

## TechnoPro Holdings, Inc.

### Q2 Financial Results Briefing for the Fiscal Year Ending June 2019

February 1, 2019

## Presentation

### ◆ Financial Results for the 2nd 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. Now, let me explain the company's performance on page 2.

### FY2019 Q2 Overview

- In first half FY2019, revenue increased JPY 14.7 billion (up 26.6%) year on year, operating profit increased JPY 1.8 billion (up 33.0%) year on year
- Earnings from Orion Managed Services Limited has been consolidated as of October 2018; Earnings from SOFTWORKS Co., Ltd. (acquisition announced on November 26, 2018) to be consolidated as of January 2019
- Full year FY2019 guidance remains unchanged considering uncertainties such as working day reduction in Q4 due to 10-day Golden Week holidays, PPA assessment results, etc., although expecting to deliver better financial results than the guidance

(JPY in millions)

|                            | First Half         |                    |        | Q2                 |                    |        | Full Year          |                      |        |
|----------------------------|--------------------|--------------------|--------|--------------------|--------------------|--------|--------------------|----------------------|--------|
|                            | FY2018<br>(Actual) | FY2019<br>(Actual) | YOY    | FY2018<br>(Actual) | FY2019<br>(Actual) | YOY    | FY2018<br>(Actual) | FY2019<br>(Guidance) | YOY    |
| Revenue                    | 55,401             | 70,114             | +26.6% | 28,674             | 36,779             | +28.3% | 116,529            | 135,000              | +15.9% |
| Gross profit (GP)          | 13,763             | 17,478             | +27.0% | 7,422              | 9,415              | +26.9% | 29,475             | 34,000               | +15.4% |
| GP margin                  | 24.8%              | 24.9%              |        | 25.9%              | 25.6%              |        | 25.3%              | 25.2%                |        |
| SG&A expenses              | 8,062              | 10,258             | +27.2% | 4,221              | 5,430              | +28.6% | 18,237             | 20,500               | +12.4% |
| Ratio on revenue           | 14.6%              | 14.6%              |        | 14.7%              | 14.8%              |        | 15.7%              | 15.2%                |        |
| Operating profit (OP)      | 5,554              | 7,386              | +33.0% | 3,042              | 4,203              | +38.1% | 11,238             | 13,500               | +20.1% |
| OP margin                  | 10.0%              | 10.5%              |        | 10.6%              | 11.4%              |        | 9.6%               | 10.0%                |        |
| Profit before income taxes | 5,504              | 7,327              | +33.1% | 3,014              | 4,165              | +38.2% | 11,163             | 13,500               | +20.9% |
| Net profit **              | 4,139              | 4,854              | +17.3% | 2,259              | 2,772              | +22.7% | 8,498              | 8,900                | +4.7%  |

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\* Amounts are rounded down to the nearest unit.

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

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I'll explain to you the cumulative figures for the second quarter. Sales rose 26.6% year on year to 70.114 billion yen, and operating income rose 33% to 7.386 billion yen. Income tax rates are normalized for the year. 32.4% is a preliminary calculation result. Absorbing that resulted in an increase of 17.3% over the same period of the previous year to 4.854 billion yen

Consolidation for Orion Managed Services started in October, but for SOFTWORKS, for whom acquisition was announced in November, consolidated results begin in January. Only balance sheets are consolidated at the end of December. I have also tried to make an upward revision to our business results, and although we are

confident that our full-year business results will exceed our initial forecasts, there are various uncertain factors regarding how much forecasts will be exceeded, and this time we have left our earnings forecasts unchanged. I will explain this in more detail on page 5.

## Business Line Results FY2019 Q2

- Provides earnings information (managerial) for each line of business, considering expanding business portfolio other than engineer staffing
- Contribution margin of 10.9% (H1 FY2018: 10.5%) in *Engineer staffing*, offset expenses related to headquarters functions provided by TechnoPro Holdings from operating profit
- Aims to maintain appropriate margin for *Overseas*, as its earnings structure differs from businesses in Japan
- Engineers totaled 19,261: 17,638 in Japan, 1,623 in other countries

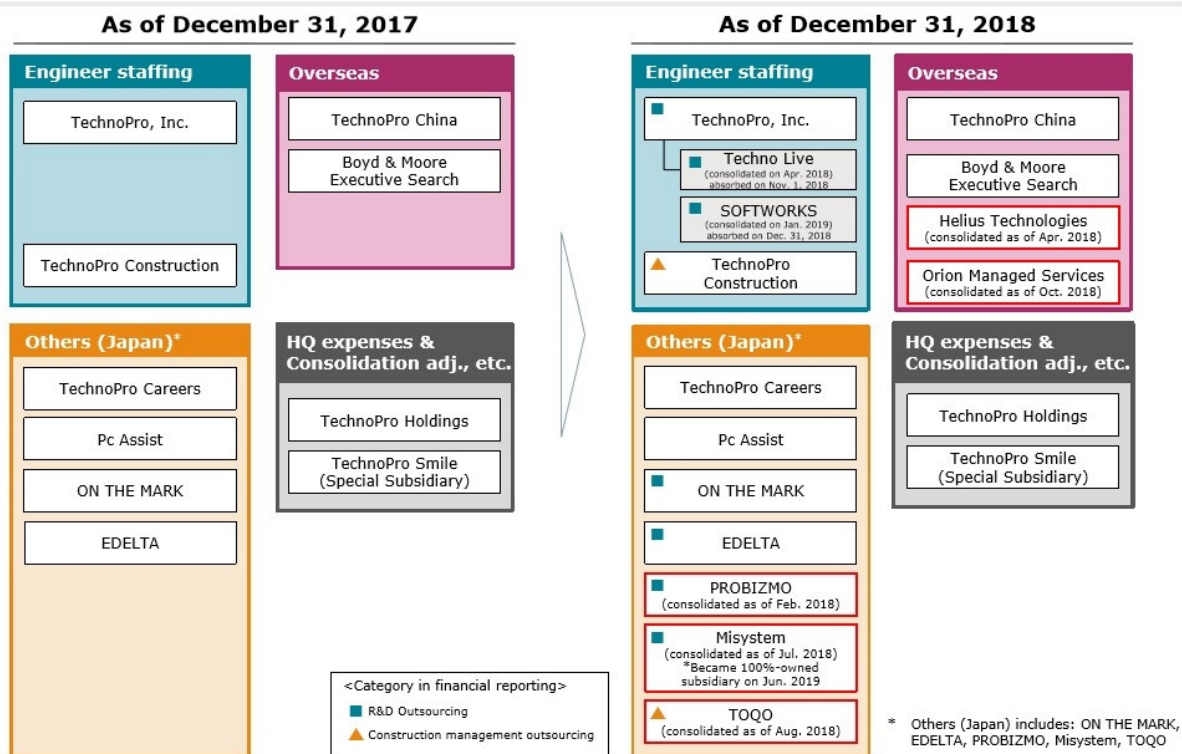
(JPY in millions, except headcounts and sales per head)

|                                      | Engineer staffing<br>(Japan, two subsidiaries) |                                |        | Others (Japan)                 |                                |         | Overseas                       |                                |         | HQ expenses<br>& Consolidation adj., etc. |                                |     | Consolidated                   |                                |        |
|--------------------------------------|--|--------------------------------|--------|--------------------------------|--------------------------------|---------|--------------------------------|--------------------------------|---------|---|--------------------------------|-----|--------------------------------|--------------------------------|--------|
|                                      | 1st Half<br>FY2018<br>(Actual)                 | 1st Half<br>FY2019<br>(Actual) | YOY    | 1st Half<br>FY2018<br>(Actual) | 1st Half<br>FY2019<br>(Actual) | YOY     | 1st Half<br>FY2018<br>(Actual) | 1st Half<br>FY2019<br>(Actual) | YOY     | 1st Half<br>FY2018<br>(Actual)            | 1st Half<br>FY2019<br>(Actual) | YOY | 1st Half<br>FY2018<br>(Actual) | 1st Half<br>FY2019<br>(Actual) | YOY    |
| Revenue                              | 52,672   | 60,919                         | +15.7% | 1,976                          | 4,445                          | +124.9% | 968                            | 5,192                          | +436.4% | (216)                                     | (442)                          | -   | 55,401                         | 70,114                         | +26.6% |
| Operating profit (OP)                | 7,625  | 9,054                          | +18.7% | 198                            | 449                            | +126.8% | 121                            | 526                            | +334.7% | (2,391)                                   | (2,643)                        | -   | 5,554                          | 7,386                          | +33.0% |
| OP margin                            | 14.5%  | 14.9%                          | -      | 10.0%                          | 10.1%                          | -       | 12.5%                          | 10.1%                          | -       | -   | -                              | -   | 10.0%                          | 10.5%                          | -      |
| Contribution margin                  | 10.5%  | 10.9%                          | -      | -                              | -                              | -       | -                              | -                              | -       | -   | -                              | -   | -                              | -                              | -      |
|                                      |  |                                |        |                                |                                |         |                                |                                |         |   |                                |     |                                |                                |        |
| No. of engineers                     | 14,791   | 17,104                         | +15.6% | 60                             | 534                            | +790.0% | -                              | -                              | -       | -   | -                              | -   | 15,094                         | 17,638                         | +18.8% |
| Non-Japanese                         | 626  | 861                            | +37.5% | -                              | 6                              | -       | -                              | -                              | -       | -   | -                              | -   | 626                            | 867                            | +38.5% |
| No. of engineers<br>(overseas)       | -  | -                              | -      | -                              | -                              | -       | 275                            | 1,623                          | +490.2% | -   | -                              | -   | -                              | -                              | -      |
| Utilization rate                     | 96.3%  | 96.4%                          | -      | 98.6%                          | 95.5%                          | -       | -                              | -                              | -       | -   | -                              | -   | 96.3%                          | 96.4%                          | -      |
| Sales per head<br>(JPY in thousands) | 629  | 633                            | -      | -                              | -                              | -       | -                              | -                              | -       | -   | -                              | -   | -                              | -                              | -      |

\* Amounts are rounded down to the nearest unit.

