

Japan labor market trends and our initiatives

TechnoPro Holdings, Inc.

March 8, 2019

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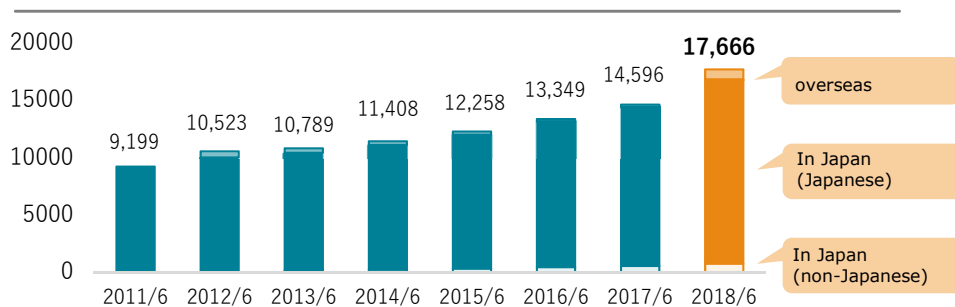
Appendix: Japanese legal revision impact

TechnoPro Group Introduction

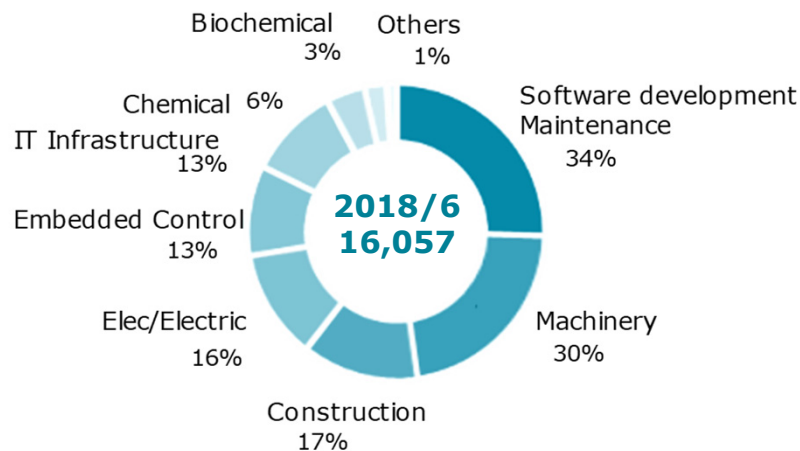
- We have the largest provider covering the widest technical field of engineers in Japan.
- We have stable growth with strong recruitment and marketing. (FY 2019 First half results 26%)

① The largest engineer base and broadest technological domains covered in Japan

Transition of number of engineers

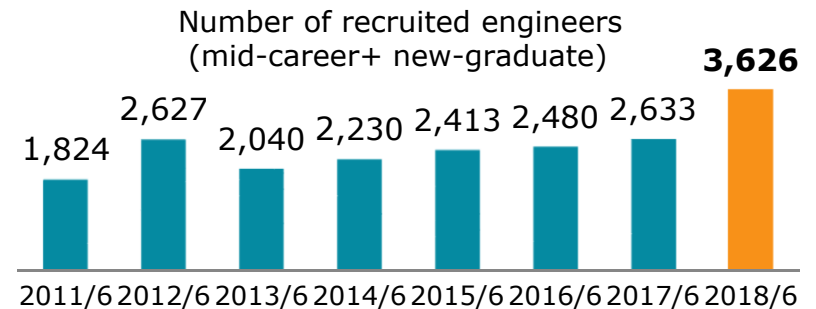


Breakdown of Assigned Engineers by Technological Domains (in Japan)



② Strong recruitment capabilities utilizing various channels

Recruiting **more than 2,000 Engineers** every year



* The total of recruited engineers in the Japanese subsidiaries, excluding M&A

③ Strong sales capabilities create broad customer base

2,030 customers as of Jun. 2018

			Sales of JPY 1 tn. or more	Contract period with over 10 years
1	Electronics/SIer	Listed	○	○
2	Electronics/SIer	Listed	○	○
3	Electronics/SIer	Listed	○	○
4	Transportation	Listed	○	○
5	Transportation	Listed	○	○
6	Transportation	Listed	○	○
7	Electronics/SIer	Listed	○	○
8	Transportation	Listed	○	○
9	Construction	Non-listed	○	○
10	Electronics	Listed	○	○

