



TechnoPro Group Financial Results for the 2nd Quarter of FYE June 2019

TechnoPro Holdings, Inc.

February 1, 2019



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* KPI excludes 'Other' business.

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 SOFTWARES 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 (Actual)	FY2019 (Actual)	YOY	FY2018 (Actual)	FY2019 (Actual)	YOY	FY2018 (Actual)	FY2019 (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%

* Amounts are rounded down to the nearest unit.

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

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)

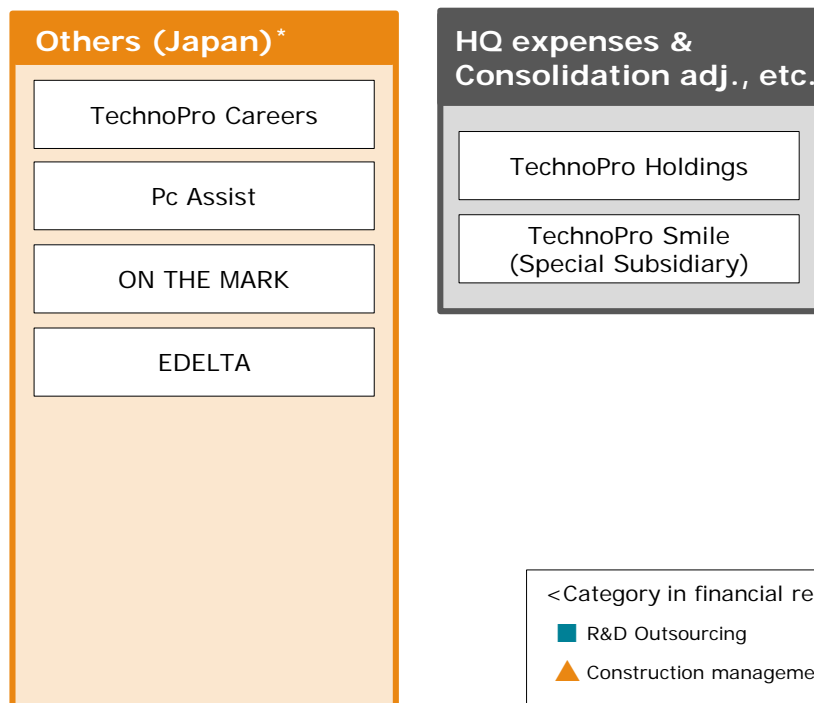
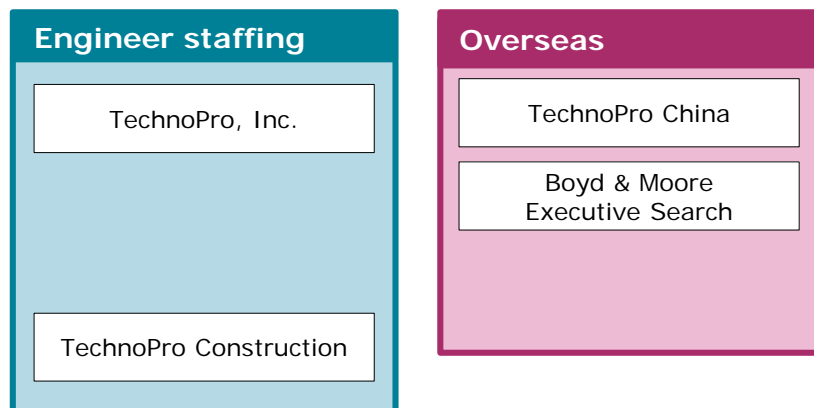
	Engineer staffing (Japan, two subsidiaries)			Others (Japan)			Overseas			HQ expenses & Consolidation adj., etc.			Consolidated		
	1st Half FY2018 (Actual)	1st Half FY2019 (Actual)	YOY	1st Half FY2018 (Actual)	1st Half FY2019 (Actual)	YOY	1st Half FY2018 (Actual)	1st Half FY2019 (Actual)	YOY	1st Half FY2018 (Actual)	1st Half FY2019 (Actual)	YOY	1st Half FY2018 (Actual)	1st Half FY2019 (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%	-	-	-	-	-	-	-	-	-	-	-	-	-

													Consolidated (excl. overseas)		
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 (overseas)	-	-	-	-	-	-	275	1,623	+490.2%	-	-	-	-	-	-
Utilization rate	96.3%	96.4%	-	98.6%	95.5%	-	-	-	-	-	-	-	96.3%	96.4%	-
Sales per head (JPY in thousands)	629	633	-	-	-	-	-	-	-	-	-	-	-	-	-

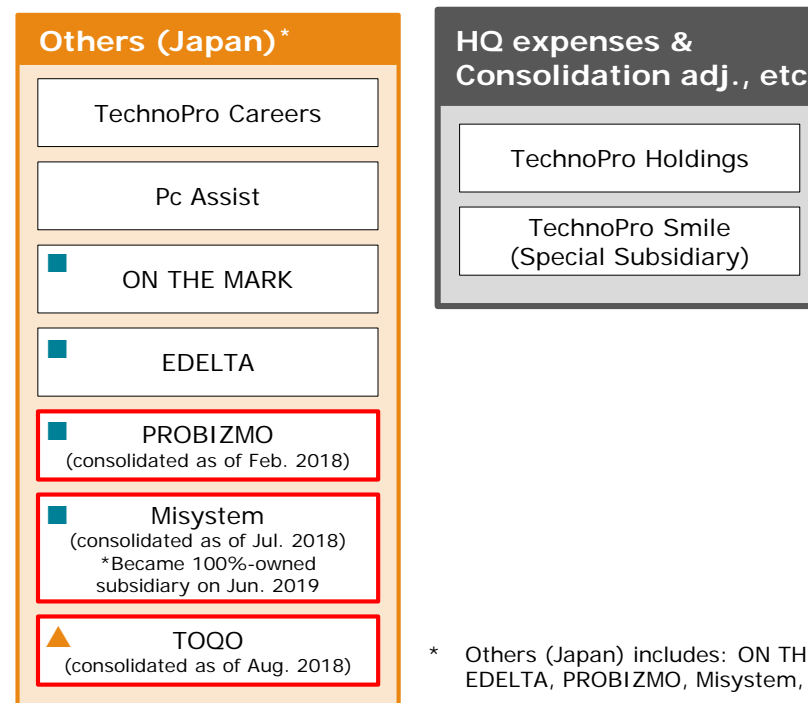
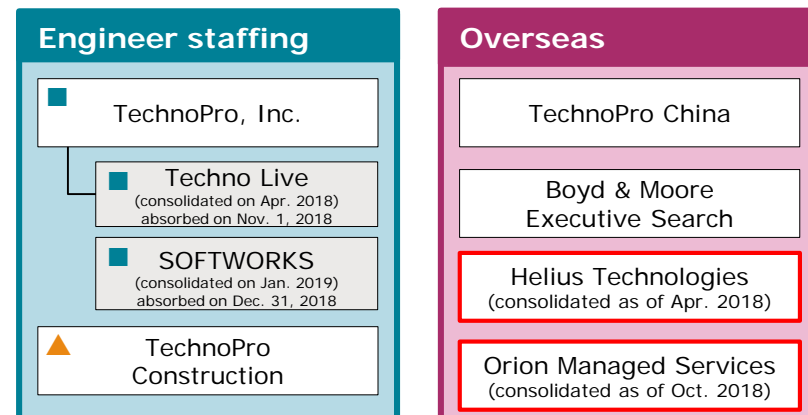
* Amounts are rounded down to the nearest unit.