The third page of this report shows the performance of each business unit, which are each a management base. There are two companies that dispatch core technologies, and there are eight other companies in Japan. There are four global companies. Each unit has an operating profit margin of around 10%. The M&A we have been promoting over the past three years is also contributing steadily to our business performance. As a result, the ratio of global and overseas sales has risen to 7.4%.

## Companies in Each Business Line [managerial]



The next page, page four, shows each business unit's organization. The right side shows information for the end of December 2018, and the left side shows the end of December last year 2017. The five companies enclosed in red frames on the right did not exist the last December term of 2017, and the growth rate of sales on a so-called organic basis, excluding these five companies, was 15.6%. In addition, as requested, we have disclosed information on our interim financial base segments -- R&D outsourcing and construction management outsourcing -- and some companies are marked with these. The squares indicate R&D outsourcing and the triangles indicate construction management outsourcing.

## Quarterly Performance

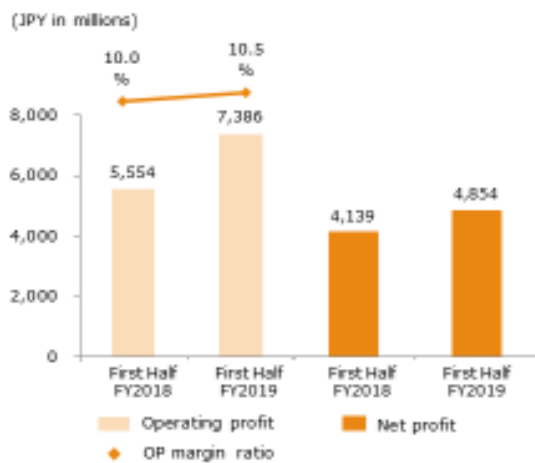
- Progress vs. full year guidance: 52% for revenue, 55% for operating profit, maintaining solid growth momentum as the same period in prior year
- Potential impact from 10-day Golden Week holiday to Q4 working days is still uncertain; also expects seasonal cost increase in Q4 such as training and idle period expenses for new graduate engineers (plans to hire more than 1,000 new graduates in April 2019)



Looking next at the quarterly performance, the first six months of the full-year results are on par with the previous year, with net sales at 52% and operating income at 55%. As you can see, our business performance has seasonality. As I am explaining this time, in the first half of this year, the increase in sales was boosted by the M&A conducted in the second half of last year. Therefore, in the second half of this year, as these companies had already been incorporated into the business performance, it is inevitable that the increase in operating profit in the second half of this year will be slightly lower than in the first half.

In addition, this year, the number of new-graduate hires is expected to exceed 1,000 on April 1. The number of new-graduate hires in the previous fiscal year was 889. Last year, we increased by 250 to 260 people, and, in this April, an increase of over 1,000 people is expected. There are many orders, so even on a basis of 1,000 employees, they are not working for two to three months while training is provided. Our performance in the fourth quarter is always slightly down, because only salaries are generated and training costs are incurred. Mr. Nishio will explain in detail later. However, no revision of the results does not mean that there is uncertainty in results for the second half of the fiscal year. Some believe that the economic situation is slightly declining, but there are some differences among individual subsidiaries and affiliates, but the order is still very strong. Accordingly, it was difficult to determine the range of upward revisions, so we decided not to make upward revisions this time.

## P&L Summary



| (JPY in millions)                     | 1st Half FY2018 | 1st Half FY2019 | Diff. YOY | YOY (%) |
|---------------------------------------|-----------------|-----------------|-----------|---------|
| <b>Revenue</b>                        | 55,401          | 70,114          | +14,713   | +26.6%  |
| Impact of Engineer Increase**         |                 |                 | +8,234    |         |
| Impact of unit sales price increase** |                 |                 | +320      |         |
| M&A contribution, etc.                |                 |                 | +6,159    |         |
| <b>CoGs</b>                           | 41,637          | 52,636          | +10,998   | +26.4%  |
| Ratio to revenue                      | 75.2%           | 75.1%           | (0.1pt)   |         |
| <b>Gross profit</b>                   | 13,763          | 17,478          | +3,714    | +27.0%  |
| Ratio to revenue                      | 24.8%           | 24.9%           | +0.1pt    |         |
| Impact of utilization rate rise       |                 |                 | +0.1pt    |         |
| <b>SG&amp;A</b>                       | 8,062           | 10,258          | +2,196    | +27.2%  |
| Ratio to revenue                      | 14.6%           | 14.6%           | +0.0pt    |         |
| <b>Other income—Other expenses</b>    | (146)           | 167             | +313      |         |
| <b>Operating profit</b>               | 5,554           | 7,386           | +1,832    | +33.0%  |
| <b>Financial income</b>               | 2               | 2               | +0        |         |
| <b>Financial expenses</b>             | 52              | 57              | +5        |         |
| <b>Net profit before income taxes</b> | 5,504           | 7,327           | +1,823    | +33.1%  |
| <b>Corporate / income taxes</b>       | 1,365           | 2,374           | +1,009    |         |
| <b>Net Profit</b>                     | 4,139           | 4,854           | +715      | +17.3%  |

\* Amounts are rounded down to the nearest unit.

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

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With the following page, I'll explain the structure of profit and loss. The reason for the increase in sales was the 8.2 billion yen impact of the engineer increase. The impact of the unit price increase was a rise of 0.3 billion yen and the contribution of M&A expenses, and the like was 6.1 billion yen. The net sales gross profit margin, or gross profit margin, was 24.9%, which is an improvement of 0.1 percentage points over the previous year, and that is a factor behind the utilization rate I'll mention in a moment. Other gains and losses were slightly higher than last year. I think that many people will remember this for last year; the difference in the transition to DC pension was a loss of 180 million yen in the first half of last year, so this year there is no disparity. Since the exchange rate and the number of overseas companies increased to two this year, the appreciation of the yen will be positive for the two overseas companies. This year's positive impact was slightly higher than last year's, and other profits and losses swung slightly between last year and this year.

## Balance Sheet & Cash Flow

- Cash and cash equivalents decreased JPY 2.8 billion compared to the balance sheet at June 2018, due to acquisition of subsidiaries, payment of income tax and dividend, etc.
- The balance sheet includes SOFTWAREWORKS (acquisition announced on November 26, 2018) as of the end of December

(JPY in billions)

| June 2018                                     |                                    | December 2019                                 |                                    |
|---|------------------------------------|---|------------------------------------|
| Cash & cash equivalents<br>21.6               | Debt 11.6                          | Cash & cash equivalents<br>18.7               | Debt 10.0                          |
| Goodwill 34.4                                 | Other liabilities<br>33.7          | Goodwill 37.3                                 | Other liabilities<br>36.2          |
| Deferred tax assets<br>3.9                    |                                    | Deferred tax assets<br>3.8                    |                                    |
| Intangible assets (PPA <sup>†1</sup> )<br>2.9 | Total equity<br>42.9               | Intangible assets (PPA <sup>†1</sup> )<br>2.8 | Total equity<br>43.5               |
| Other assets 25.4                             |                                    | Other assets 27.1                             |                                    |
| Total assets<br>88.2                          | Total liabilities & equity<br>88.2 | Total assets<br>89.7                          | Total liabilities & equity<br>89.7 |
| D/E Ratio <sup>†2</sup> : 0.3 x               |                                    | D/E Ratio <sup>†2</sup> : 0.2 x               |                                    |
| Net D/E Ratio <sup>†3</sup> : (0.2) x         |                                    | Net D/E Ratio <sup>†3</sup> : (0.2) x         |                                    |
| Net worth ratio: 48.7%                        |                                    | Net worth ratio: 48.6%                        |                                    |

<sup>†1</sup> 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

<sup>†2,3</sup> Including non-controlling interests

### Q2 FY2019 Cash Flow

|                |       |
|----------------|-------|
| • Operating CF | 5.1   |
| • Investing CF | (3.6) |
| • Financing CF | (4.3) |
| Net CF         | (2.8) |

FCF 1.4

\* Amounts are rounded down to the nearest unit.

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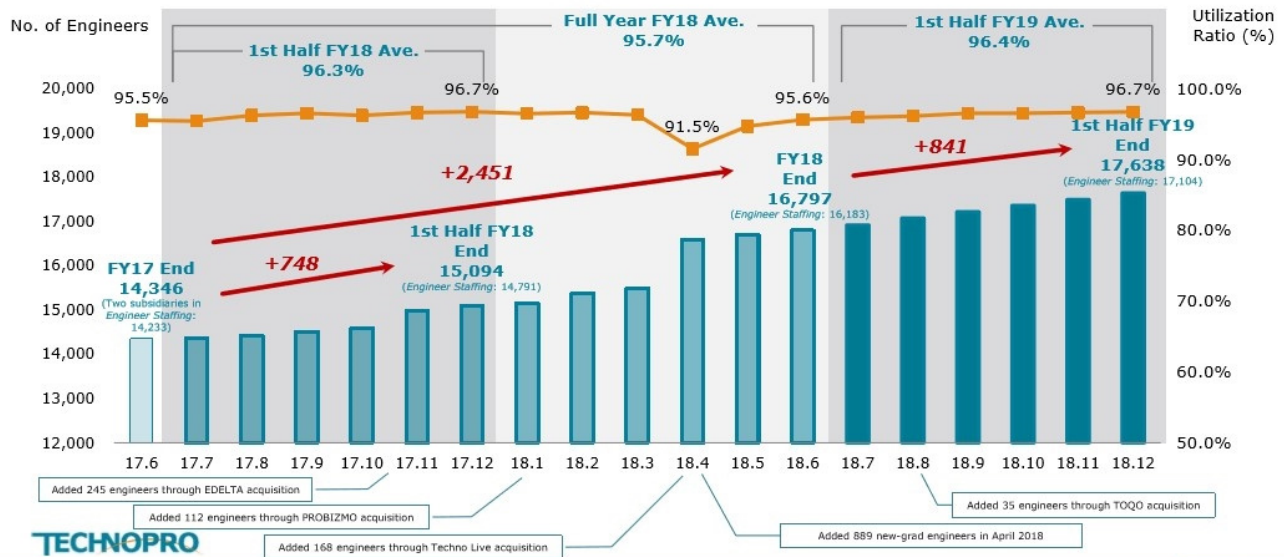
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Next, let's look at the balance sheet. We have maintained a healthy balance sheet, but I would like to comment a little on the fact that the amount of goodwill increased by about 2.9 billion yen due to the company that we acquired this year. Other liabilities have also increased slightly, but as I explained earlier, we have not bought 100% of overseas acquired companies. There is an incentive and earn-out contract, and the put option on debts. This is the impact.