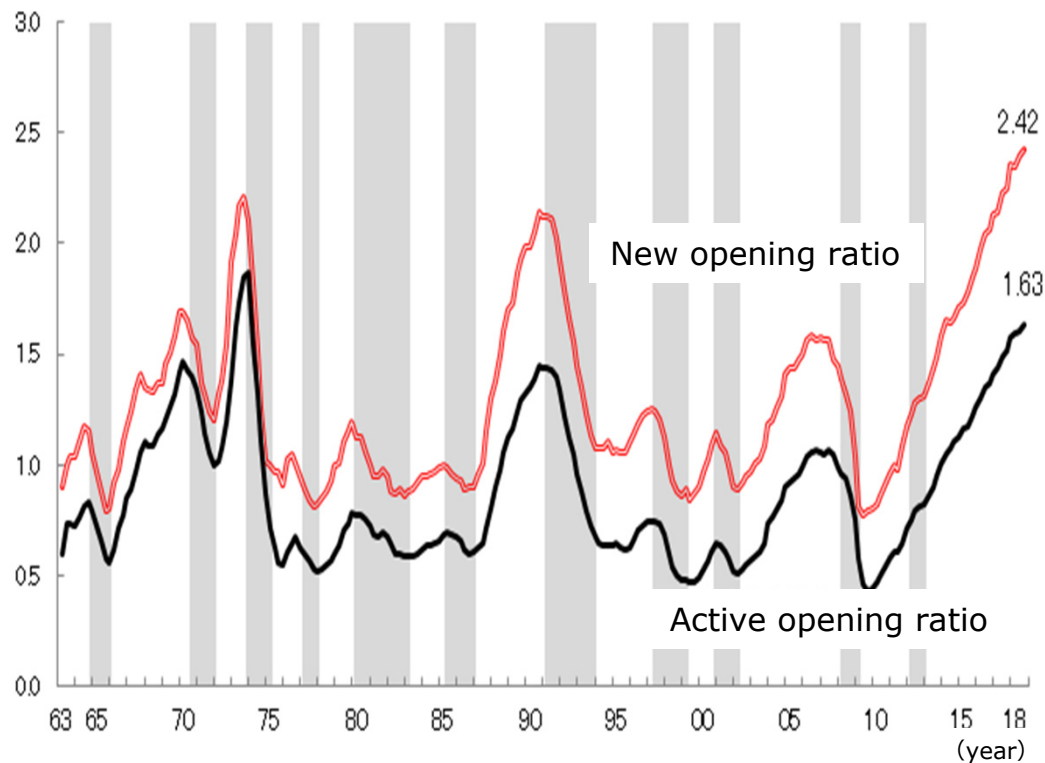
The Japanese labor market No.1

- Even though the working population in Japan is actually increasing, the demand for workers is even higher.
- the staff turnover ratio in Japan continues to be stable at around 10%.

1. Japan's active opening ratio

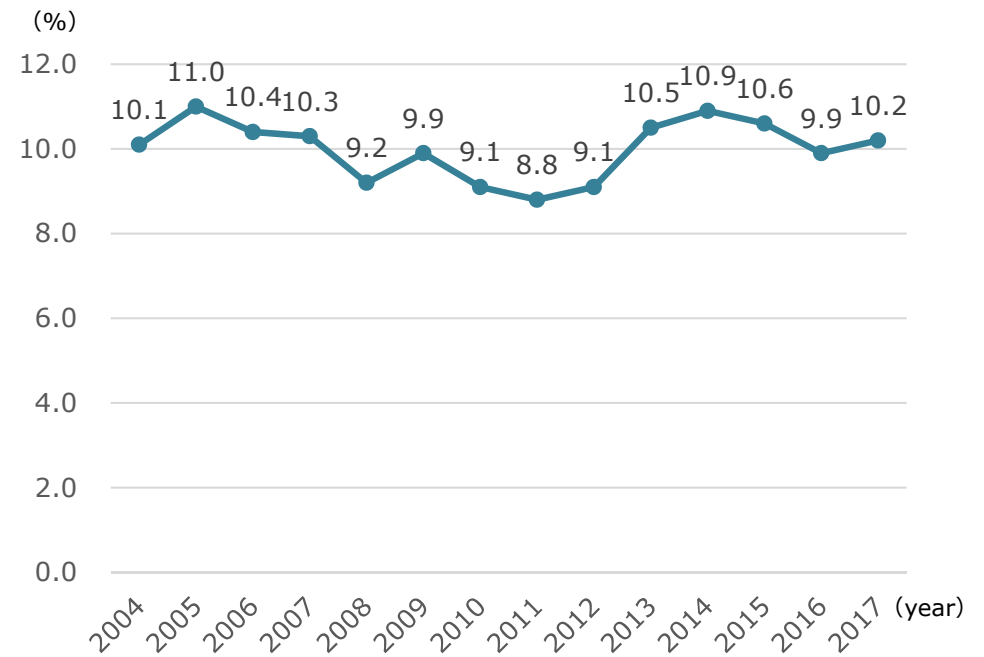
Source : Ministry of Health, Labor and Welfare

