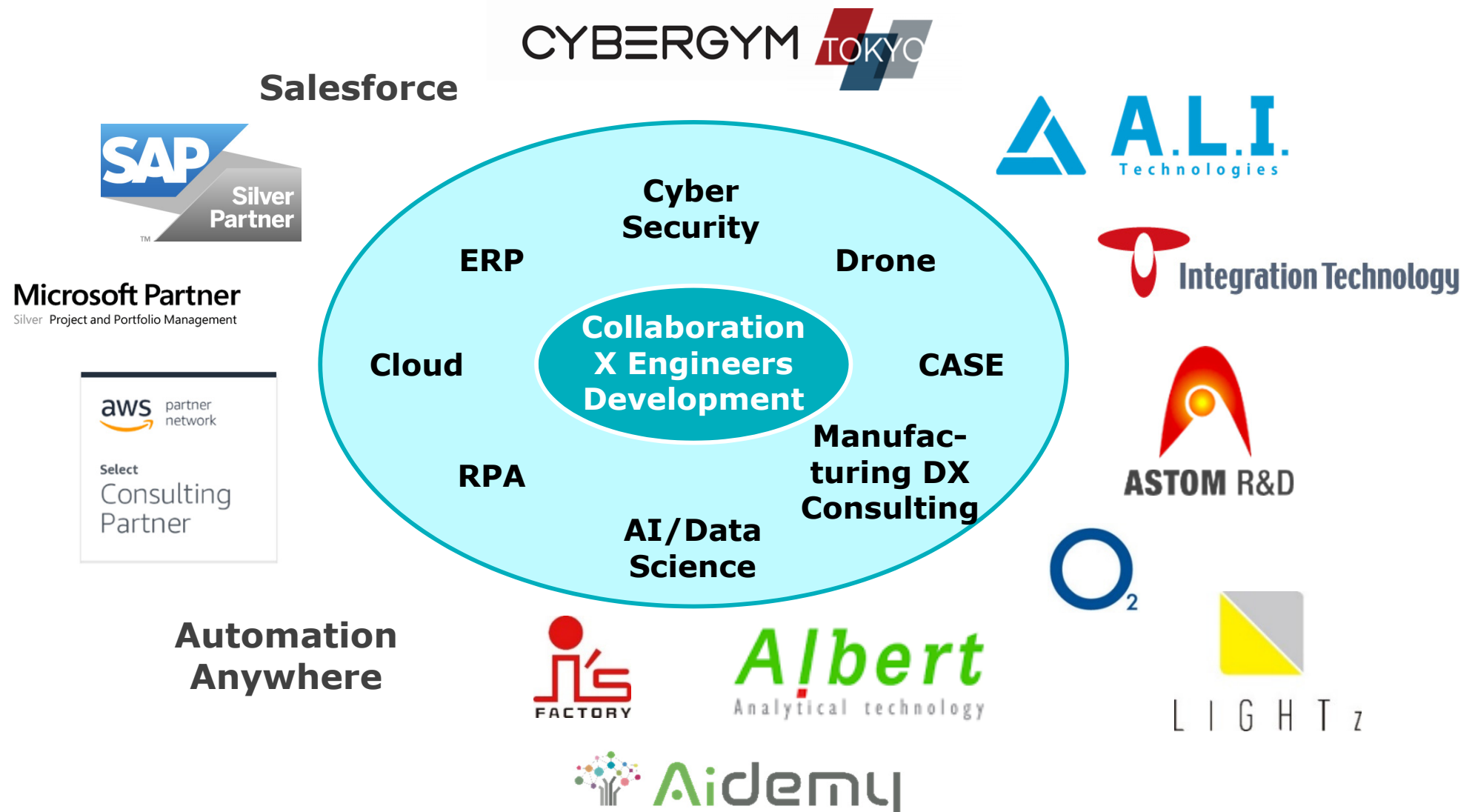
	Page
1 : Progress of Current Medium-Term Management Plan	2
2 : Management Policies in COVID-19 Environment	8
3 : Our Path to Regrowth	11

1. Progress of Current Medium-Term Management Plan



(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



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

<u>FY20.6 Results</u>	Machinery, Elect/Electronics	IT Infrastructure	Other	Invested Capital (JPY)	ROIC
(1) Stable growth in core (engineer staffing) business				1,104M	15.3%
(2) Shift toward higher added value			  	4,358M	7.3%
(3) Globalization				4,238M	6.8%
Invested Capital (JPY)	1,660M	5,214M	2,826M	Invested Capital 9,700M	
ROIC	9.2%	8.4%	6.4%	ROIC 8.0%	
				Cost of Capital 7.9%	