## Number of Engineers & Utilization Rate (Japan)

- Engineers on payroll in Japan at the end of Q2 FY2019 totaled 17,638 (up 841 from the end of prior year), including 861 non-Japanese engineers (up 105 from the end of prior year); employs 17,104 at two companies in *Engineer staffing* (TechnoPro, Inc. and TechnoPro Construction, Inc.)
- Average utilization rate of 96.4% for first half FY2019 (up 0.1% year on year), exceeding our comfortable utilization rate 95-96% which provides extra resources to let engineers have trainings or assign engineers to clients promptly
- Employs 1,623 engineers at overseas subsidiaries (not included in numbers above)



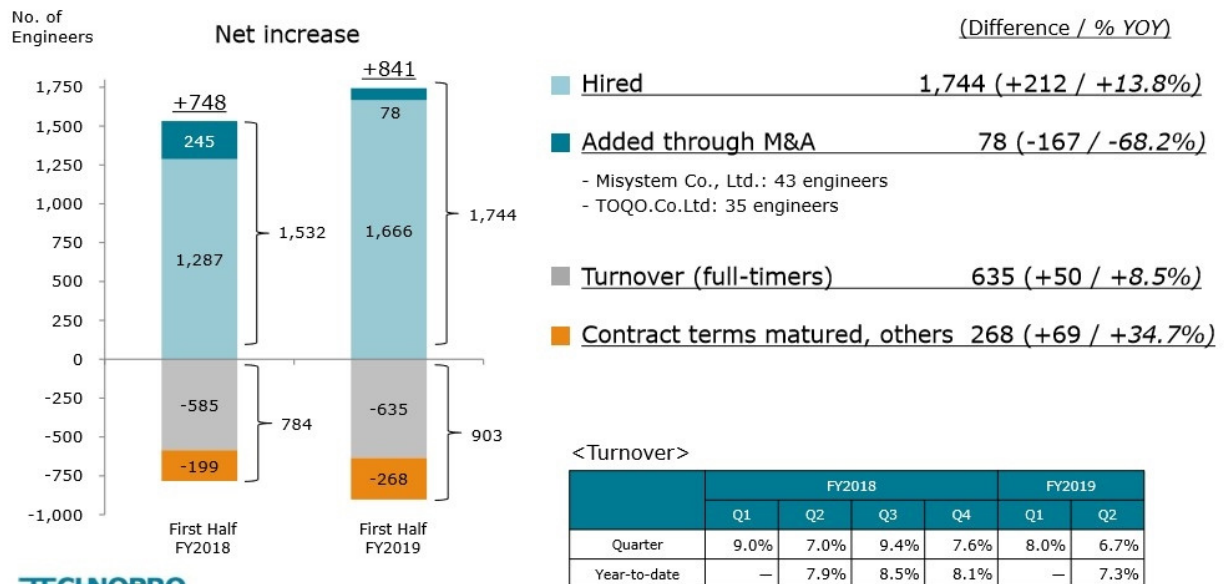
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Page eight shows the utilization rate for the number of engineers in Japan. As of the end of the second quarter, the number of registered engineers was 17,638. The number of foreign engineers in Japan was 867. The number of foreigners alone has increased by 111. In the first half of the year, the utilization rate was 96.4%. This is 0.1% better than last year, and we think that the appropriate rate of operation is around 95-96%, as I have said many times. This is because 1% to 1.5% of people attend training while they are not working, and there is a need for a small percent of people who should be stock for assigning to customers in the following month. 96.4% is good for short-term financial results, but I don't think that it's a very good situation. In addition to this number, there are 1,623 engineers at overseas bases, so the total number of engineers is around 19,200.

## Recruitment/Turnover

- Hired 1,744 engineers (up 13.8% year on year)
- Turnover rate (full-timers) in first half FY2019: 7.3% (H1 FY2018: 7.9%)



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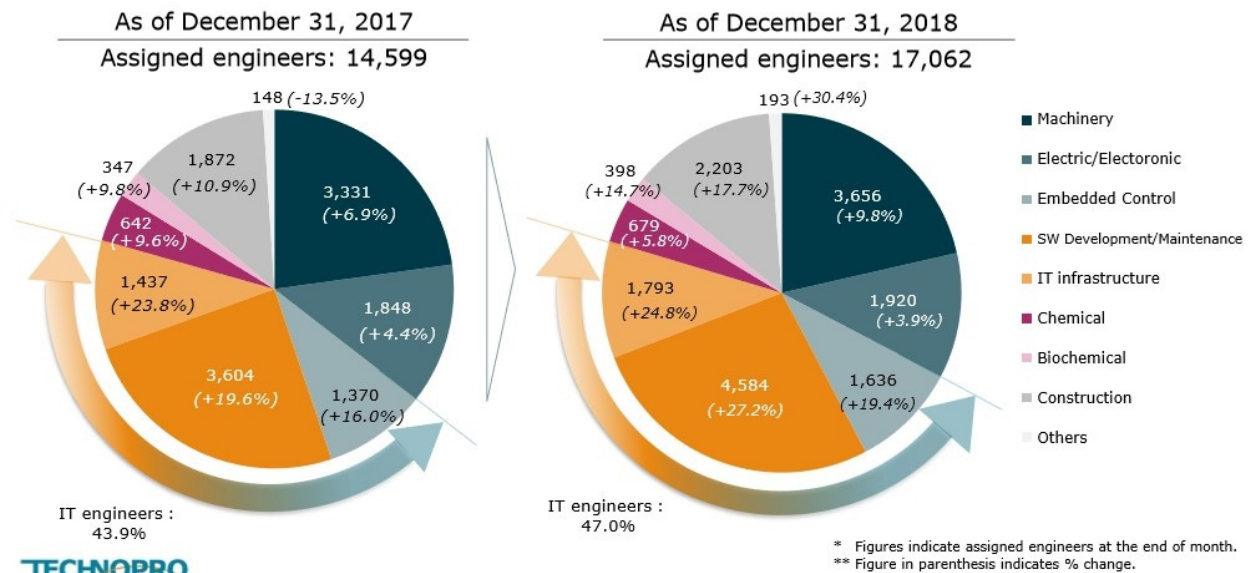
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The next page is about hiring and retirement. The number of employees hired was 1,744 in 6 months: 43 in Misystem. and 35 through Toqo. In the first half of the year, the number of people hired was 212 more than last year. The number of retirees increased by 50, and the percentage of permanent employees who retired in the first half of the year fell to 7.3%. Last year's figure was 7.9%, so the retirement rate is gradually declining due to various activities.



## Assigned Engineers by Technology

- Number of assigned engineers\* increased in all technologies
- Strong demand for IT engineers continues
- Engineers increased in software development driven by the acquisition of Misystem; Techno Live employs engineers both in Machinery and IT; construction engineers increased through TOQO acquisition



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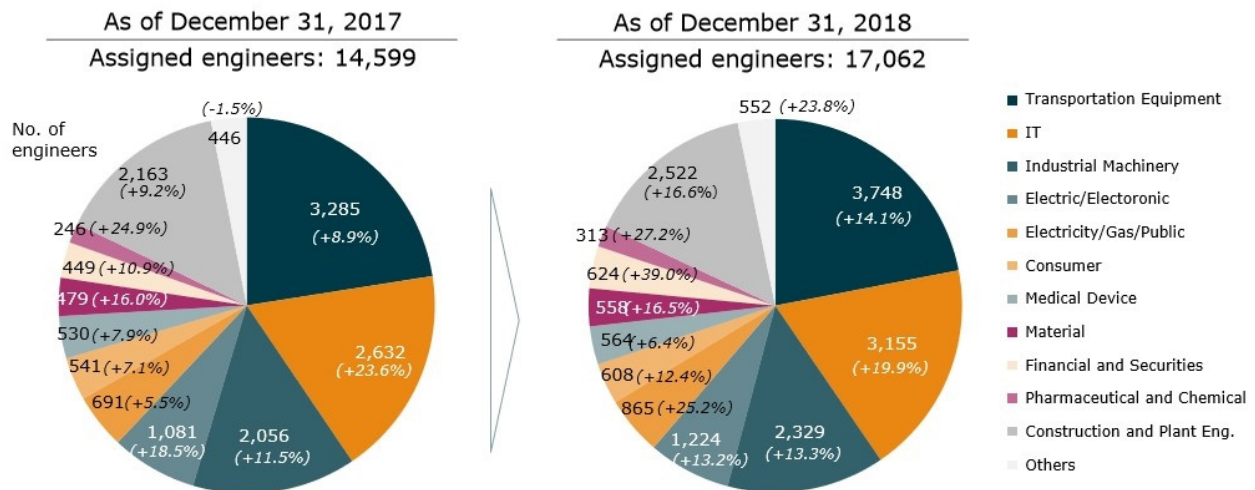
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The following page shows the number of operating engineers by technical area in the pie chart. Although the number of assigned engineers is increasing in all technical fields, we have a strong sense of shortage and demand in the IT software system as a whole, so with a significant increase in the number of IT engineers, the percentage they account for is 47% of the total.