(Times)



2. Staff turnover ratio in Japan

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

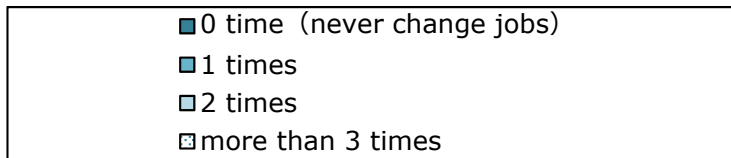
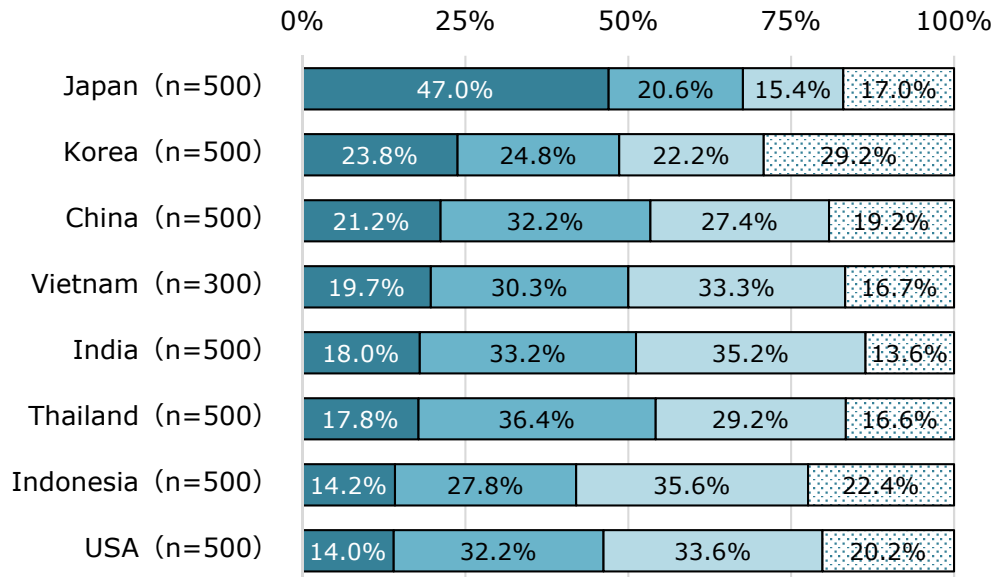


The Japanese labor market No.2

- Internationally IT engineers are highly mobile, but in Japan this is less so.
- The Background of the Japanese labor market is, Japanese large companies have a seniority based wage system with pay rises based on time served rather than skills.