Companies in Each Business Line [managerial]

As of December 31, 2017



As of December 31, 2018

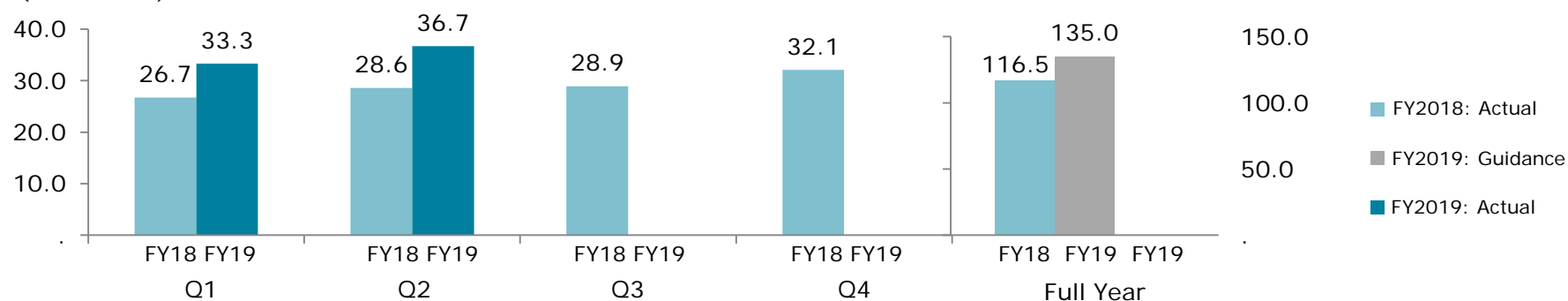


* Others (Japan) includes: ON THE MARK, EDELTA, PROBIZMO, Misystem, TOOO

Quarterly Performance

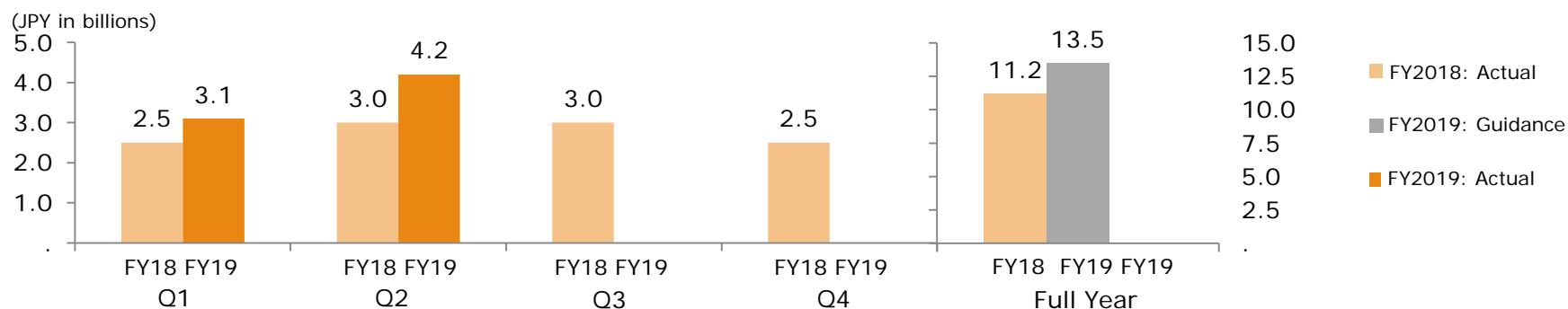
- Progress vs. full year guidance: 52% for revenue, 55% for operating profit, maintaining solid growth momentum as the same period in prior year
- Potential impact from 10-day Golden Week holiday to Q4 working days is still uncertain; also expects seasonal cost increase in Q4 such as training and idle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

Revenue (JPY in billions)



Composition %	23%	25%	25%	-	28%	-
YOY	24.7%	28.3%	-	-	-	-

Operating Profit (JPY in billions)

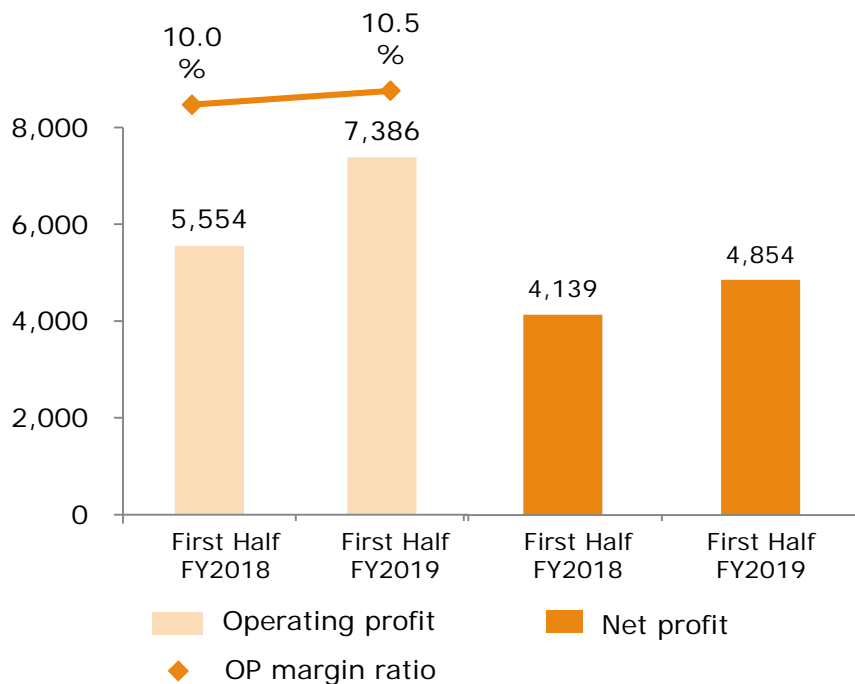


Composition %	22%	24%	27%	31%	28%	-
OP ratio	9.4%	9.5%	10.6%	11.4%	10.7%	-
YOY	26.7%	38.1%	-	-	-	-

* Amounts are rounded down to the nearest unit.