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

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

TECHNOPRO

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

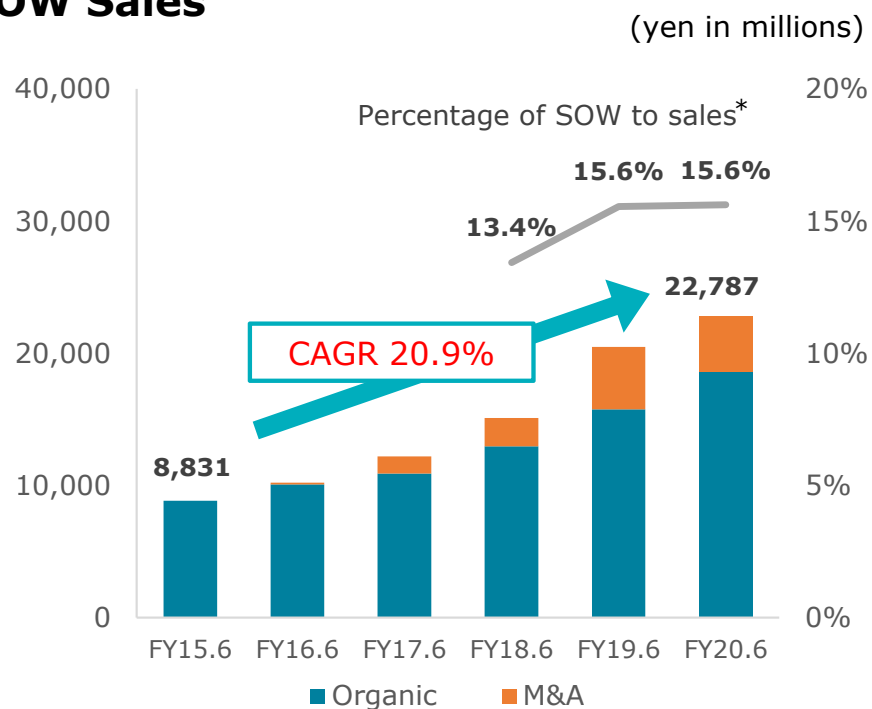
Reference: Toward Higher Added Value

SOW Strategy (Contract Services/ Solution)

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

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

SOW Sales

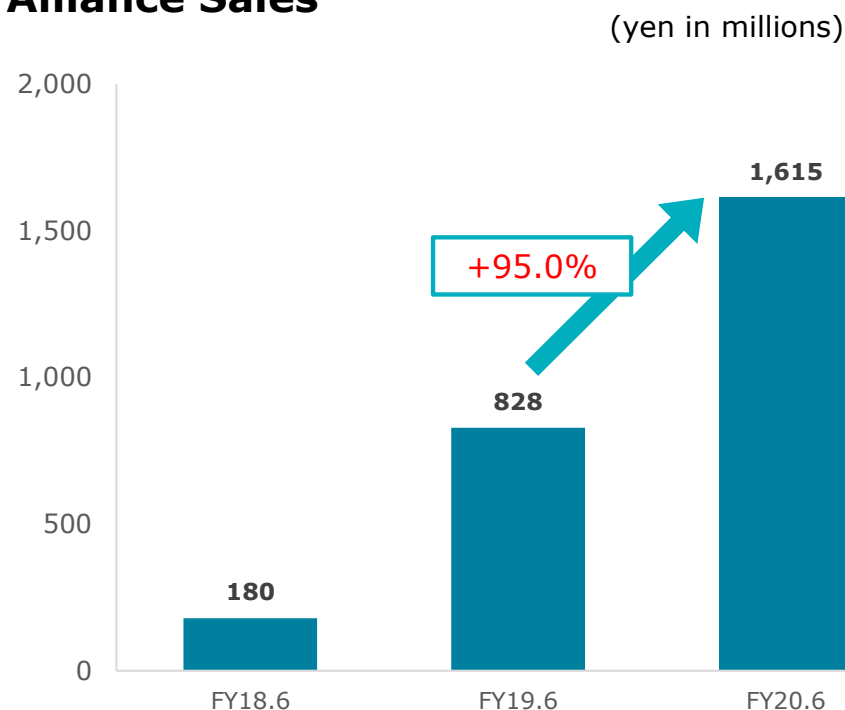


Alliance Strategy (Ecosystem)