3. Number of career changes (IT talent)

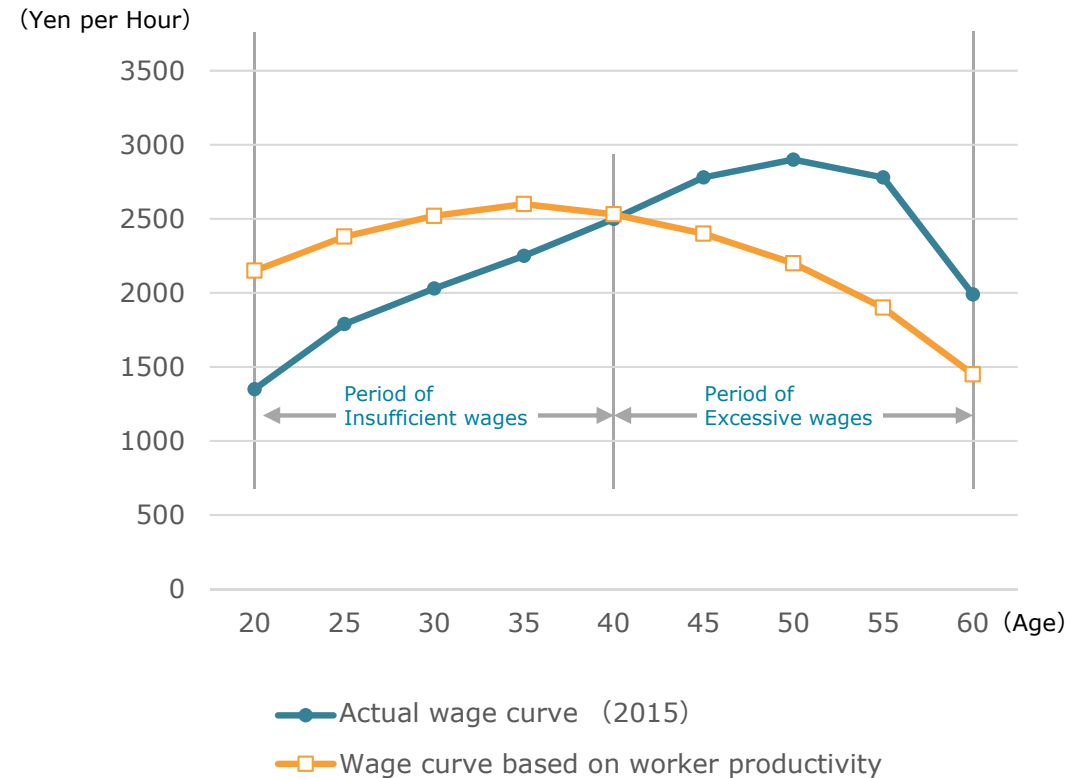
Source : "Comparative Survey of each country on IT Human Resources 2016", Ministry of Economy, Trade and Industry



※Sorted by percentage of "0 times (never change jobs)"

4. 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.



The Japanese labor market No.3

- Large companies recruitment still focuses on new graduates with only a little mid-career recruitment.
- This means, new graduates usually want to start at these large organizations, this creates a mismatch with smaller companies suffering the shortage of applicants.