## Assigned Engineers by Industrial Sectors

- Number of assigned engineers\* increased in all industrial sectors



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

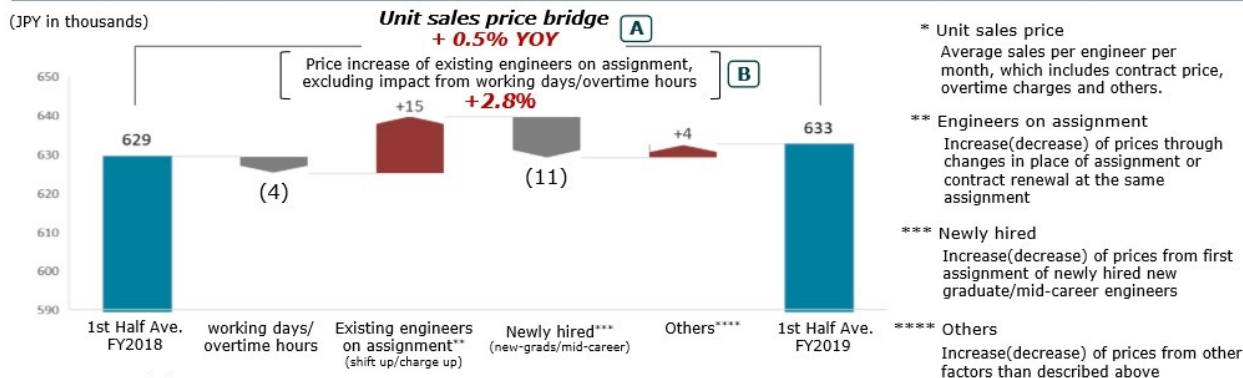
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Next, the pie chart shows the number of assigned engineers by industry. The number of assigned engineers is increasing in all industries. That is to say, this is proof that there is a strong demand in all industries, even though there are slight differences between individual companies. Even if the company is a machine company, it is software-related technology that has strong demand. In the case of an automotive company, there is a very high demand for software engineers, whether they are, for example, involved in model-based development or embedded software.

## Unit Sales Price

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

- Unit sales price\* increased 0.5% (up JPY 3,300/month year on year) to JPY 633,000
- Decreased JPY 4,000/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 15,000/month driven by increased contract price for existing engineers on assignment
- Decreased JPY 11,000/month due to first assignment of newly hired new graduate/mid-career engineers
- New graduates (within 3 years after joining) account for 9.9% of total engineers as of Q2 FY2019 end (FY2018: 8.9%)



Amounts are rounded off to the nearest unit

### [Price Development]

|  | FY2018 |       |       |       | FY2019 |       |
|--|--------|-------|-------|-------|--------|-------|
|  | Q1     | Q2    | Q3    | Q4    | Q1     | Q2    |
| Unit Price (year-to-date) <b>A</b>   | 620    | 629   | 629   | 630   | 621    | 633   |
| Year on year   | +0.5%  | +1.1% | +0.6% | +0.6% | +0.1%  | +0.5% |
| Price increase of existing engineers on assignment<br>(figures calculated by comparing unit price at the end of period) <b>B</b> | +3.0%  | +2.8% | +2.7% | +3.0% | +3.0%  | +2.8% |

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Unit prices are shown on page 12. The unit sales price was 633,000 yen in Japan for just two companies; a different business model is used overseas. This was an improvement of 3,300 yen or 0.5% over the same period last year. Since the number of working days and overtime hours per month decreased by 0.1 and 0.8 hours, respectively, from the same period in the previous year, there was an impact of a decline in the unit price of 4,000 yen. For existing employees, which excludes these items, a 2.8% or 15,000 yen improvement in the unit-contract price was achieved. Historical trends are shown at the bottom, and we have achieved a unit price improvement of between approximately 2.7% - 2.8% and 3%.

## Share Repurchase Program (announced on November 28, 2018)

### [Program overview]

- Class of shares to be repurchased : Ordinary shares
- Total shares to be repurchased: Up to 500,000 shares  
(Ratio to outstanding shares: 1.38% [excl. treasury shares])
- Total amount of repurchase: Up to 2,500,000,000 yen
- Repurchase period: From Nov. 29, 2018 to Nov. 28, 2019



### [Reason to launch the program]

- To enhance shareholder value by implementing flexible capital policies such as using treasury shares for incentive plans or M&A considerations
- To ensure stable dividend payment, which is central to our shareholder return measures, through expanding profit and raising EPS growth for the long term

Next, I would like to explain a few details of the share repurchases announced on November 28. Since around October last year, the capital market as a whole has entered an adjustment phase, and we have roughly a beta of about 1.2 or 1.3, and the range of the decline has become more severe than the Nikkei average. However, I am aware that it does not reflect the fundamentals of our company, so I have announced a share buyback. The content has already been released. As we have reported to the TSE, we have not yet implemented it because it was not an insider-free situation, but we intend to handle this flexibly by November of this year.

## Dividend Forecast

- Expects more than 50% dividend payout ratio and annual dividend of 123.00 yen per share\*
- 2.22% expected dividend yield, based on the closing price of January 30, 2019 (JPY 5,550/share)

(JPY per share)

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


With regard to the final dividend, we have left the earnings forecast and formality unchanged, so we will pay dividends as expected. However, as always, we have promised a dividend payout ratio of 50% or more for the increase in profits once we have secured an earnings increase. Therefore, in the event of an increase in profits, we will pay dividends. That concludes my explanation. Thank you very much. I'll answer questions later.

## ◆ Financial Updates and Progress of Medium-Term Management Plan

**Nishio:** Representative of the Group, Nishio. I would like to explain the progress of the medium-term management plan. The current medium-term management plan covers the five years from the fiscal year ending June 2018, and, as of now, one and a half years have passed. We believe that we have overstretched ourselves and have been making steady progress in terms of numbers and measures toward the goal of becoming a global human resources services company centered on the technologies set out in our medium-term management plan.

### 2. Progress of Medium-Term Management Plan

(JPY100 million, except headcounts and sales per head)

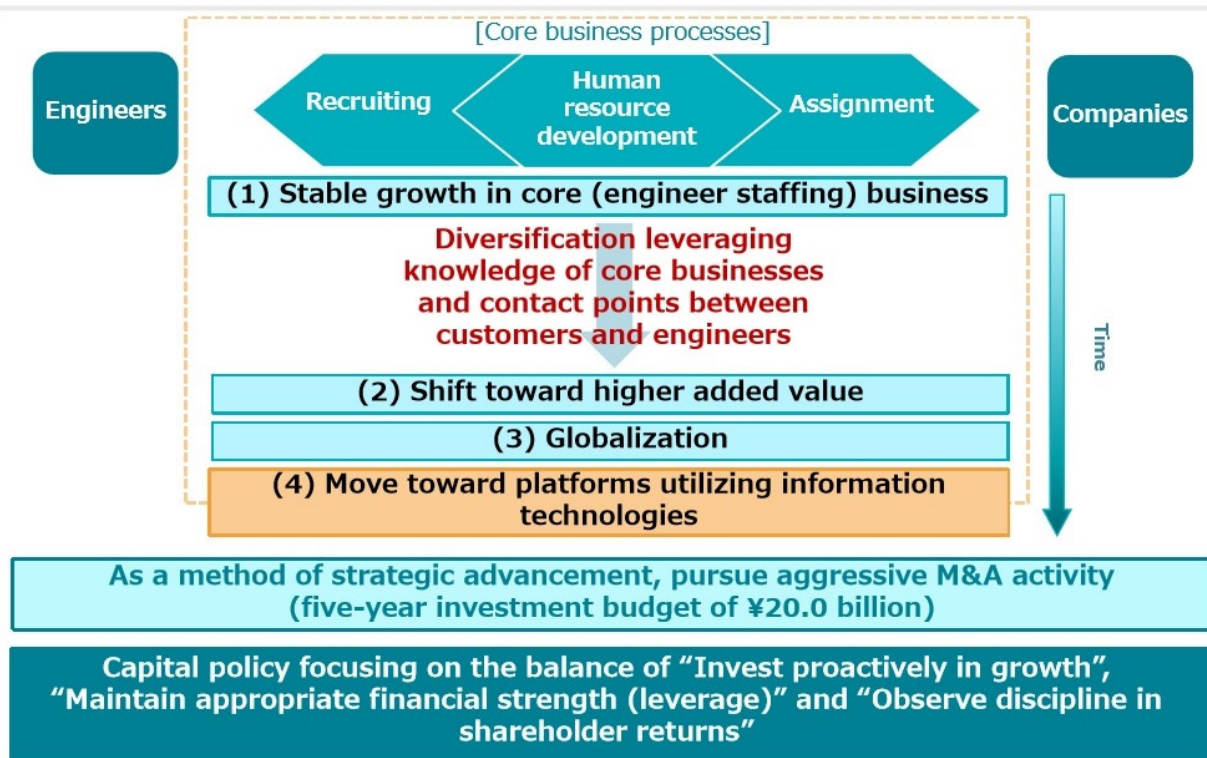
|                                      | FY06/17  | FY06/18 | FY06/20 | FY06/22 | CAGR    |  | FY06/18  | YoY%    | FY06/19    | YoY% |
|--------------------------------------|----------|---------|---------|---------|---------|--|----------|---------|------------|------|
|                                      | (Actual) | (Plan)  | (Plan)  | (Plan)  | 5 years |  | (Actual) |         | (Guidance) |      |
| Revenue                              | 1,000    | 1,090   | 1,350   | 1,600   | 10%     |  | 1,165    | 16%     | 1,350      | 16%  |
| Operating Profit                     | 96       | 106     | 135     | 170     | 12%     |  | 112      | 16%     | 135        | 20%  |
| Net Profit                           | 77       | 76      | 90      | 110     | 7%      |  | 84       | 10%     | 89         | 6%   |
| ROE*                                 | 30%      | 20%+    |         |         | -       |  | 24%      | -       | 21%        | -    |
|                                      |          |         |         |         |         |  |          |         |            |      |
| Sales per head<br>(JPY in thousands) | 626**    | 635     | 644     | 655     | 1%      |  | 630**    | 1%      | -          | -    |
| Number of<br>Engineers               | 14,346   | 15,400  | 17,600  | 19,600  | 6%      | 16,797   | 17%      | 18,000+ | 7%+        |      |

\* FY06/19 is based on the BS at the beginning of the FY, others are based on the average BS amount of the beginning and the end of FY  
 \*\* TechnoPro + TechnoPro Construction

Let's first look at the numbers. Here they are on slide 3. As you all know, we have set the third year of the plan as our target for the current fiscal year. In fact, we believe that we overstretched ourselves at the beginning of the fiscal year. However, as explained earlier by CFO Sato, our business has grown at a speed that exceeds that, so we have no worries about our progress in terms of numbers. Today, I would like to speak about the main strategic measures outlined in the medium-term plan, focusing on progress.