P&L Summary

(JPY in millions)



(JPY in millions)	1st Half FY2018	1st Half FY2019	Diff. YOY	YOY (%)
Revenue	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	
CoGs	41,637	52,636	+10,998	+26.4%
Ratio to revenue	<u>75.2%</u>	<u>75.1%</u>	<u>(0.1pt)</u>	
Gross profit	13,763	17,478	+3,714	+27.0%
Ratio to revenue	<u>24.8%</u>	<u>24.9%</u>	<u>+0.1pt</u>	
Impact of utilization rate rise			+0.1pt	
SG&A	8,062	10,258	+2,196	+27.2%
Ratio to revenue	<u>14.6%</u>	<u>14.6%</u>	<u>+0.0pt</u>	
Other income – Other expenses	(146)	167	+313	
Operating profit	5,554	7,386	+1,832	+33.0%
Financial income	2	2	+0	
Financial expenses	52	57	+5	
Net profit before income taxes	5,504	7,327	+1,823	+33.1%
Corporate / income taxes	1,365	2,374	+1,009	
Net Profit	4,139	4,854	+715	+17.3%

* Amounts are rounded down to the nearest unit.

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

Balance Sheet & Cash Flow

- Cash and cash equivalents decreased JPY 2.8 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 SOFTWORKS (acquisition announced on November 26, 2018) as of the end of December

(JPY in billions)

June 2018

Cash & cash equivalents 21.6	Debt 11.6
Goodwill 34.4	Other liabilities 33.7
Deferred tax assets 3.9	
Intangible assets (PPA ^{†1}) 2.9	Total equity 42.9
Other assets 25.4	

Total assets
88.2

Total liabilities & equity
88.2

D/E Ratio^{†2}: 0.3 x

Net D/E Ratio^{†3}: (0.2) x

Net worth ratio: 48.7%

December 2018

Cash & cash equivalents 18.7	Debt 10.0
Goodwill 37.3	Other liabilities 36.2
Deferred tax assets 3.8	
Intangible assets (PPA ^{†1}) 2.8	Total equity 43.5
Other assets 27.1	

Total assets
89.7

Total liabilities & equity
89.7

D/E Ratio^{†2}: 0.2 x

Net D/E Ratio^{†3}: (0.2) x

Net worth ratio: 48.6%

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

†2,3 Including non-controlling interests

Q2 FY2019 Cash Flow

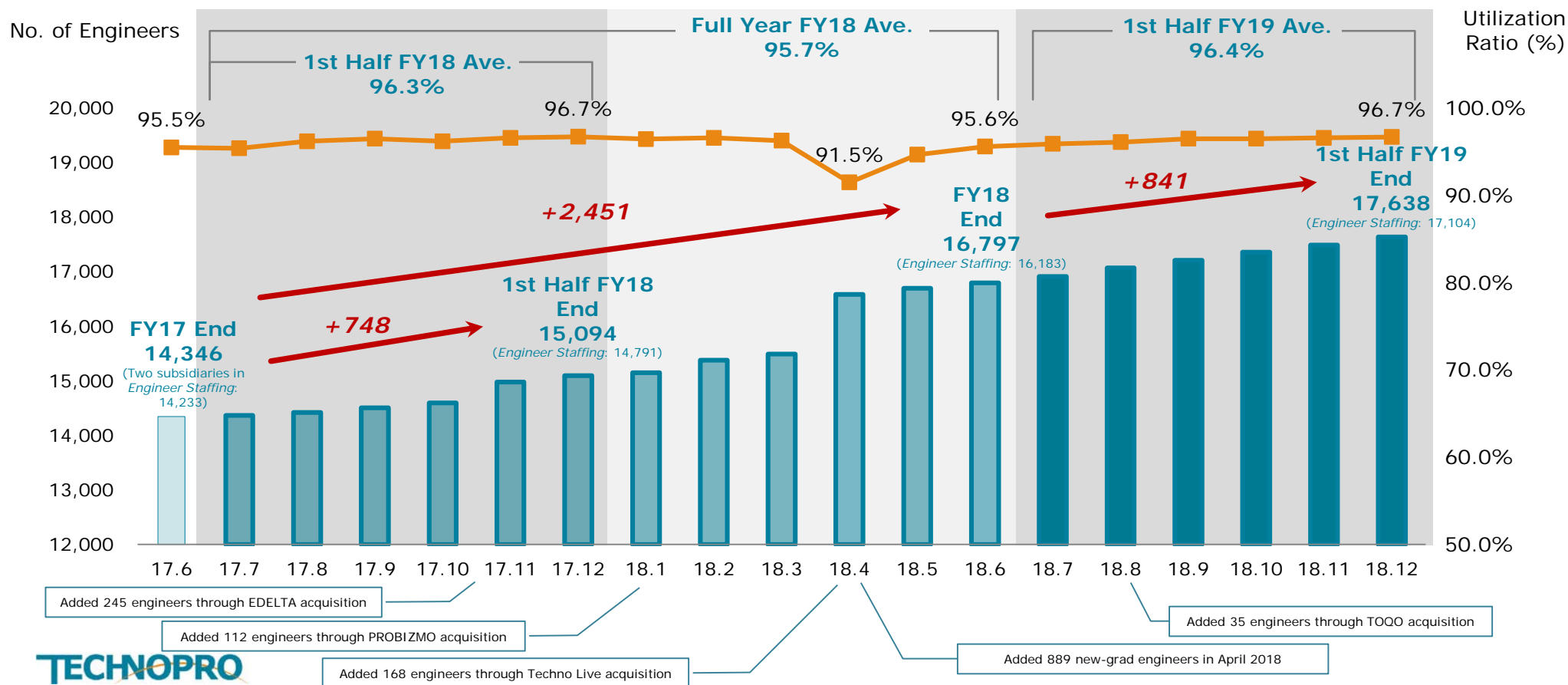
• Operating CF	5.1
• Investing CF	(3.6)
• Financing CF	(4.3)
Net CF	(2.8)

FCF 1.4

* Amounts are rounded down to the nearest unit.