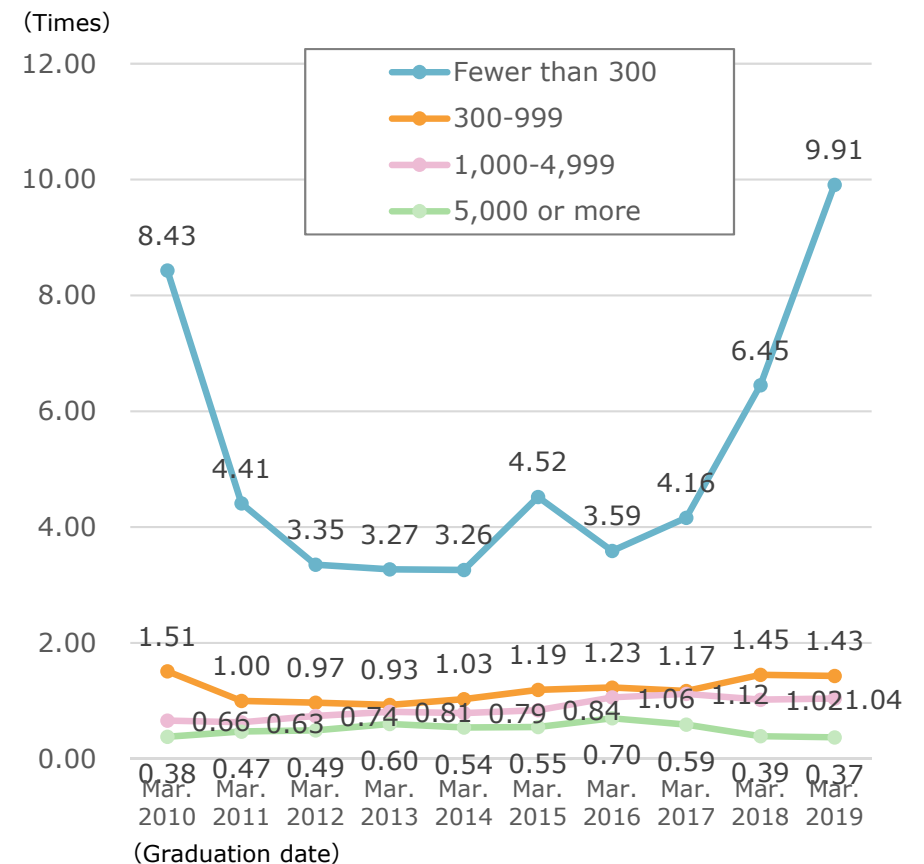
5. Hiring ratio by large companies 2017

Source: based on The-Nikkei "recruitment plan survey", Ministry of Health, Labor and Welfare "school basic survey" "employment trend survey"

	Number of employees	Number of hiring plans by large companies	%
New grads	436,097	114,237	26.2%
mid-career	3,255,400	40,590	1.2%

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

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

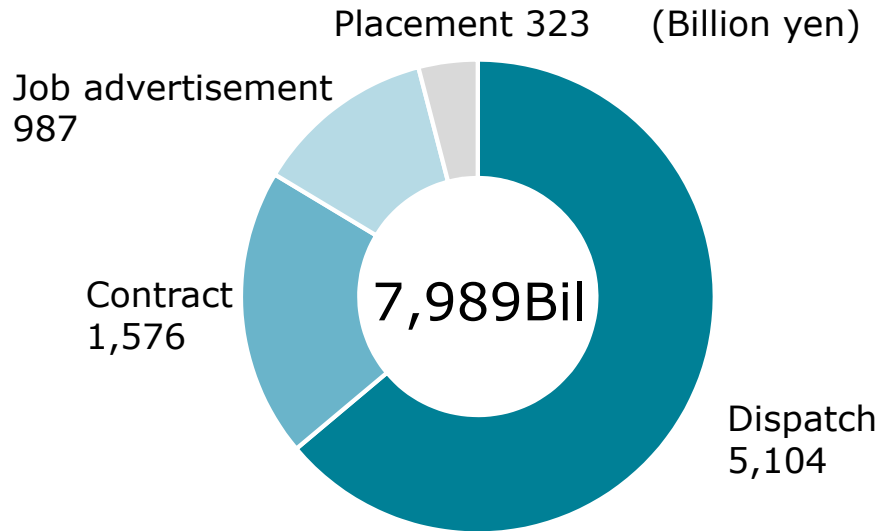


Japanese HR business market

- External HR business market value is estimated at 8 trillion yen, and which is growing with labor shortages.
- This gives the external HR market an opportunity to grow.