### 3. Developing Our Growth Strategy (repost)



As shown in Slide 4, the strategies of the medium-term plan are outlined in four broad sections. The first is the growth of the engineer staffing business, which is our core business. Second, we are promoting high-value-added services. Third, we are expanding globally. Fourth, we will build a business platform that utilizes IT technology. As a means of implementing the first to third measures, we are advocating the active use of M&A.

## 4. Progress of Medium-Term Management Plan – M&A

|  | FY2016.6   | FY2017.6   | FY2018.6  | FY2019.6   |
|--|--|--|---|--|
| ① Stable growth in core (engineer staffing) business |  | <b>TechnoPro Embedded</b><br>(Dec. 2016) Machinery Elec/Electronics Embedded Control | <b>EDELTA</b><br>(Oct. 2017) IT infrastructure<br><br><b>Techno Live</b><br>(Mar. 2018) Machinery Elec/Electronics Embedded Control           |  |
| ② Shift toward higher added value                    | <b>Pc Assist</b><br>(Sep. 2015) Education/ Training<br><br><b>ON THE MARK</b><br>(Mar. 2016) IT infrastructure |  | <b>PROBIZMO</b><br>(Jan. 2018) IT infrastructure  | <b>Misystem</b><br>(Jul. 2018) IT infrastructure<br><br><b>TOQO</b><br>(Jul. 2018) Construction<br><br><b>SOFTWORKS</b><br>(Nov. 2018) Machinery Elec/Electronics Embedded Control |
| ③ Globalization                                      |  |  | <b>Boyd &amp; Moore Executive Search</b><br>(Jul. 2017) Recruitment agency<br><br><b>Helius Technologies</b><br>(Mar. 2018) IT infrastructure | <b>Orion Managed Services</b><br>(Oct. 2018) Machinery Elec/Electronics Embedded Control   |

The most obvious achievement is the progress of M&A. As shown in slide 5, Pc Assist Corporation, which was implemented in September 2015, was the first project, and 12 M&As were executed during the period until December of last year. Since 2018, we have been particularly active in promoting M&As. Five M&As were conducted in fiscal 2018; and up until the first half of this fiscal year, for Toqo Co., Ltd. business has been developed, focusing on seismic diagnostics and design supervision. Toqo Co., Ltd. Misystem is strong in introducing ERP and SAP systems. In the United Kingdom, we are expanding our business with Orion, mainly through dispatching engineers and introducing engineers. In addition, we have conducted four M&As: SOFTWORKS, which specialize in upstream areas of model-based development.

These mergers and acquisitions have contributed to the sales and profits of the four companies that became members of the group this fiscal year, and we are now expecting annual sales of about 4 billion yen and an EBITDA of about 300 million yen. We are also contributing to the growth of the Group in terms of numbers, and I feel that we are seeing an increase in the number of colleagues who can be expected to contribute greatly in terms of increasing the added value to our business and globalization in the future.

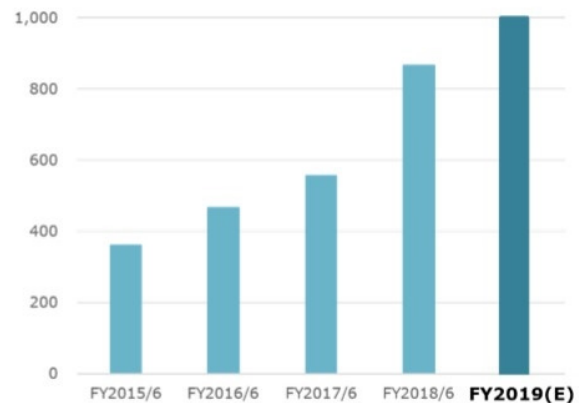
## ① Stable growth in core (engineer staffing) business

- Hired 1,744 engineers (+13.8%YoY) as reported in Q2
- Recruitment has become more cost-efficient as applicants and hires increase
- More than 1,000 new grads are expected to join in Apr. 2019
- Under a favorable recruitment conditions, the M&A strategy is focused on higher added value

No. of annual mid career applicants



No. of hired new grad engineers



The following slide 6 describes the stable growth of engineer staffing, our core business. As in the previous fiscal year, the number of new graduates hired in this fiscal year has continued to be extremely steady, and it is said that the number of new graduates joining the company in April of this year is more than 1,000, as I mentioned earlier. The number of new graduates applying to the Group has been steadily increasing year by year, and the number of mid-career recruits as well as new graduates has been increasing steadily. As a result, each year, the number of engineers working in the Group increases to the extent that medium-sized companies are able to, so, in this fiscal year, we are refraining from executing M&As for expanding our core business.

## ② Shift toward higher added value

### Acquisition of SOFTWARES

- ✓ Engaged in contracting business of embedded automotive system for over 20 years in Tokai area
- ✓ Approx. 40 engineers
- ✓ Advantages in the upstream of embedded automotive system development, with high level of technical expertise and know-hows
- ✓ Merged with TechnoPro (2018/12/31)

### Acquisition of Misystem

- ✓ Headquartered in Osaka and undertakes development and maintenance of SAP ERP /business applications and Web development
- ✓ Approx. 40 engineers
- ✓ Consultants/SEs have expertise to design and implement SAP business
- ✓ To be merged with TechnoPro (2019/5/1)

### Business alliance with i's FACTORY

- ✓ Partnered with i's FACTORY, a data analytics company to provide training and development programs for data scientists
- ✓ Offers data analytics service to the customers of TechnoPro Design and i's FACTORY jointly

### Initiation of RPA lectures

- ✓ Developed and initiated RPA lectures at Win Schools (PC Assist Corporation) with RPA Technologies
- ✓ Educate engineers who are capable of RPA

※RPA (Robotic Process Automation:  
Business automation led by robot)

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Next, see slide 7. Here are some examples of the Group's efforts to increase the value added of its businesses. Of these, I think that I am a bit proud of my remarkable achievement because of the acquisition of SOFTWARES Co., Ltd., which I made last November. This company is developing automotive devices, which are highly needed in the automotive industry. This is a company that specializes in upstream model-based development. Over the past few years, we have worked with German company dSPACE, which has been providing hardware and software for model-based development, to train engineers in the middle and lower stream of model-based development. Upstream, or so-called outline design, detailed design. Now, we call it model construction, but in reality, the engineers who can do this were not well reached.

With the cooperation of SOFTWARES this time, we have established a system for contracting all processes, upstream, midstream, and downstream of the model-based development. In addition, we believe that we have developed a system that enables us to develop engineers who can design upstream processes through on-the-job training at this development center without having to borrow human resources. In this field, we believe that the unit price of contracts is extremely high and that the needs of engineers will not be interrupted under any economic situation, and we expect that our group will be able to demonstrate its competitiveness compared to other companies in the future. This is a typical example of the high-value-added service that we are aiming for.

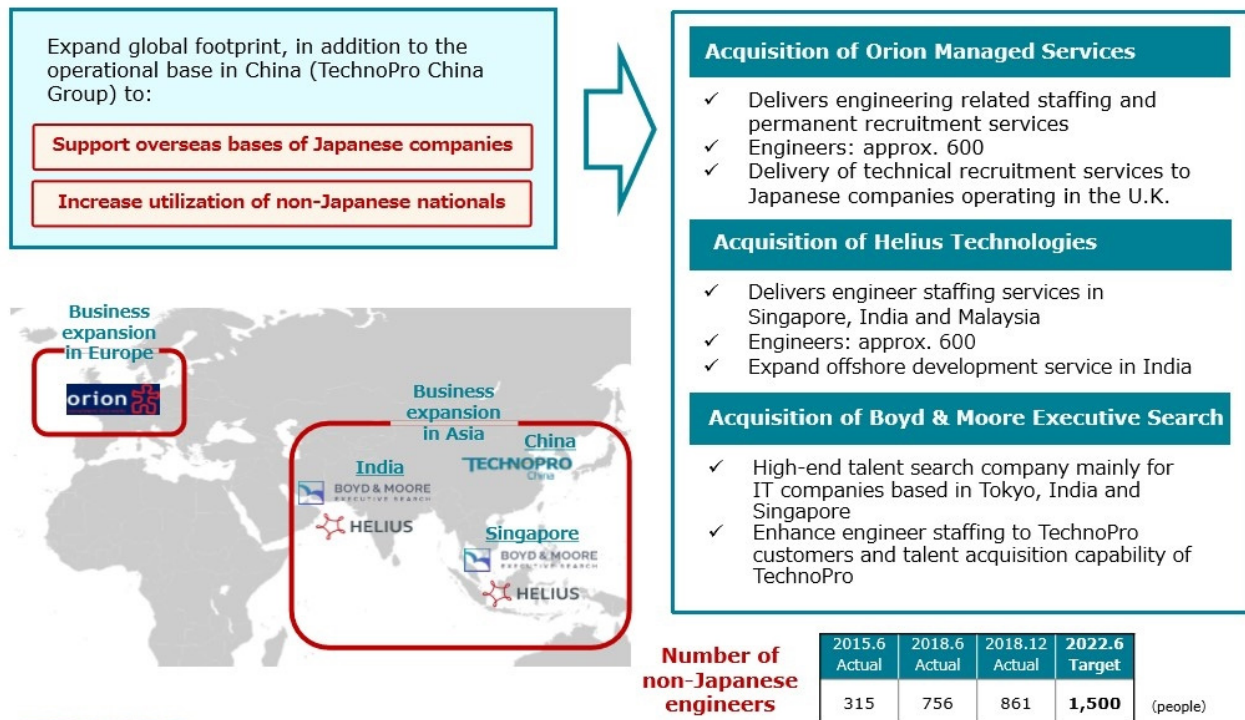
In July, Misystem joined the Group. This is a consultant- and engineer-centered company with extensive experience in introducing the SAP system. There are also engineers working on SAP-related issues, such as the introduction of SAP. In conjunction with these, we have created SAP-related businesses and ERP divisions, and we intend to expand these activities.