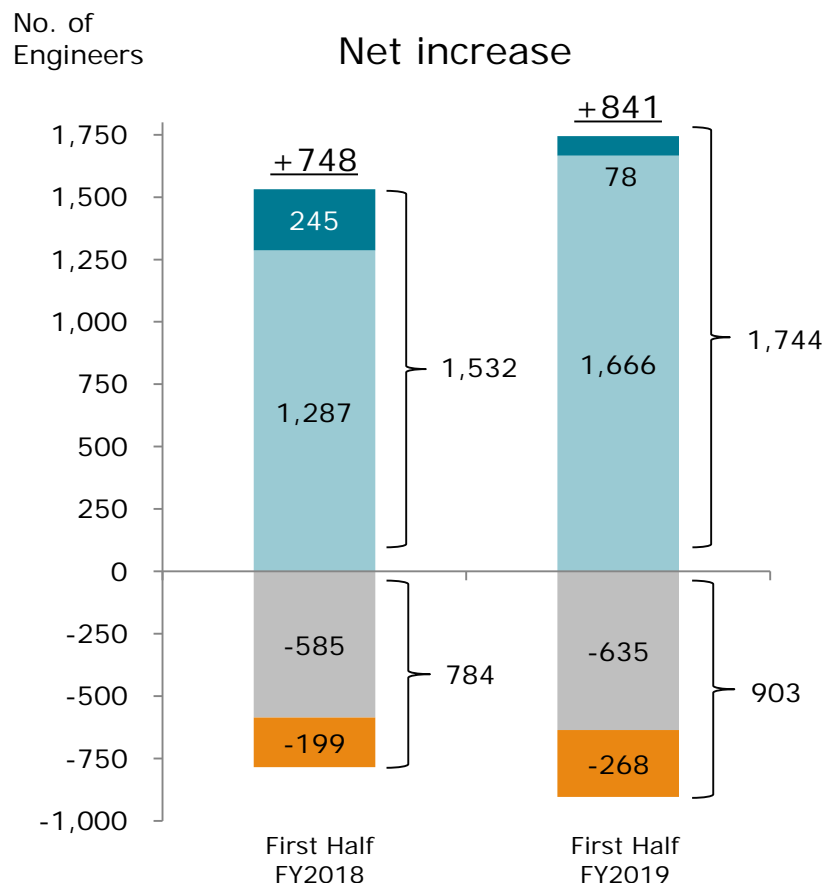
Number of Engineers & Utilization Rate (Japan)

- 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)



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%)



(Difference / % YOY)

■ Hired 1,744 (+212 / +13.8%)

Added through M&A	78 (-167 / -68.2%)
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- Misystem Co., Ltd.: 43 engineers
- TOQO.Co.Ltd: 35 engineers

■ Turnover (full-timers) 635 (+50 / +8.5%)

Contract terms matured, others 268 (+69 / +34.7%)

<Turnover>

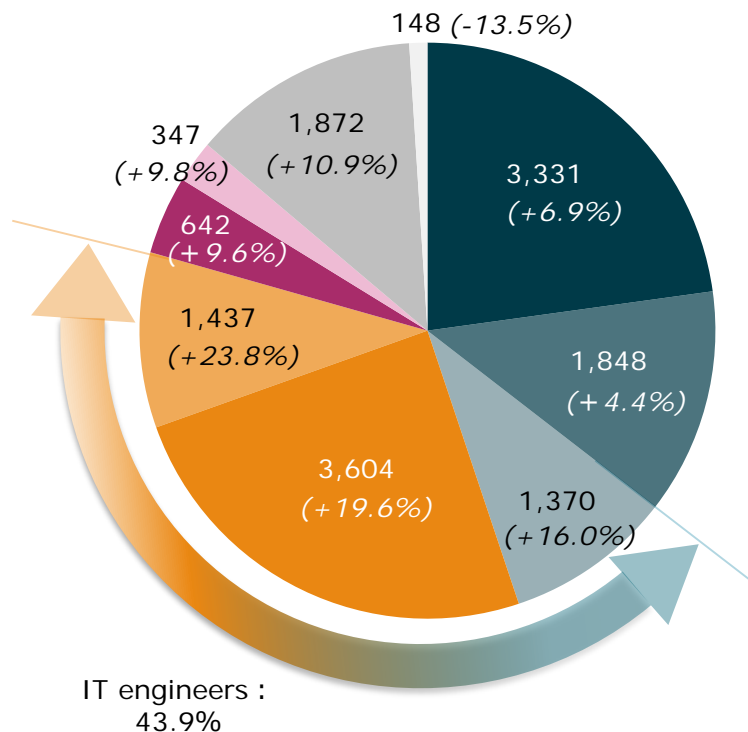
	FY2018				FY2019	
	Q1	Q2	Q3	Q4	Q1	Q2
Quarter	9.0%	7.0%	9.4%	7.6%	8.0%	6.7%
Year-to-date	—	7.9%	8.5%	8.1%	—	7.3%