1. Japanese HR business

Source : "Japanese HR business 2010", Recruit works Institute

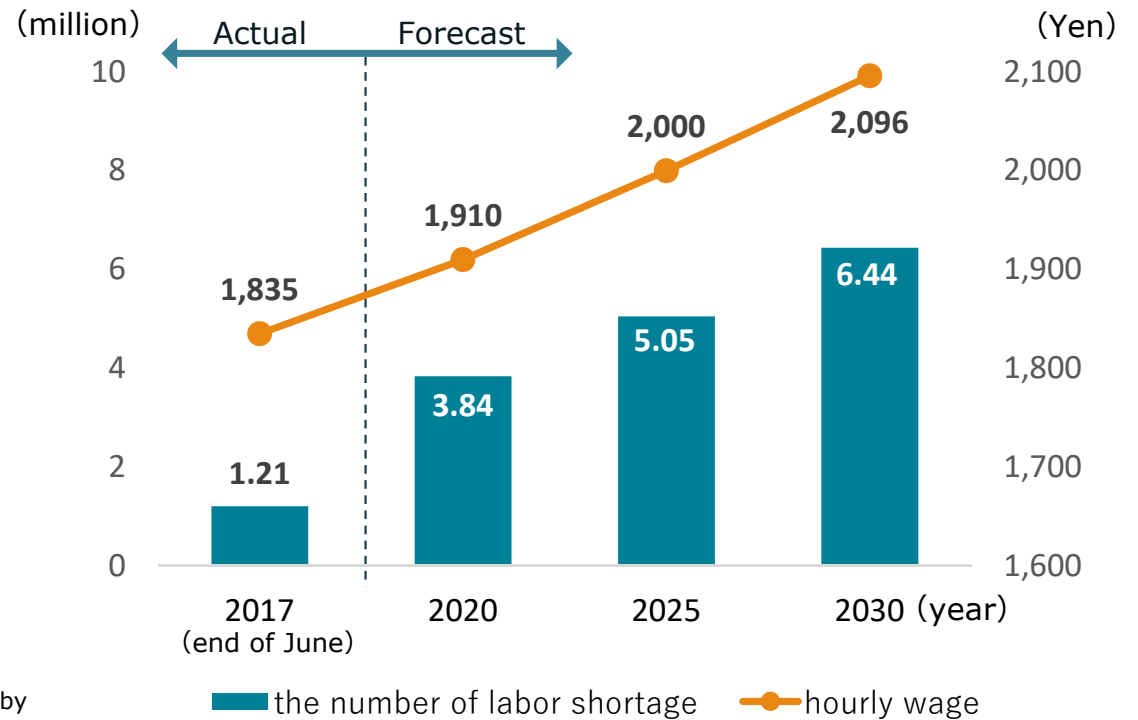


Note)

Dispatch: Ministry of Health, Labor and Welfare "Worker Dispatch Project in 2013"
 Contract: Mick Economic Research Institute "Current situation and Outlook of HR business and Professional outsourcing market 2010 edition"
 Job advertisement: Dentsu "2010 advertising expenditure in Japan" and estimate by Association of job information of Japan by FY2009
 Placement: Ministry of Health, Labor and Welfare "Employment introduction business report in 2008"

2. Trend of workers shortage until 2030

Source : Persol Research Institute and Chuo University "Future estimation of labor market 2030"

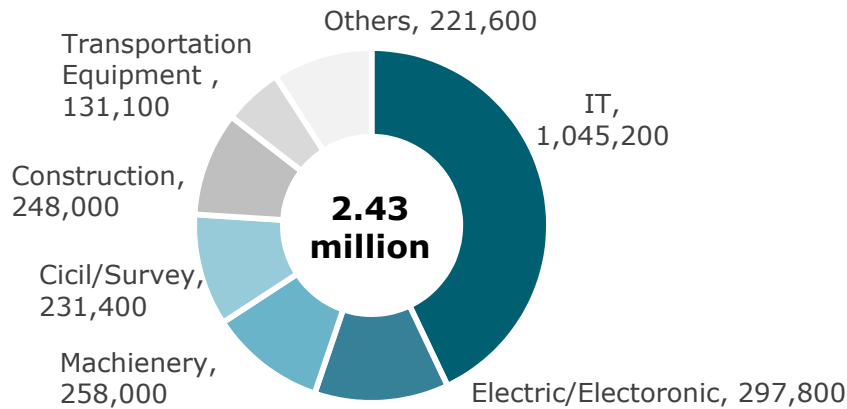


Engineer staffing market overview

- The market (including manufacturing engineers) is about 1.7 trillion yen, in value with about 250,000 people.
- With an increase in R&D and software demand, steady economic growth is forecasted.

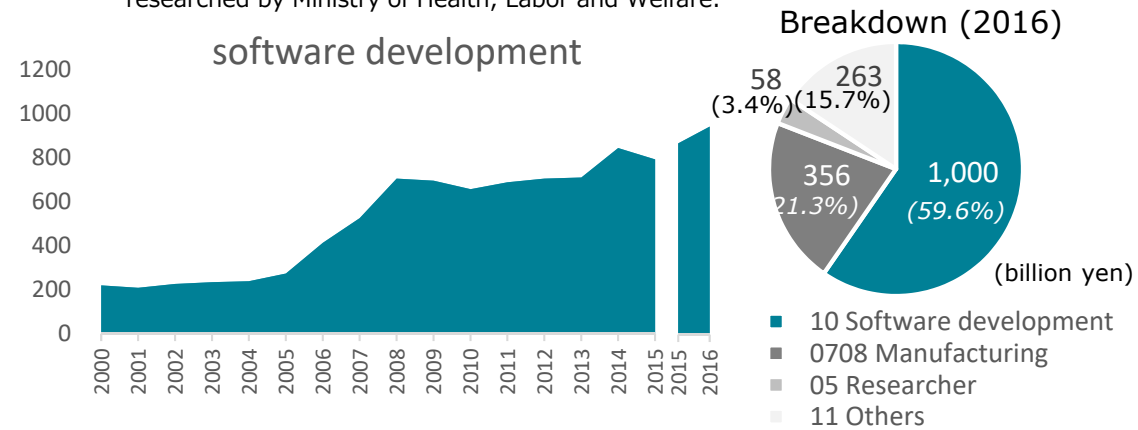
1. Number of engineers in Japan (2015)