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

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

Alliance Sales

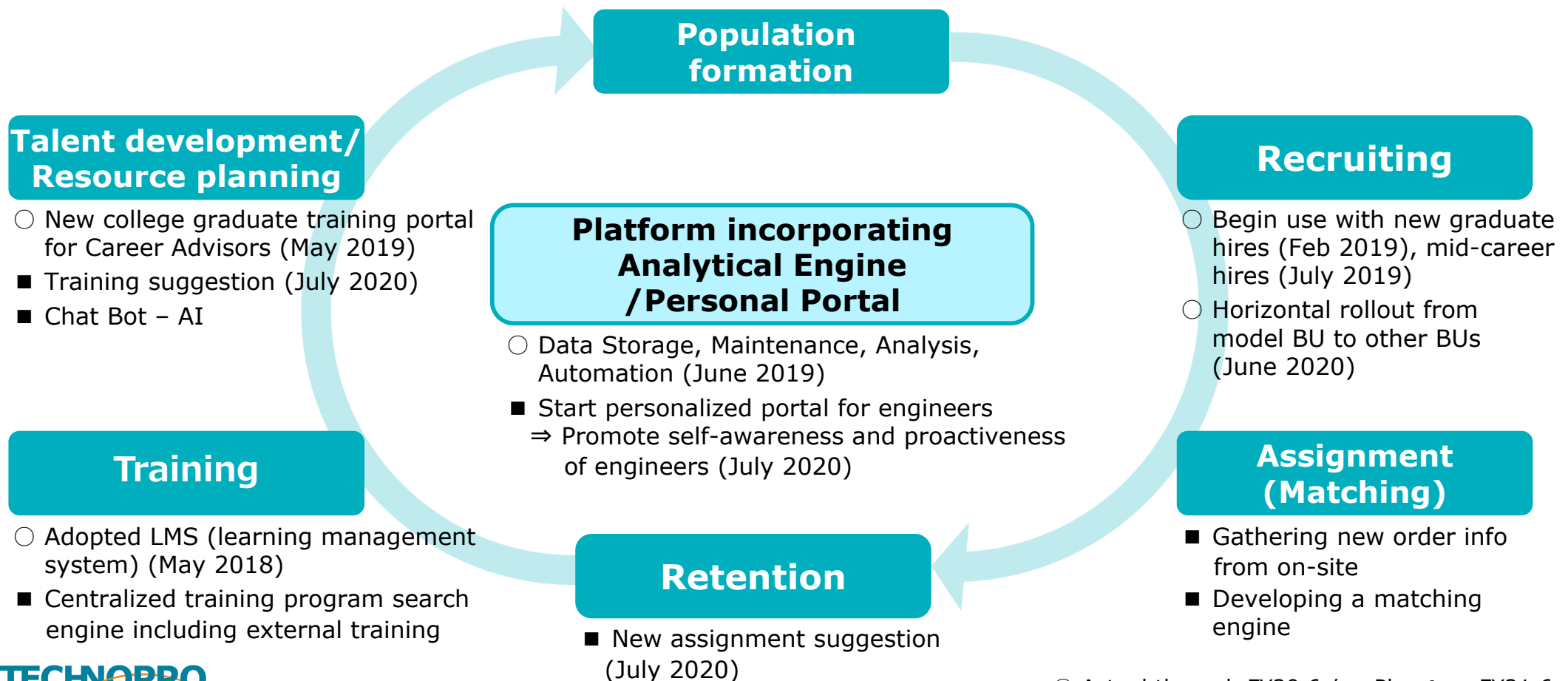


(3) Talent Management System

- 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
- Proper engineer allocation by matching analyses
- Training suggestion/proactive engineers for higher value
- Enhanced retention by retirement analyses