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

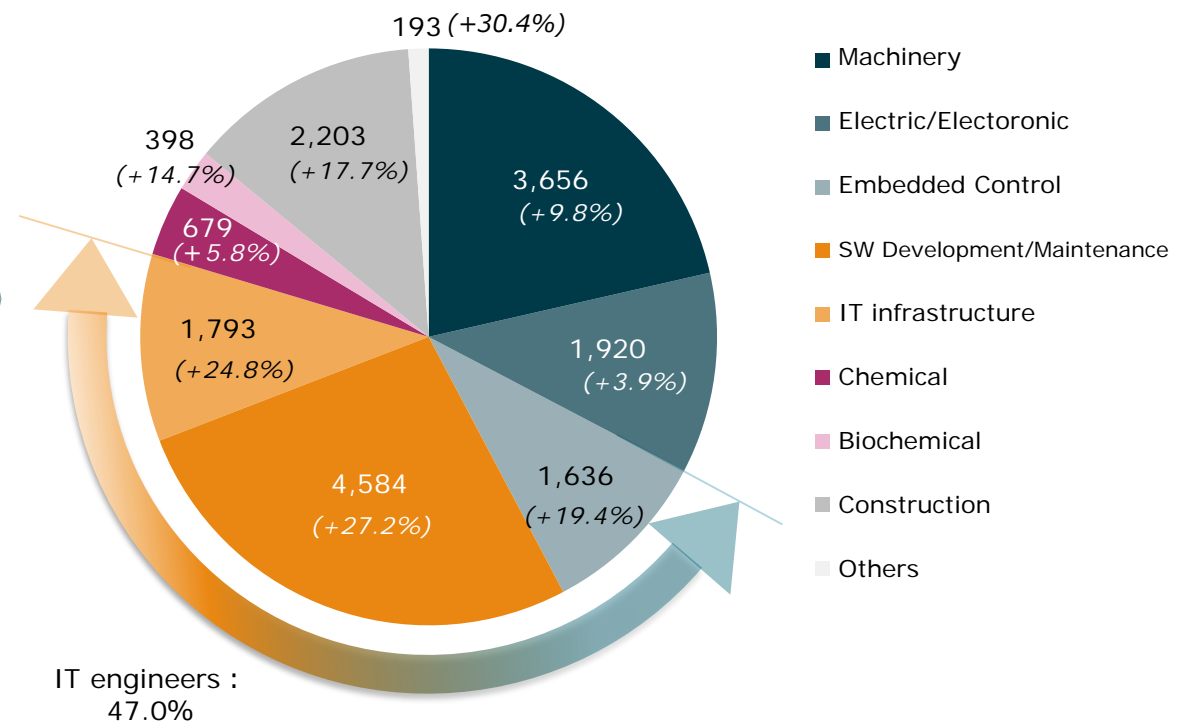
As of December 31, 2017

Assigned engineers: 14,599



As of December 31, 2018

Assigned engineers: 17,062



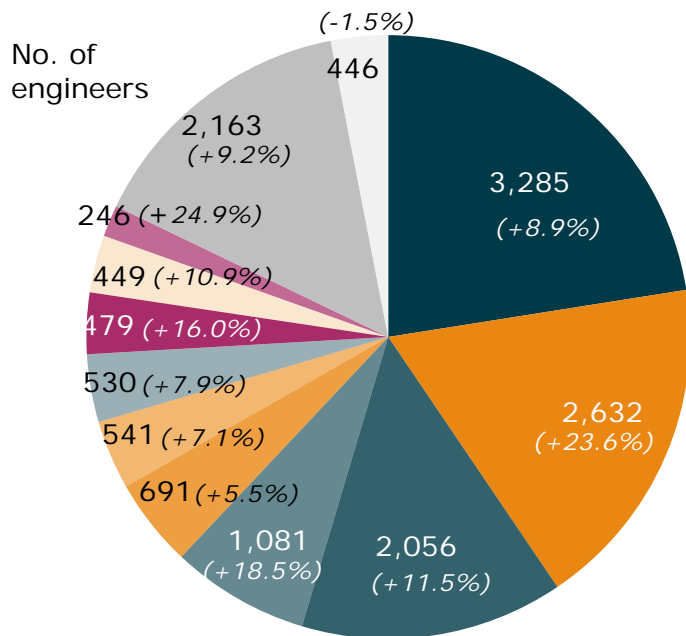
* Figures indicate assigned engineers at the end of month.
 ** Figure in parenthesis indicates % change.

Assigned Engineers by Industrial Sectors

- Number of assigned engineers* increased in all industrial sectors

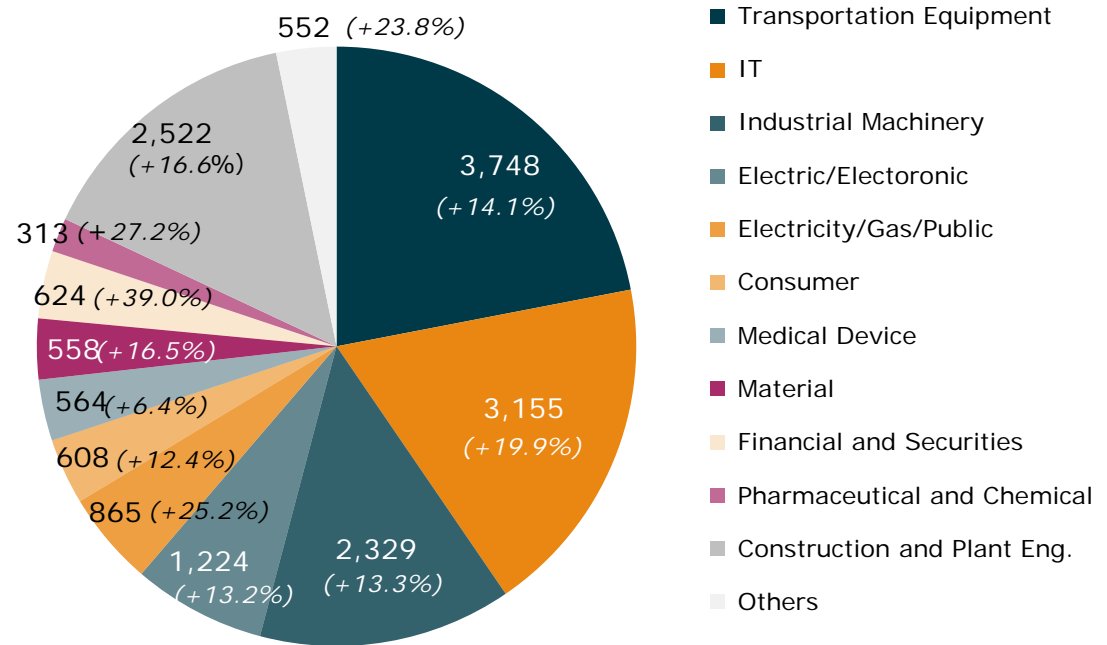
As of December 31, 2017

Assigned engineers: 14,599



As of December 31, 2018

Assigned engineers: 17,062



* Figures indicate assigned engineers at the end of month.

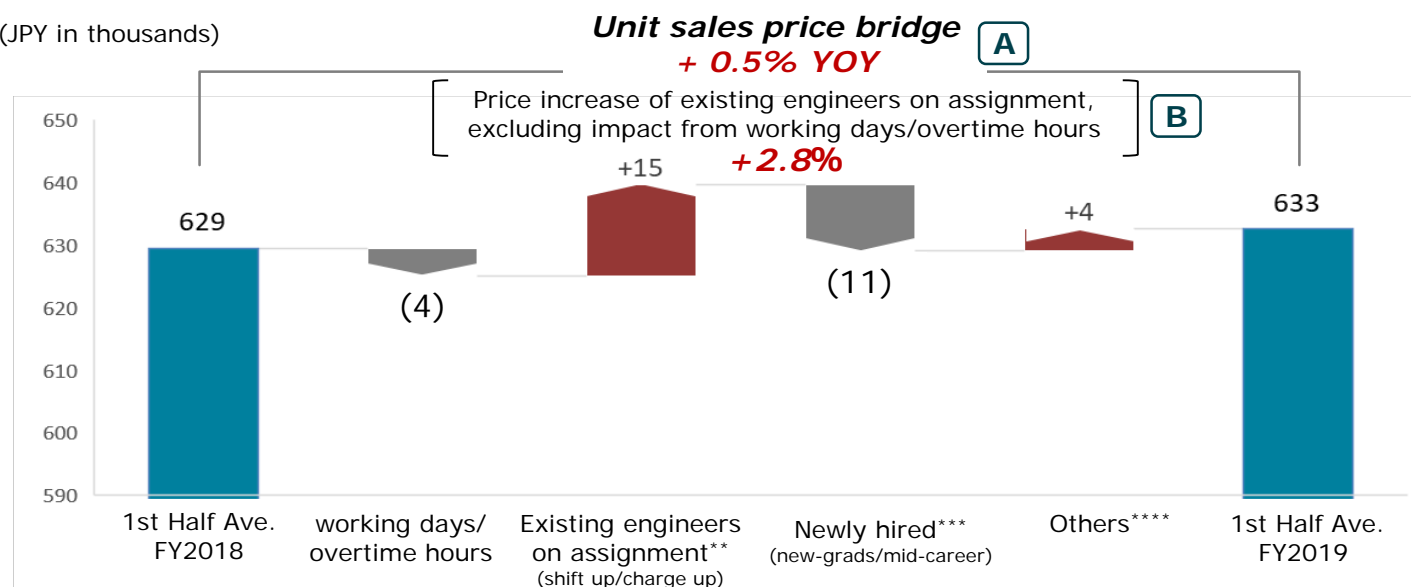
** Figure in parenthesis indicates % change.