In the area of data scientists and data analysts, as you know, we have been working with ALBERT Co., Ltd. for a year or so to train many data scientists. Engineers who have graduated from the training period are in a state of affairs whereby they are in demand from a large number of customers. In any case, this is a field with

lots of demand. In addition to ALBERT, we have also begun training data scientists at i's FACTORY, which specializes in data analysis. In the past year and a half, the number of engineers involved in data analysis has increased from almost zero to 100. By increasing the number of engineers who can play an active role in this field as much as possible, we will continue to respond to the needs of our customers and society.



### ③ Globalization



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See Slide 8 below. Globalization is advancing. In addition to our existing Chinese operations, we are now expanding our bases in Singapore, India, and the United Kingdom. There are two objectives for the overseas expansion of our group. First, since our group is a Japanese company, we believe that we need to support the technological development overseas of our Japanese customers expanding overseas. We acquired Singaporean Helius Technology in March last year and acquired Orion in the United Kingdom in November last year. For both, the local management team has great expectations not only for the local company but also for transactions with our customers in Japan, and those expectations were a major factor in our decision to acquire.

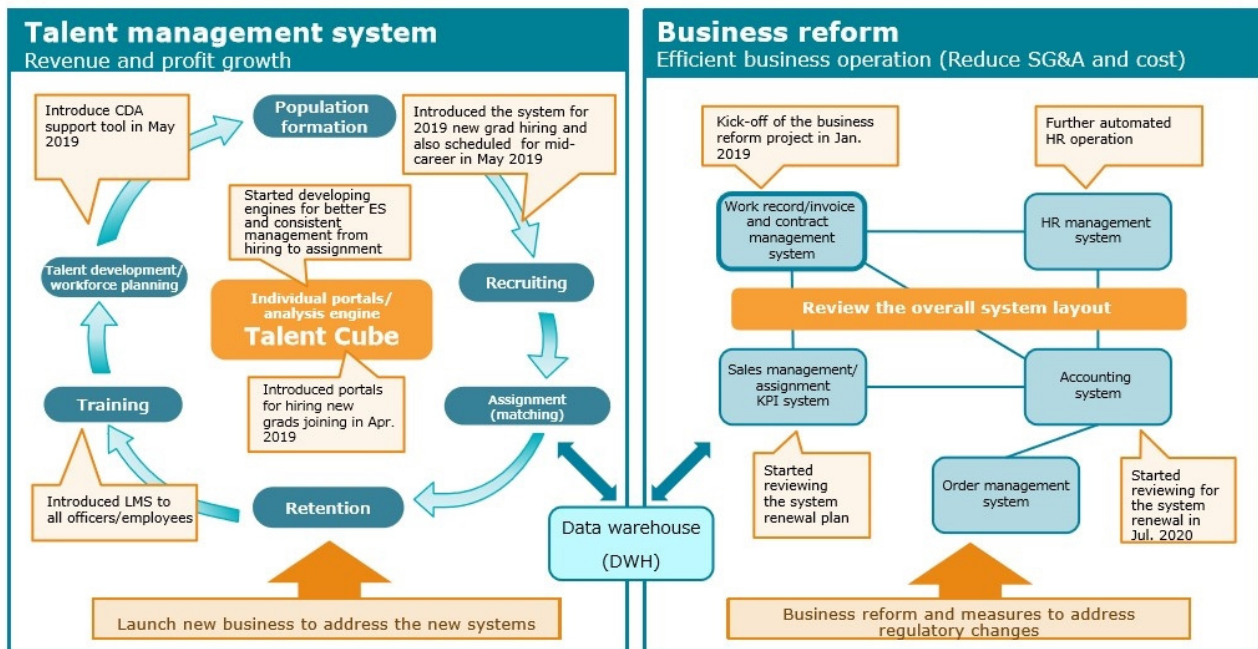
The second objective is to expand the Group's overseas bases from the perspective of utilizing foreign engineers in Japan and our overseas bases. In particular, I believe that India will become a very important market for our group. There are several reasons for this. First of all, as you know, India has a large number of excellent IT engineers, and there are also a great number of mechanical engineers, which are extremely lacking in South-east Asia. This is extremely attractive. Second, all Indian engineers speak English, a fact everyone knows.

Third, Boyd & Moore Executive Search, which was acquired in July 2017, and Helius Technology. These two companies each have recruitment bases in India, Hyderabad, and Pune. Our group has existing recruitment bases and doesn't need to create one from scratch. Fourth, this is a slightly political one, but unlike China, I think that one factor is that India has a very favorable view of Japan. Of course, just because Indian engineers speak English does not mean that major Japanese customers are increasingly hiring them. The Japanese language is still a hurdle. First of all, it's aimed at current IT companies, who also accept English-speaking people. It then provides human resources to companies in the United States and Europe that have a presence in Japan. We also want to introduce Indian engineers to regions where our Group bases are located, such as in Asia and the United Kingdom, and to pave the way for their use. I hope that if we can do this, the competitiveness of our group will increase dramatically.



#### ④ Towards platforms utilizing IT (Proactive IT system)

Arm the core business with IT and promote HR services to meet the needs of companies and engineers



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This is the fourth measure. We are building a business platform using IT technology. As shown in slide 9, we will not provide a detailed explanation today. However, we are currently working hard to build a system to realize digitization of our business activities using AI, which we have been advancing in the past. The talent management system, which we call TalentCube, has already begun operating an E-Learning system in conjunction with the introduction of the LMS. In addition, the company is progressing with the upgrading of its recruitment system and the construction of a portal site for job seekers. In the future, we plan to build a system that can consistently manage skills management from recruitment to assignment, order management to matching, and to introduce support tools for technical managers.

In addition, as shown on the right side of this slide, we have just begun a fundamental review of the Group's business key systems this year. Ultimately, by linking the various KPI information obtained from this backbone business system with the talent management system, we are considering making it possible to operate our business using the latest digital technology.

As I explained above, various measures in terms of business strategy are proceeding as planned, and the numerical targets planned in the medium-term management plan, which I explained a moment ago, are also more than one year ahead of schedule. The timing is still undetermined, but we believe that we need to discuss revisions to the plan in the future while keeping an eye on economic trends.

## Our responses to investors inquiries

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**1**

Impact of the current economy

**2**

Resilience to economic cyclicalities

**3**

Competitive dynamics in employment market

**4**

Impact of work style reform

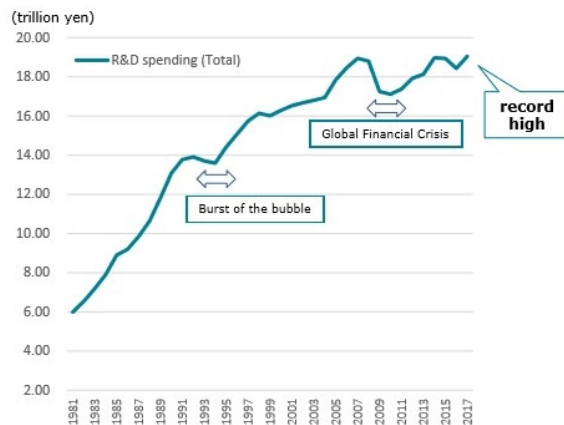
That concludes my explanation of the progress of our medium-term management plan. The four topics on slide 12 are the topics about which we have received the most questions from investors. I would like to introduce some of our thoughts on this.

# 1. Impact of the current economy

- R&D is not directly affected by economic trends
- Although the demand varies with each customer, our overall business remains strong

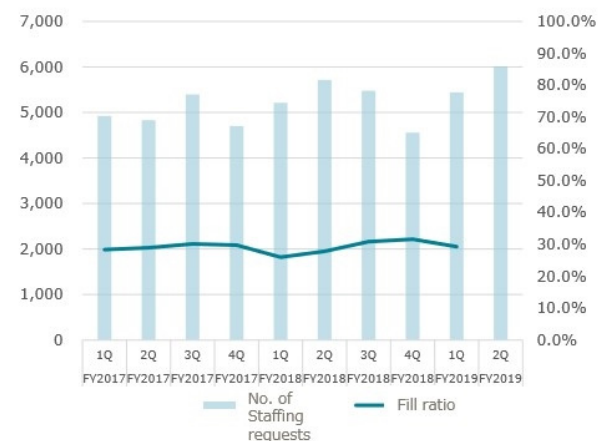
## Transition of R&D spending in Japan

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



## Historical staffing request

※No. of staffing requests is based on the inquiries which satisfy our criteria such as talents very likely to be assigned within a certain period



First, you can see slide 13 below. First, as a result of trade friction between the United States and China, the economic slowdown in China has become evident, and the impact on our business is based on these current economic trends. This slide 13 shows the trends in R&D investment in Japan on the left and the trends in our orders on the right. To add one point about the graph on the right, we have actually received more orders in terms of the number of orders. However, we have counted the number of valid orders, excluding orders in fields where there are no engineers at all and orders for which matching of engineers is extremely difficult from the viewpoint of contractual terms and conditions. As you can see from the second quarter for this year, we still received a very large number of orders. We are still unable to keep up with demand, including in the current third quarter.

I think there are several factors behind this. First, from the second quarter, there are certainly some mechanical-related companies, specifically, there are companies from which orders have decreased in areas such as machine tools and semiconductors. Since the beginning of the current fiscal year, I feel that the scope of these measures has expanded. However, the overall order volume remains unchanged. I feel that things change a little depending on the economic viewpoint and foreign exchange viewpoint of individual companies. As I mentioned earlier in slide 10 about financial statements, one of the characteristics of our group is the high proportion of IT engineers in the industry, and for the IT field, demand is extremely domestic orientated.