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**

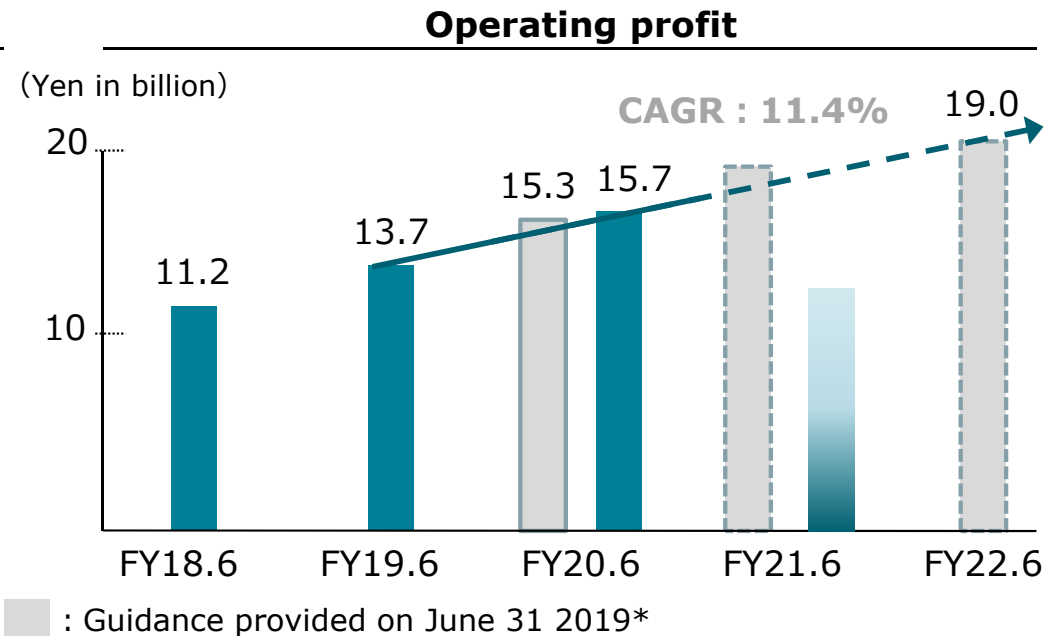
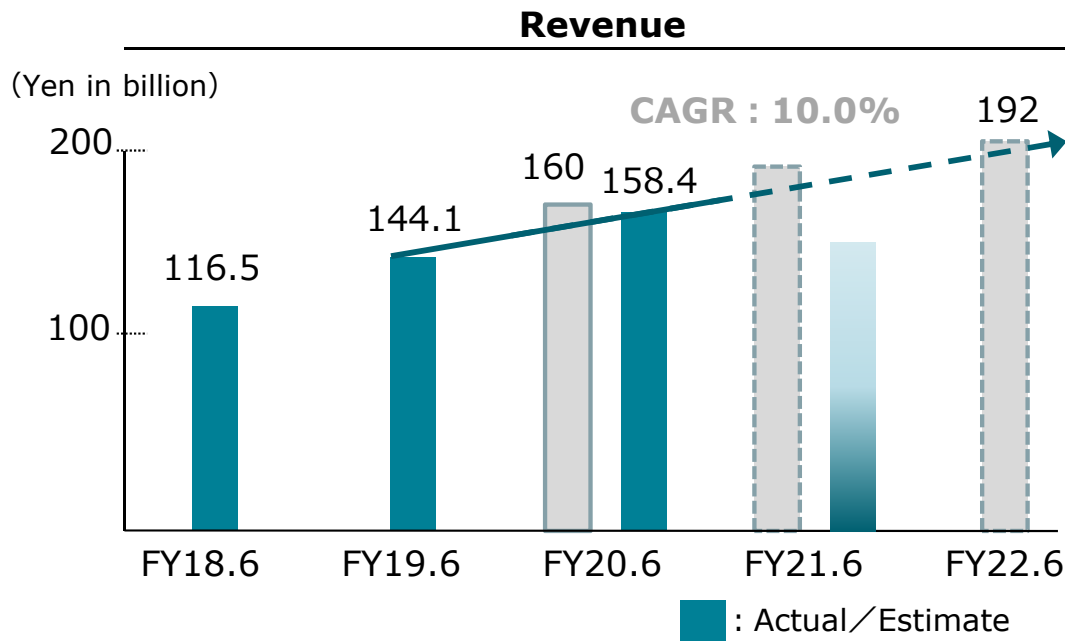
Operating Profit