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%)

(JPY in thousands)



* Unit sales price

Average sales per engineer per month, which includes contract price, overtime charges and others.

** Engineers on assignment

Increase(decrease) of prices through changes in place of assignment or contract renewal at the same assignment

*** Newly hired

Increase(decrease) of prices from first assignment of newly hired new graduate/mid-career engineers

**** Others

Increase(decrease) of prices from other factors than described above

Amounts are rounded off to the nearest unit

[Price Development]

	FY2018				FY2019	
	Q1	Q2	Q3	Q4	Q1	Q2
Unit Price (year-to-date) A	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 B (figures calculated by comparing unit price at the end of period)	+3.0%	+2.8%	+2.7%	+3.0%	+3.0%	+2.8%

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

Share Price Trend (Jul. 2, 2018 – Jan. 30, 2019)



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 [*] (forecast)	73.00
EPS (forecast)	245.49
Payout ratio	50%

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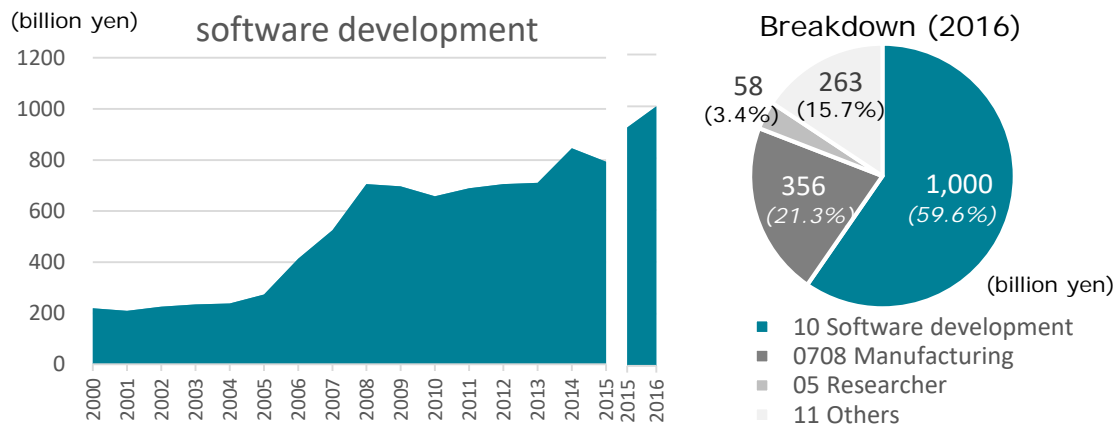
* KPI excludes 'Other' business.

Engineer Staffing Market Overview

- Estimated the whole staffing market size is about 6.6 trillion yen. (2016)
Engineer staffing market size (including manufacturing engineers) is about 1.7 trillion yen, about 250,000 people.
- Steady economic growth of this market is forecasted because of the increasing of R&D and Software demand.

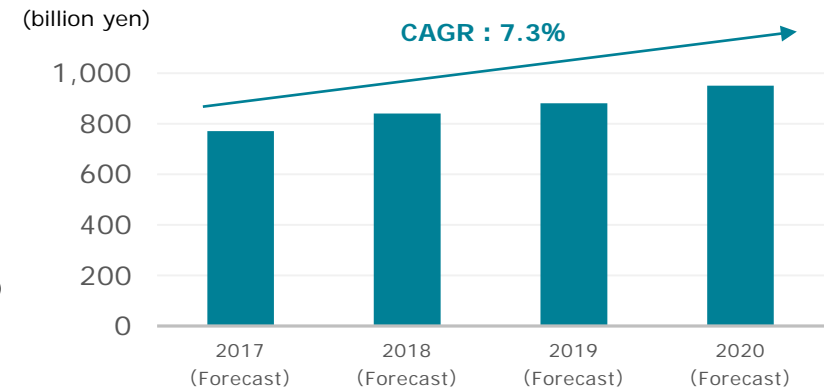
1. Transition of engineer staffing market size

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



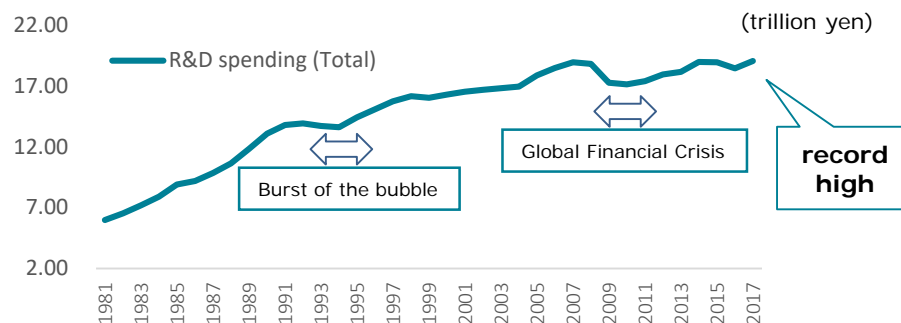
2. Forecast of engineer staffing market size

Yano Research Institute gathered information by research



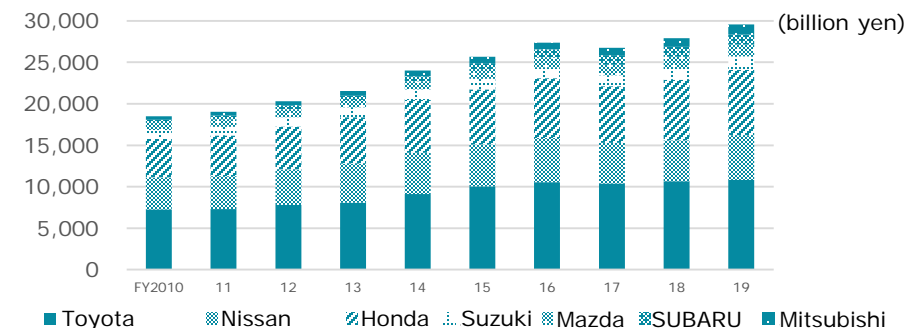
3. Transition of R&D spending in Japan

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



4. R&D spending trend of seven major auto companies in Japan

Source: The Nikkei



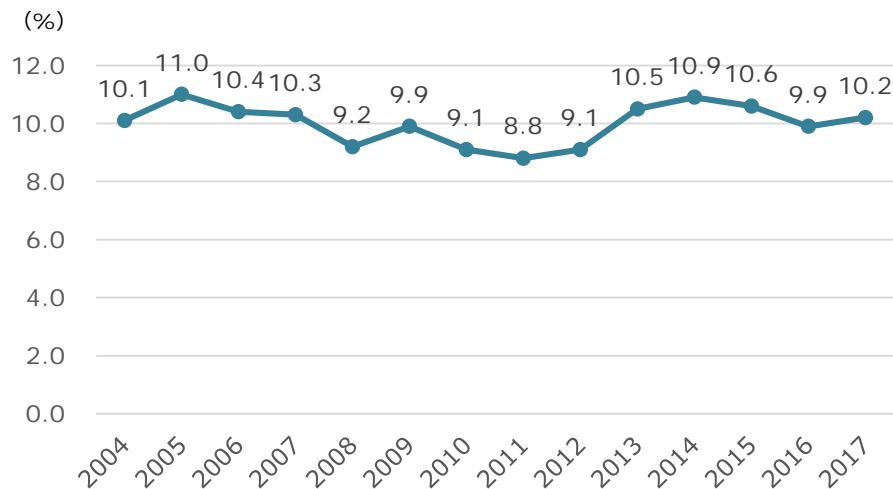
Appendix: Background of Engineer Staffing Market