## 2. Resilience to economic cyclicality

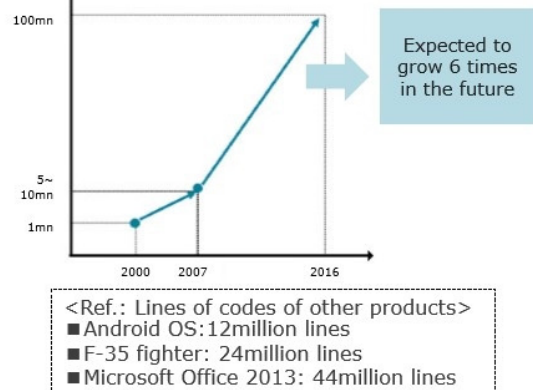
- Limited exposure to the production sites which are more likely to be exposed to economic slowdown
- Resilient strong financial base for a temporary decline in utilization ratio

### Strategic optimization

|                        |  |
|------------------------|--|
| IT                     | Structural demand growth expected as the economy becomes more software-defined   |
| Machinery/<br>Electric | Demand based on mid-to-long term strategies such as autonomous driving   |
| Construction           | Various projects related with the Tokyo 2020 Olympics, World Expo 2025 in Osaka and revision of the Building Standards Law |

### Software complexity

Automobile software used to have 1 million lines of codes back in 2000, now have more than 100 million lines



Source: Ministry of Economy, Trade and Industry  
"Measures for accelerating productivity improvement by use of IT", NXP

As shown in the next slide, slide 14, and the slide on the right side, we believe that this is an area in which the shortage of human resources is increasing amid the increasing complexity of software and further progress in digitalization. Therefore, we believe that orders will continue to be received and that orders will continue to be extremely strong in the future. In addition, the construction sector is also active, and even a slight drop in orders from individual mechanical-related companies can be sufficiently covered.

Second, our business is closely linked to technology development and R&D investment. As I mentioned in a press conference by Nidec President Nagamori, capital investment and R&D investment will continue even if sales deteriorate. Even if there is a slight economic recession, we believe that technology development and R&D investment will not decline significantly. As shown in the graph on the left of slide 13, there is no doubt that R&D investment has declined after the collapse of the bubble economy and after the Lehman crisis. This is a recession triggered by a sudden financial contraction, and even if the world economy, especially the Japanese economy, deteriorates, it is a part of the normal business cycle. If this is the case, we believe that the impact on our business is not so great. Therefore, I have no concerns about demand. We believe that the key to business growth is our ability to hire.

## 2. Resilience to economic cyclicity

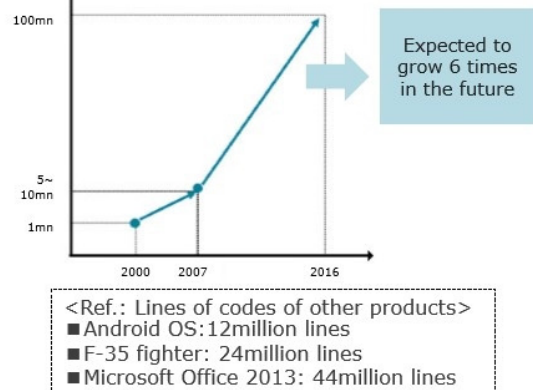
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### Strategic optimization

|                        |  |
|------------------------|--|
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### Software complexity

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Source: Ministry of Economy, Trade and Industry  
"Measures for accelerating productivity improvement by use of IT", NXP

Next is slide 14. In connection with the first question, there will be many opportunities to respond to the economy even if it becomes worse than expected. Some comments I just made are collated in Slide 14, so I would like to add some comments. First, the dispatch business is, as a matter of course, a valve in the customer's eyes for when an emergency happens. As it functions as a buffer, if the economy becomes worse than expected, it will inevitably be temporarily reduced. This cannot be denied. On the provider side of this buffer function, our business, which employs and dispatches engineers as permanent employees, is more profitable than other human resource-related businesses. We are always aware of this and are building a financial structure that can fully respond to a decline in the utilization rate. I would like to ask you to think that the capital increase that was implemented last year is coherent in that sense.

Second, this is the most recent structural reform of all engineers' technical skills, which I think is the most reliable thing recently. Engineers possess technical skills that are strongly demanded by customers in a form that anticipates the technological domains that customers will need today and in the future. Efforts are made to create as much of this as possible. We have been doing this for many years. I spoke a little earlier about measures to increase added value, such as the large-scale training of data scientists and the training of engineers who can engage in model-based development. Also, strong engineers that can introduce and maintain ERP packages. Personnel capable of responding to AI and IoT.

In the field of mechanical design, as I have said before, we have, for a long period of time, made efforts to quickly train engineers in three-dimensional design, CAE, built-in software, inverters, high-frequency circuits, and other technologies. Therefore, we are creating a system in which engineers do not return to the company, even in a recession. If we have an engineer who has returned to the company, the engineer can quickly be reassigned to another field by providing additional training, including PC Assist. I feel that such a system has been established.

As I said earlier, some companies are in a bad condition. They'll be back. In the past, it was hard when 20 or 30 people came back, and, recently, there has been no on-site problems. Something that we are conversely grateful for is that we roughly know recently which companies will not do well, so we can decide what to do before someone returns. I believe that this is a very dependable image for me because we are now in such a state of affairs.

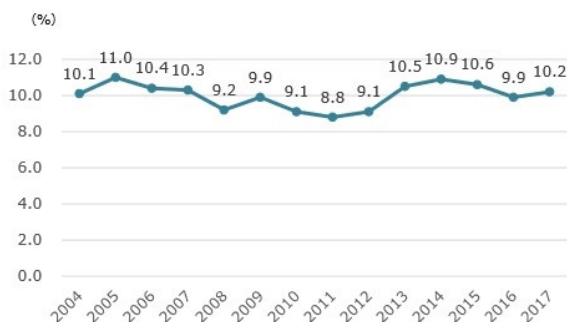


### 3. Competitive dynamics in employment market

- Actively hiring talents as reported in the quarterly financial results
- Turnover ratio remains almost flat and we can continue securing potential talents
- We see a positive momentum in new grads market which is even more focused on blue-chip companies

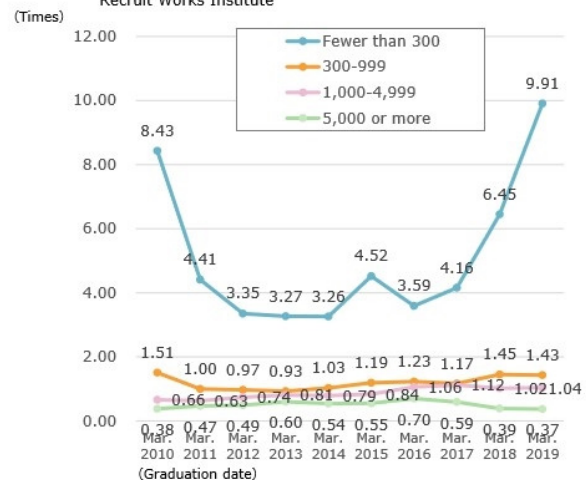
Turnover ratio in Japan

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



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

Source: "34th College Graduates Job Opening Survey",  
Recruit Works Institute



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Next is slide 15. This will answer the question about whether the favorable trend in the hiring market will continue. The employment of IT engineers in the current fiscal year is also very favorable. The first reason for this is that the recruitment of IT engineers is very favorable. According to the census and other results, there are approximately 2.5 million engineers in Japan, of which 40% are IT engineers and approximately 1 million are employed. The job change rate is more than 10% of the Japanese average. Assuming a 10% ratio, 100,000 IT engineers per year will be on the job market. We are strong in the IT field, where the number of applicants is the highest, and that is one of the reasons for the favorable hiring conditions. Other companies in the same industry have recently seen an increase in IT engineers, but the scale is still small, and I do not believe that this is a threat to us.

Second, this is largely due to the structural factors of the employment market in Japan: mid-career job changes. There remains a narrow gate to large enterprises for those wishing to change jobs. If it becomes difficult for a company to change jobs to a large company, an option is us-- a technologically oriented human resources service company. Or local small and medium-sized business companies. And changing jobs to a local IT company. It is generally assumed that SI is one of the major companies, but, Japanese people still strongly wish to work at major corporations. As a result, our group, which is one of the largest in the industry, maintains its superiority in the recruitment market by proposing to applicants diverse technological development and R&D work of our customers, large companies. Based on our past experience with M&As we have executed, local small and medium-sized IT companies and other organizations are highly skilled, but they are unable to hire human resources for many years. After all, there were several owners who decided to join our group in the face of hitting a growth limit. I really feel that.

Third, to new graduates, which is akin to the case for mid-career engineers, the graph on the right of slide 15, the green line at the very bottom, shows the job-offer ratio for new graduates of companies with more than 5,000 employees. The latest figure is 0.37 times that of the previous year, and as a result, students who are

unable to find employment at the desired company are considering a human resources service company like ours as an engineer. As a result, the hiring of new graduates has been extremely favorable.

Needless to say, the threat is that large-scale hiring is resumed by large-scale companies, as in the bubble era. However, there is still a Japanese-style employment practice, such as seniority-based hiring or lifetime employment, which has very uncertain outlook. Under these circumstances, there is a stronger tendency to avoid increases in fixed costs as much as possible. Instead of hiring many people in-house, it is becoming more common to use technologically oriented human resources services companies, and the hiring of new graduates continues to be favorable. Orders for new graduates are increasing year by year.

In addition to the reasons I have just mentioned, we have dealings with more than 2,000 companies as the largest in the industry. Against the backdrop of many orders, the company is able to offer attractive jobs to applicants. There are more than 100 recruiters, who effectively use the most effective recruitment channels at that time efficiently, based on sophisticated KPI management. What's more important recently is the quick response to the applicant. If the hiring market gets tougher, if you wait, they go elsewhere. In that sense, we believe the recruiter organization being strong is one reason we are making good progress in hiring.