- 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

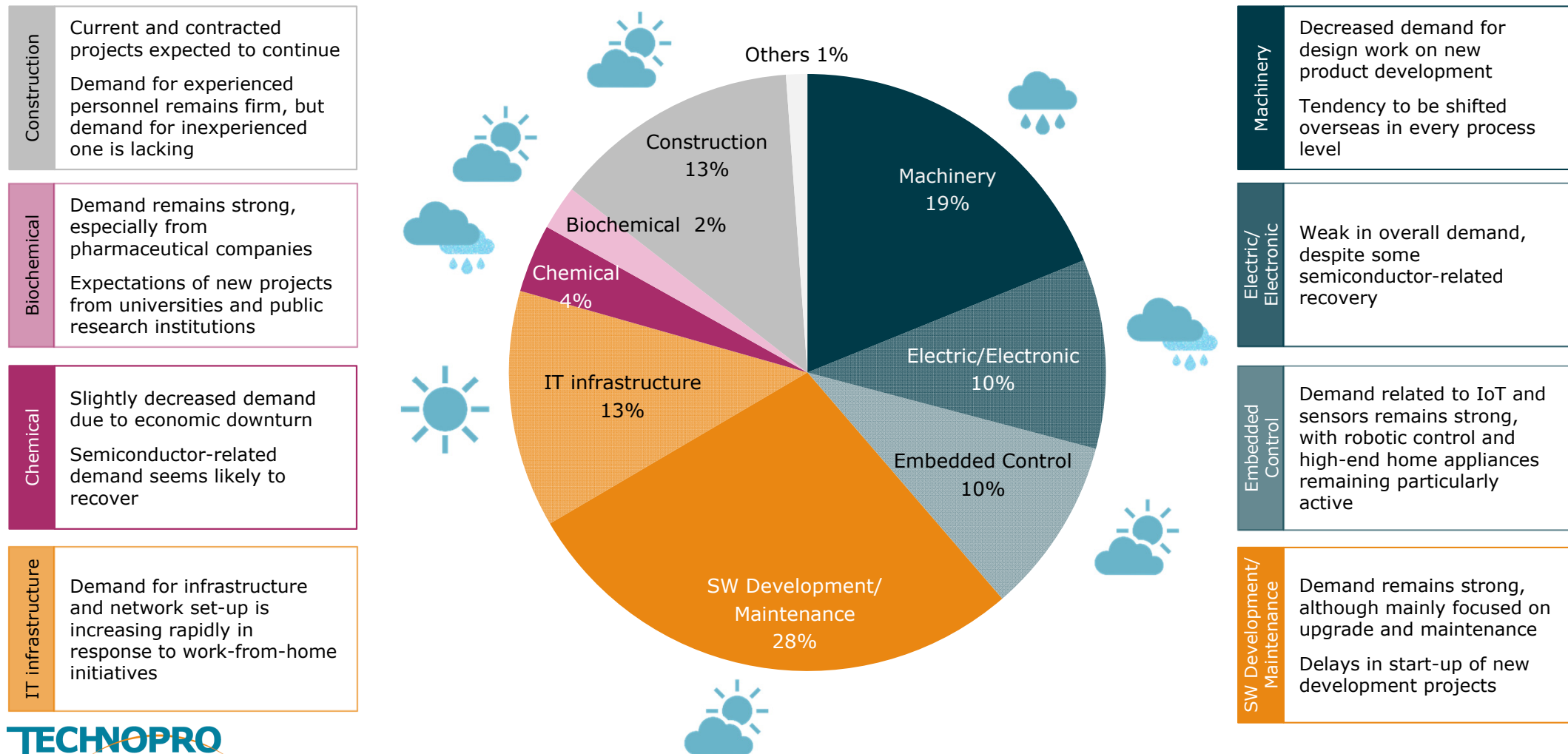
- Engineering HR market condition will depend on **depth and length of ensuing economic downturn**
- Watch over contract renewal rate** in 3-month cycle
- Main scenario – **Bottom-out in 2021 and gradual recovery through 2022**
- FY21.6 – **Minimize adverse impact** based on strict KPI monitoring and 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