Growth and our strengths – 1. Mid career market

- The turnover ratio in Japan remains around 10% which shows career-change market has a certain scale
- While the life-time employment/seniority wage system firmly remains in Japan, the number of mid-career recruitment by blue-chip companies is limited due to the gap between productivity and salary

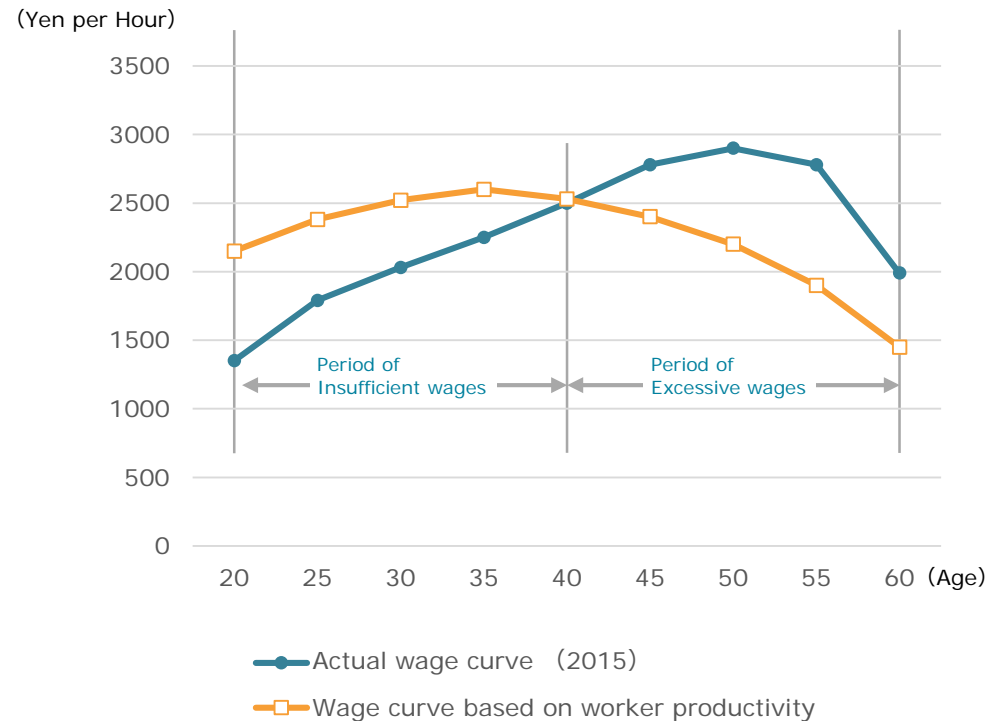
1. Turnover ratio in Japan

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



2. Seniority-Based Wages and Wages based on Work Productivity (Hourly)

Source: "Equity Research Reprinted Report", May 1, 2017,
Investment Information Department, Mitsubishi UFJ Morgan
Stanley Securities Co., Ltd.



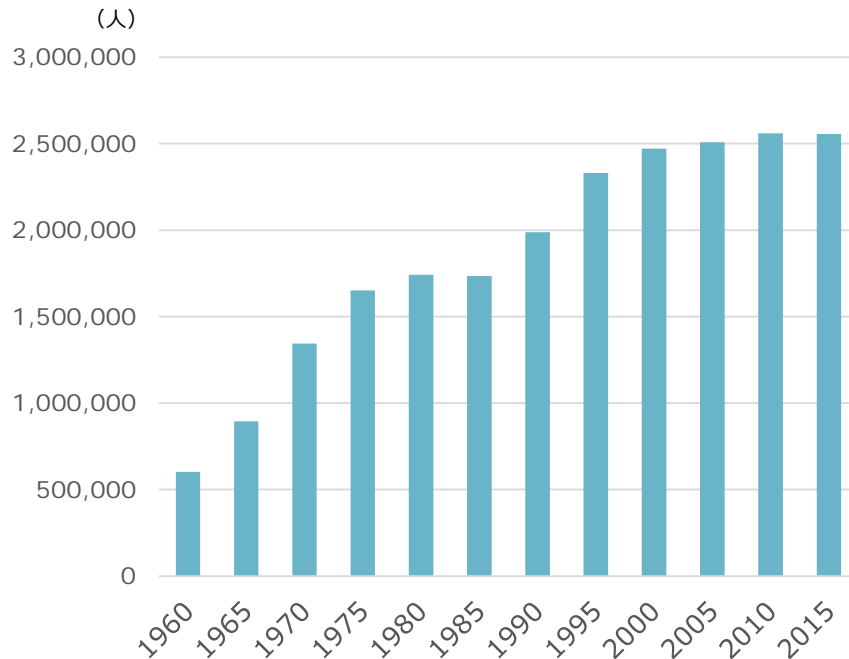
Appendix: Background of Engineer Staffing Market

Growth and our strengths – 2. New grads market

- While the young population is shrinking, the number of university graduates is slightly increasing because of higher university entrance rate.
- New grads tend to focus on blue-chip companies while such companies have limited number of openings for them