## 4. Impact of work style reform

- Given our favorable work environment, the impact of changes to paid leave and overtime regulation would be minimal
- Although there are views in which the conversion to permanent in-house employment might proceed, in terms of engineers the outsourcing ratio is relatively high in Japan. The needs for external resources will not decline in highly professional areas.

Utilization rate of our paid leave (%)

| 2015 | 2016 | 2017 | 2018        |
|------|------|------|-------------|
| 65.0 | 68.8 | 71.3 | <b>75.0</b> |

Our average overtime (hour/month)

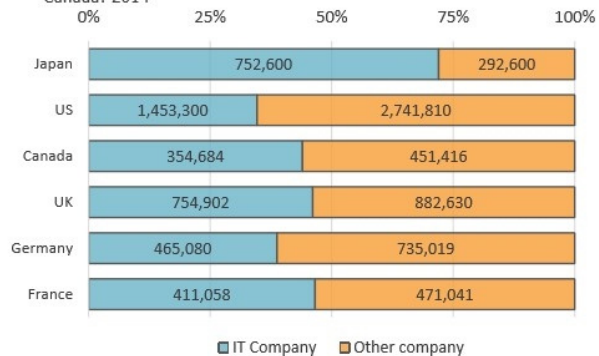
| 2015 | 2016 | 2017 | 2018        |
|------|------|------|-------------|
| 23.3 | 20.6 | 19.2 | <b>17.6</b> |

Ratio of IT talents at IT and non-IT companies

※IT companies mean IT vendors and non-IT companies mean IT user companies

Japan, US, UK, Germany, France: 2015

Canada: 2014



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

Next, please look at slide 16. The Bill for the Reform of Working Practices will finally come into effect in April. With regard to the impact of the reform of working styles, from April of this year, the introduction of extremely complicated regulations on long working hours and the mandatory requirement for employees to take at least five days of paid leave per year will begin. As shown on the left side of this slide, the average monthly overtime for all engineers in our group is 17.6 hours. The percentage of employees taking paid vacations is 75%, so the regulations are all complied with. However, each employee needs to take appropriate measures to deal with the problem. Therefore, we have already established a system for generating alarms from the system for long overtime work in accordance with laws and regulations. In addition, we have introduced a system in which employees who may exceed the working time limit are individually monitored by a dedicated department at headquarters.

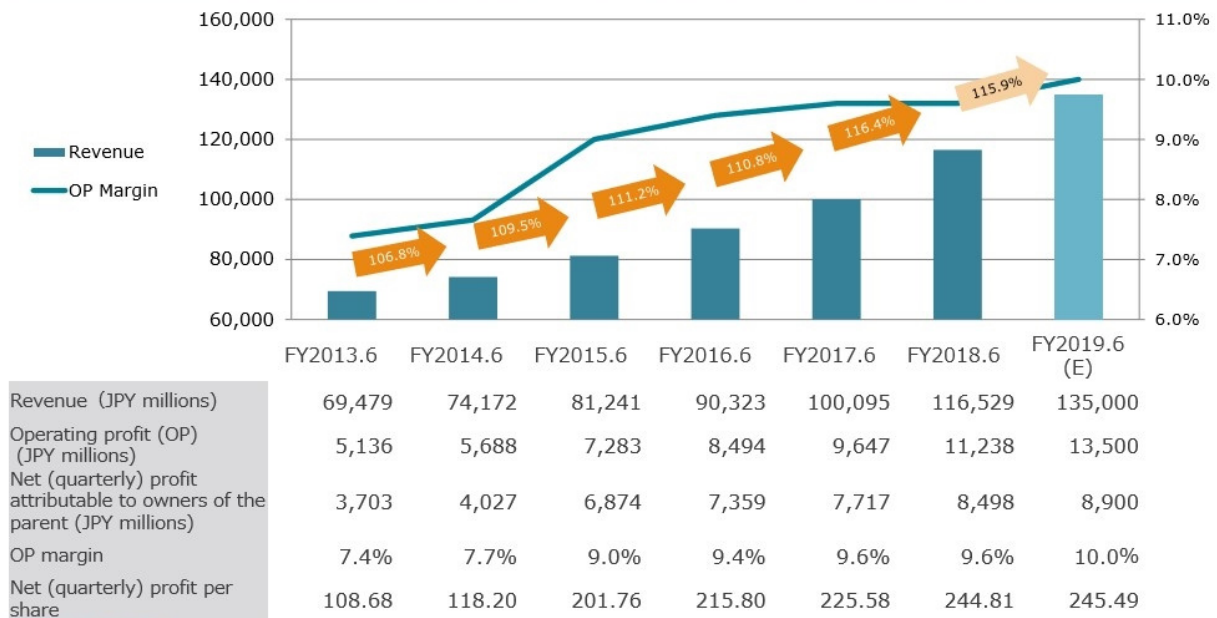
As for the use of paid leave, the risk is higher for managerial employees than for engineers. However, I would like you to understand that the company-wide system for taking planned paid holidays has been introduced this year, and that we are ready to comply with the law. The impact on business is expected to be a reduction in overtime and a decrease in sales and profits due to an increase in paid holidays. However, as I explained earlier, looking at average overtime and the rate of taking paid holidays, excluding the field of dispatching construction supervising engineers, I think the impact will be small.

The construction sector normally engages in long working hours, but it will be extremely busy and difficult to hire people before the Olympics in Tokyo. However, because of this situation, the enforcement of the law was suspended for five years. I was really worried about what the engineers of our temporary staffing business should do. However, this is clearly included in the scope of the grace period, so I am now relieved to see that the situation is clear in terms of legal regulations. However, since the division has a large number of older engineers, from the viewpoint of ensuring the safety and security of employees, we intend to manage our internal guidelines in the same manner as those of engineers in other occupations in accordance with the purpose of the reform of working styles.

However, as this reform progresses, coupled with the shortage of human resources around the world, there will be a change to making more people permanent employees at customers. I spoke about new graduates a moment ago, and as I mentioned earlier, there are concerns that there will perhaps be movement to make more people permanent employees, including mid-career hires. However, in the field of technical human resources services, there is no trend towards accelerating or increasing the pace of such moves compared to the past. As I mentioned earlier, there is a difference depending on when work is slack or busy, in the midst of this time at which there is uncertainty about the future. When a project is over, the person has nothing to do, so, in the technology development department, it is difficult to consider the option of increasing the number of permanent engineers, who will increase fixed costs. As shown on the right-hand side of this slide, we believe that 70% of the IT sector is outsourced today in Japan, and that we outsourcers will continue to develop technology while splitting up the roles.

## Historical performance and market evaluation

We have no control on the market's evaluation,  
but we closely monitor it from a management perspective



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This is the last slide, slide 18. This slide shows our consolidated results and the progress of EPS since 2013. Sato also mentioned this earlier, but since early autumn of last year, the stock market as a whole has deteriorated, and our stock prices have fallen significantly. Of course, our basic policy is about sales, profits, operating margins, and EPS, although we do, of course, take stock prices and market valuations seriously. We will continue to strive to become a company that is even more trusted by the market by steadily managing our business in accordance with this policy. Thank you very much for your understanding, and I would like to conclude my explanation. Thank you very much for your participation in today's briefing.

## Question & Answer

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**Questioner:** Thank you for your explanation. I would like to ask only one question. In the medium-term management plan, you were able to raise sales to 10% and operating income to 12%. At the same time, as you explained at the end of the plan, we understand that we are currently achieving higher growth rates. If that is the case, what do you think is your company's goal in the future, and in particular, how should you grow profit? For example, for you, the hiring environment is very good, so would you like to see sales grow by, for example, about 15% and profits grow accordingly? As shown in this overview, in the future, you will continue to engage in high-value-added M&As, so we believe that you are placing more emphasis on profitability. What are your views on future earnings? Do you think that the level of profit margins will rise in the future? That is all.

**Nishio:** We are now very successful in hiring. It is growing very fast. But it doesn't seem to mean that this will continue to work forever and that the number of registered engineers will grow. Around 30,000 Adeco engineers have group engineers around the world. Today, we have a total of around 20,000 people in Japan and overseas, and there perhaps is a limit to this number in terms of overall management and market size. However, I still do not feel a limit. The reason is that our original technical temporary staffing business conducted larger operations in the past. Since Japan alone conducted larger operations, in that sense, there is a possibility that this will continue to grow, but somewhere there will be a limit.

To prepare for such a situation, we will make a high-value-added business and more and more high-value-added service solutions and give them a high unit price. Today, both sales and profits are growing because of utilization. In the future, utilization will somewhat grow, and profits will grow a lot. For example, we intend to train 100 data scientists each year, and if we continue to do this for 10 years, we will become a huge group of 1,000 people. Some of these are typical examples of model-based development, and I would like to invest a little while I still have strength, so I would like to manage the business in a way that is more conducive to the growth of the group than the immediate profit. I think that utilization will still grow in the near future, and my goal is, in the future, to completely transform our corporate structure into a profit-oriented company. In a sense, in the current medium-term management plan, the increase in net sales from approximately 10% to 15% is considered to be a positive M&A effect. And, in the future as well, the growth rate will be determined according to the market conditions between 10 and 15. I am thinking this way.

**Questioner:** I have an additional question. If you were to add more value in the future, I think the current operating profit margin is around 10%, but what do you think is an achievable operating profit margin level as president? For example, would you like to have it at about 15 percent?

**Nishio:** Since the entire staffing business is not high-value-added, I think that the regular staffing business still has good volume, so I don't think that's what we can go that far. My goal is to, first of all, firmly raise the operating income margin to 10%, which is also a goal of this medium-term plan. Unfortunately, last year, I thought that we would go that far at the end, but this year, I would like to make sure we go that far. I hate losing so my next goal, for the time being, is to reach the 12% of Meitec.

**Questioner:** Thank you.

[END]