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

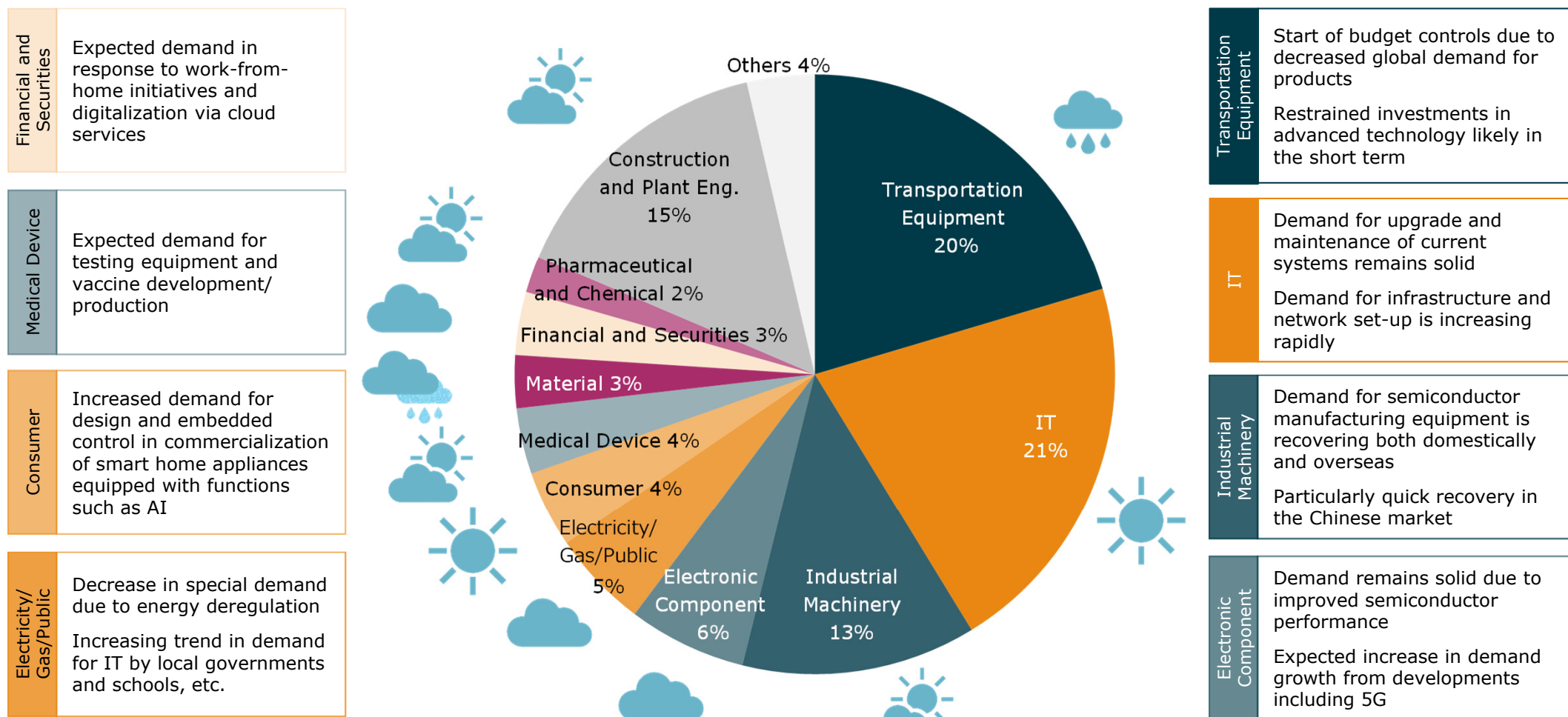
Distribution of Assigned Engineers (As of June 30, 2020)