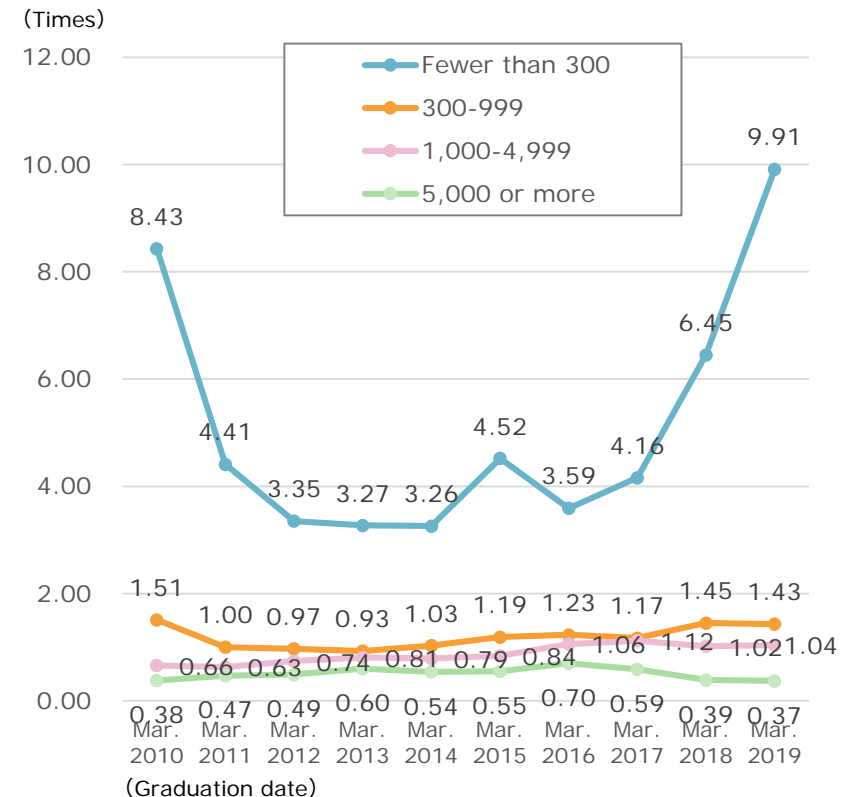
3. No. of university grads

Source: "Handbook of Education and Science statistics",
Ministry of Education, Culture, Sports, Science and Technology



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

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



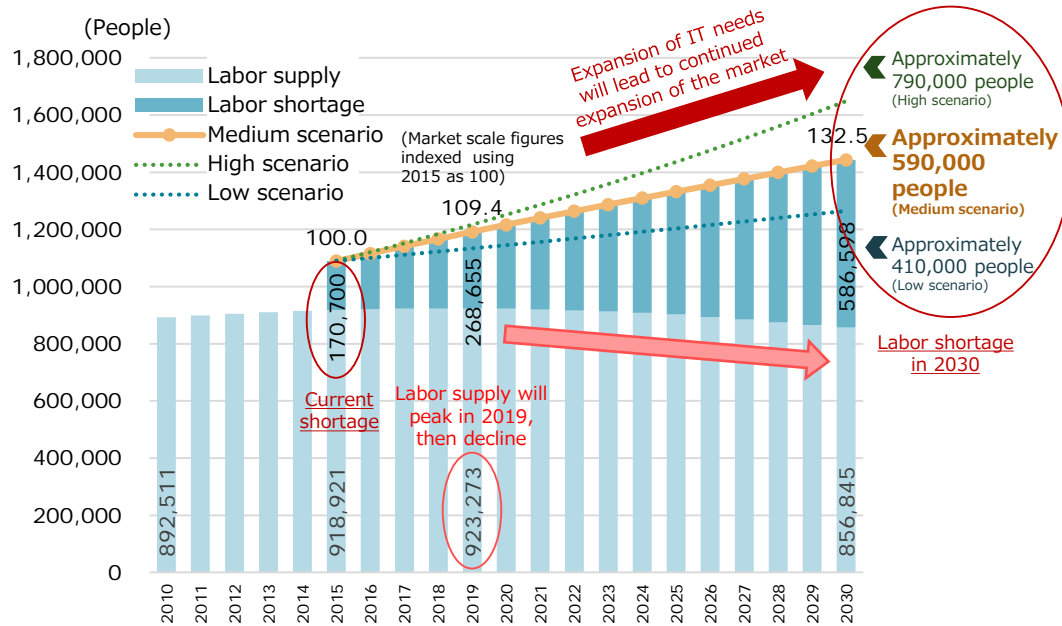
Appendix: Background of Engineer Staffing Market

Growth and our strengths – 3. Growing demand

- IT-related company is highly competitive because of a huge demand-supply mismatch in the IT sector
- Weakening demand for engineers with the spread of AI will be more than offset by the new demand for engineers

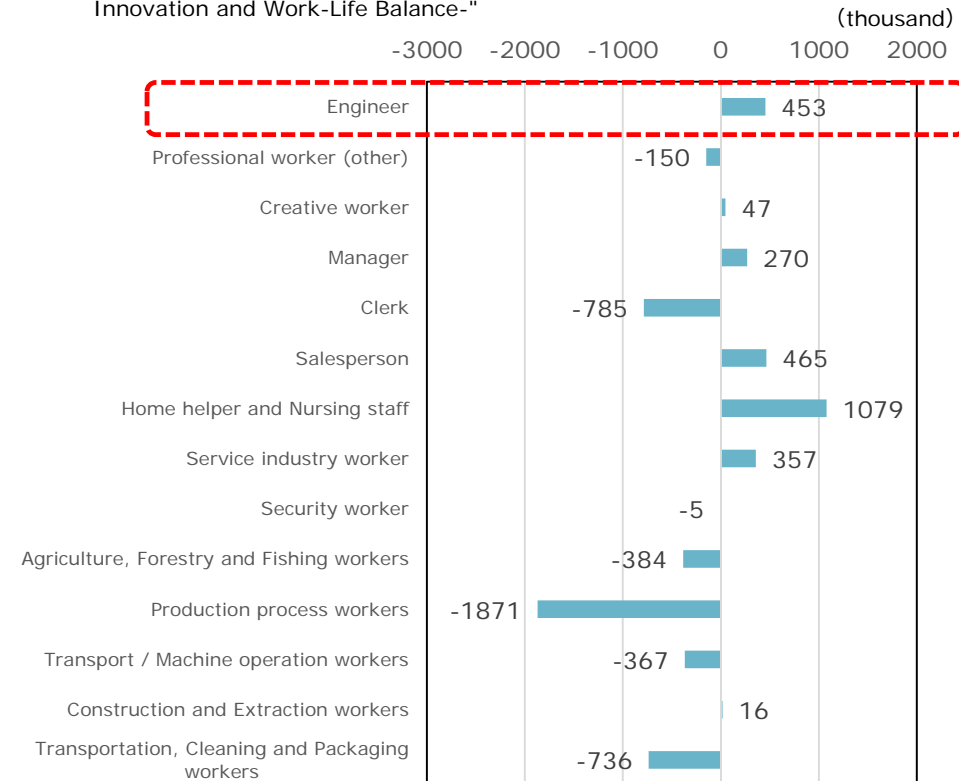
5. IT Staff Shortage Projections

Source: Ministry of Economy, Trade and Industry, *Study of Recent Trends and Future Estimates Concerning IT Human Resources*



6. Shift in workforce due to progression of AI

Source: Ministry of Health, Labour and Welfare, Labor economy white paper in 2017 "Analysis of Labor Economy - Issues for Promotion of Innovation and Work-Life Balance-"



Note: Estimated numbers comparing 2015 and 2030

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