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

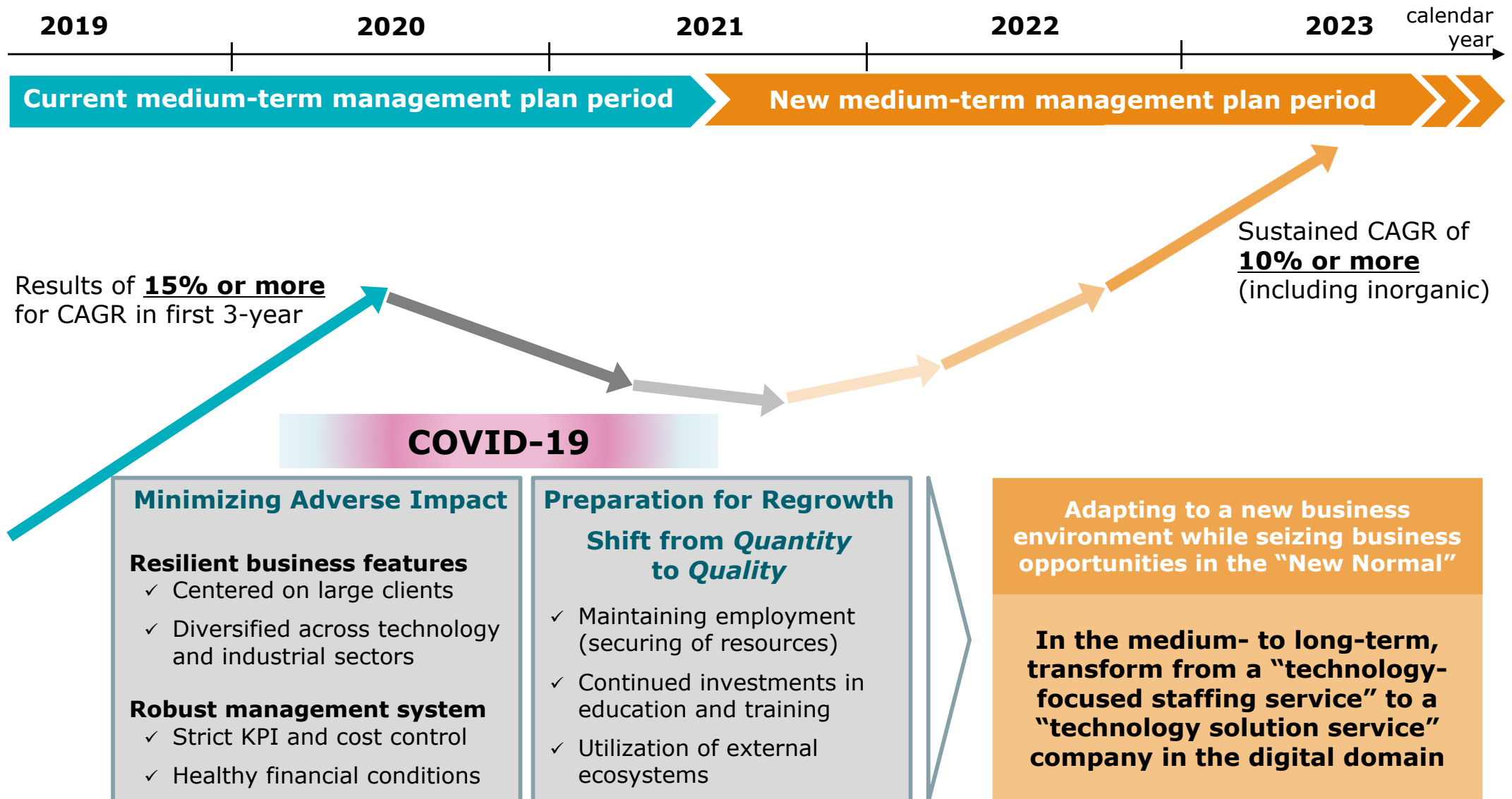
Distribution of Assigned Engineers (As of June 30, 2020)



* 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



(1) Important Measures for Return to Growth

Measures to return to growth while minimizing COVID-19 damages

■ Objectives

Details of Measures

Minimizing Adverse Impact

- KPI management on daily basis

- Manage daily utilization ratio, assignments and returns
- Predict and respond promptly to contract cancellation possibilities for each engineer by the analyses of processes, skills, client business conditions

- Expansion of financing sources

- Enlarge line of credit facilities for working capital usage
- Obtain credit rating from the rating agency *R&I* for the purpose of diversifying funding (A-, Stable)

- Temporary freeze on new hiring
- Thorough cost management

- Cut hiring costs by 70% YOY in the budget for FY21.6
- Classify all SG&A items by rank (A to C) according to necessity, and flexibly adjust these expenses according to business performance

- Introduction of order information sharing system
- Sales support by engineers

- To make up for reduced sales visits, establish a system that enables our engineers to report clients' technical needs and demand for engineers, leading to effective proposals and project acquisition

Preparation for Regrowth

Shift from *Quantity* to *Quality*

- Maintaining employment (securing of resources)

- Eliminate engineer anxiety and prevent retirement by communicating management's strong will to protect employment status

- Strengthen training curriculum in the digital domain

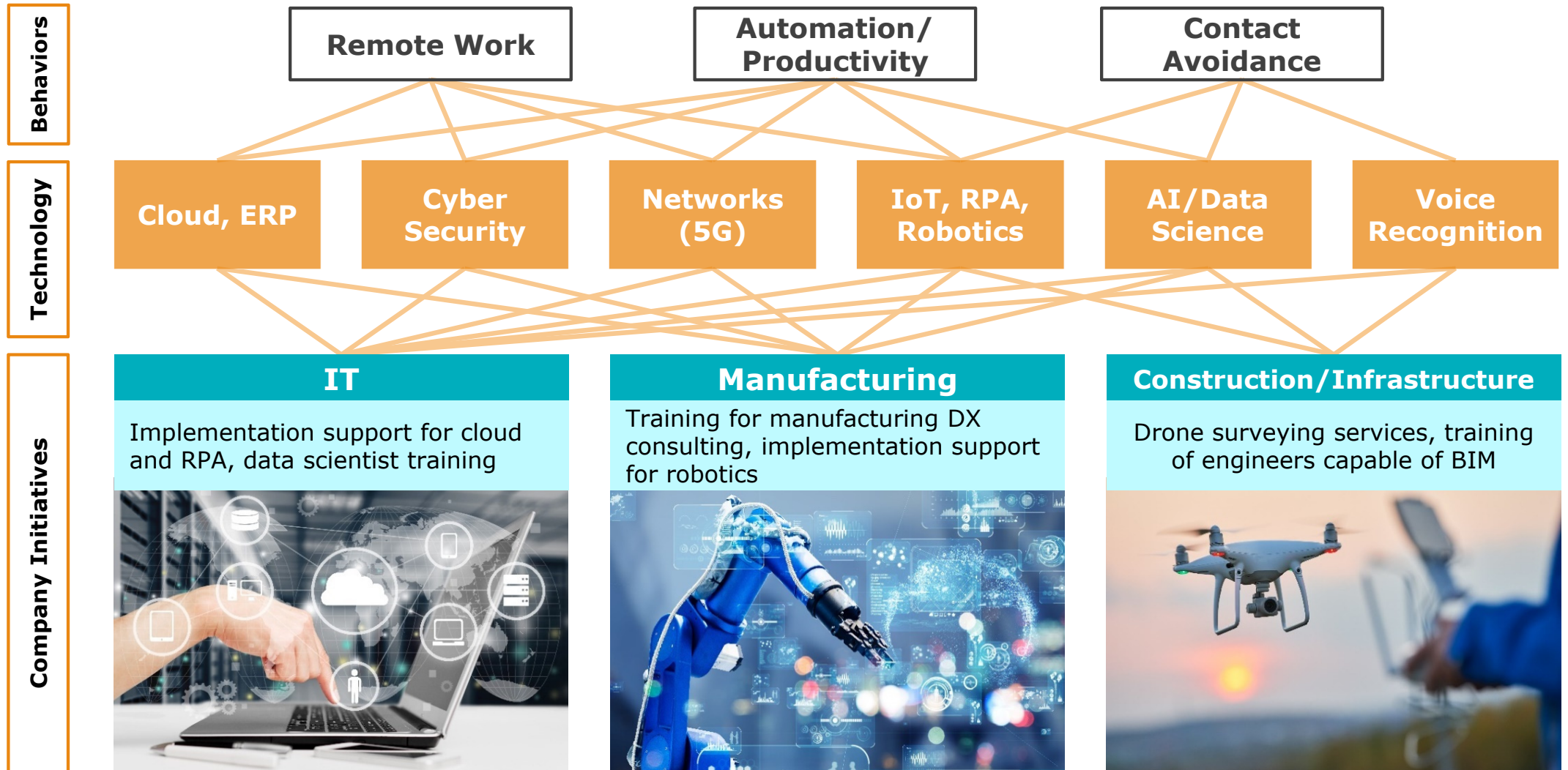
- Expansion of training programs that utilize e-learning
- Utilize standby periods to support acquisition of digital skills expected to be in strong demand

- Promote collaboration with leading-edge technology ventures and influential IT vendors

- Training programs including data science and cybersecurity
- Increased numbers of engineers with IT vendor certifications

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

Digital Transformation (DX) needs accelerated by COVID-19



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)



(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



Engineers

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



Companies

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



Our Strengths



- Ability to grasp the latest R&D trends and technological shifts via our diverse client base
- Opportunities to identify challenges and propose solutions at development sites via our engineers



- Overwhelming recruitment ability and engineering talent base with diverse skills



- Track record of utilizing foreign human resources in Japan
- Development and transfer of engineer skills via education and training systems backed by R&D trends and technological shifts (re-skilling function)



Societal and client needs are evolving



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

To sustain our competitive advantage...

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

Selection Criteria

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

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

Disclaimer

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.

Further, statement in this presentation may contain forward-looking information that could be impacted by various risks and uncertainties, and that may significantly affect expected results. Therefore, it is to be noted not to entirely rely on forward-looking information.

It should be also noted that this presentation or any statement herein is not allowed to make copy or transfer without our written consent in prior.

[Email Alerts]

To receive notifications about news release update on TechnoPro Holdings, Inc. via email, please access to the subscription website using QR code on the right and follow the instruction to subscribe.



TECHNOPRO