Source: census 2015



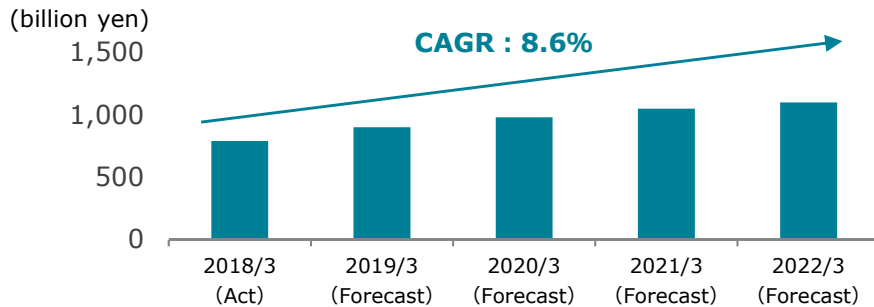
2. Transition of engineer staffing market size

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



3. Forecast of engineer staffing market size

Source: Yano Research Institute Ltd., "Human Resources Business 2018"

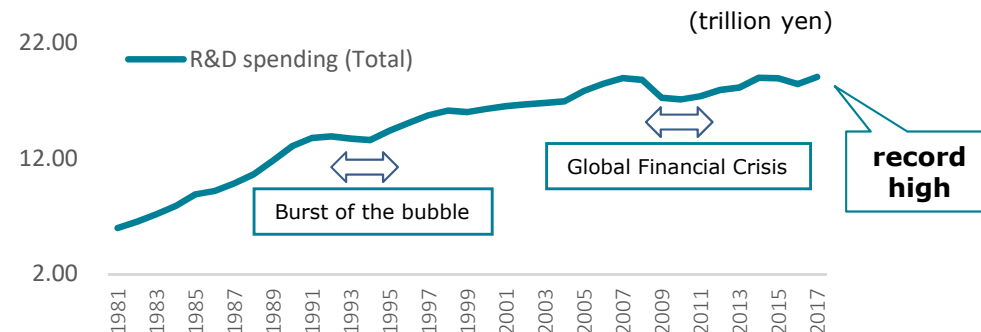


Notes:

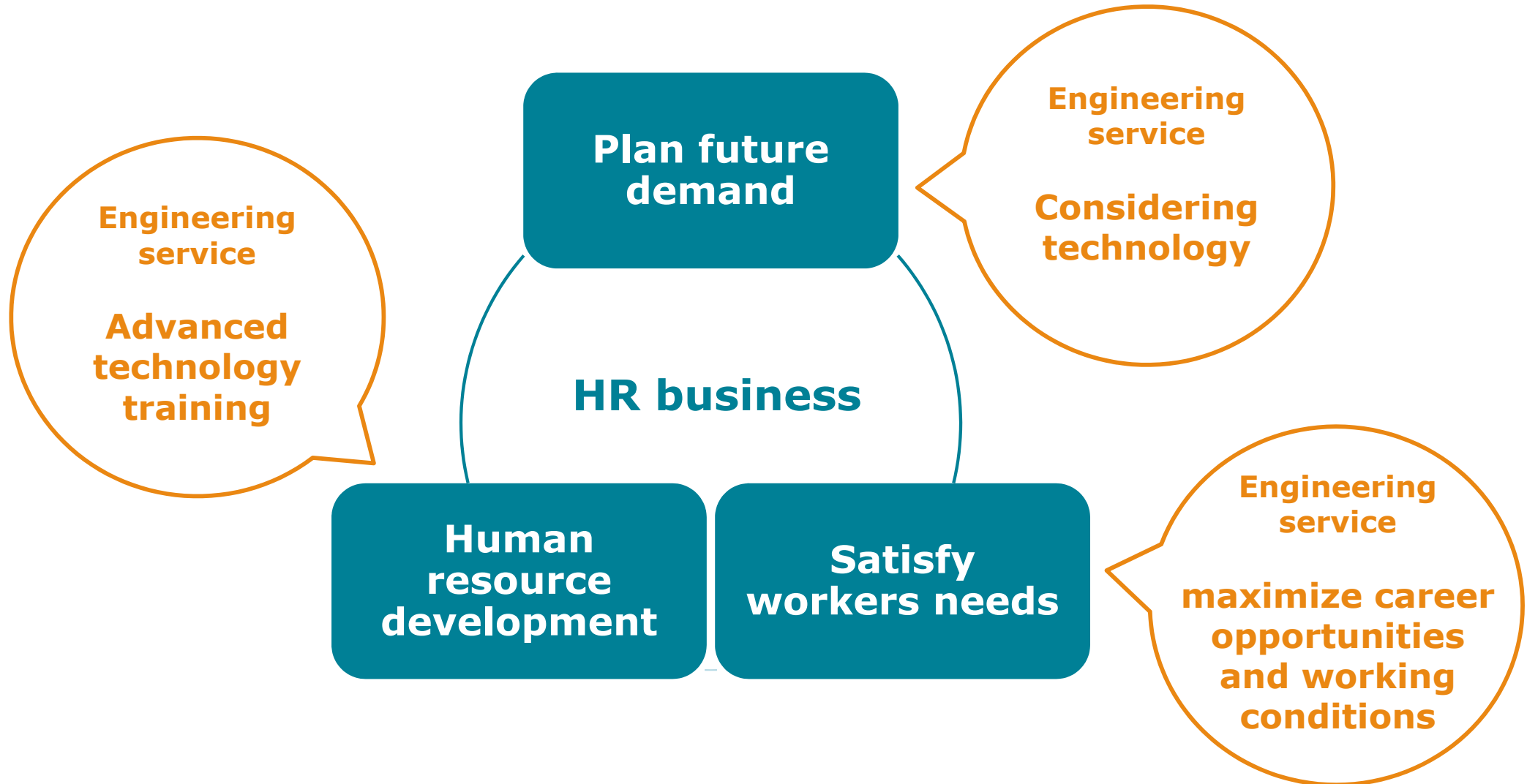
1. The market size is based on the sales of the businesses.
2. The forecast is as of October 2018.

4. Transition of R&D spending in Japan

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



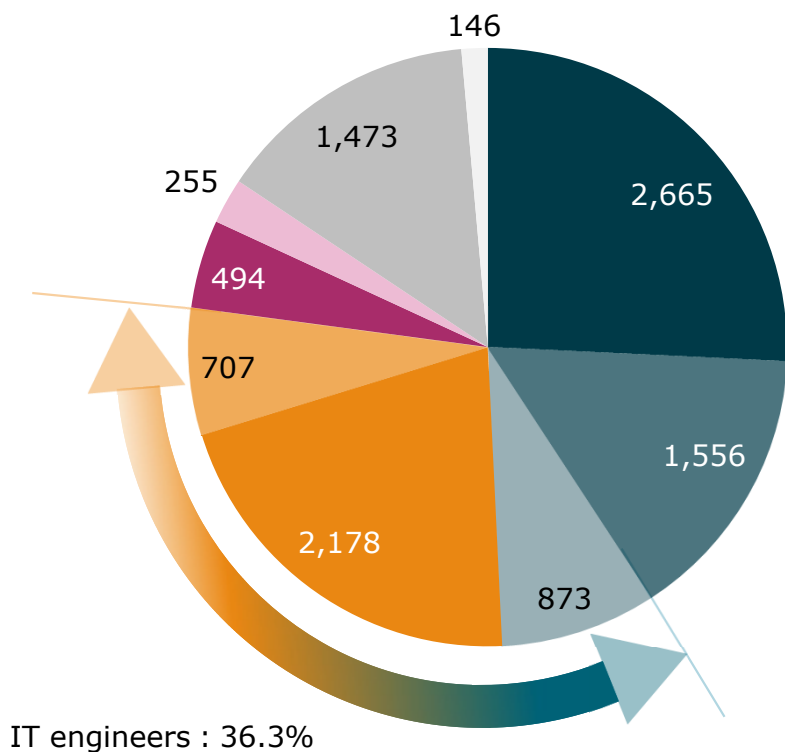
Key success factors of future HR business



Assigned engineers by technology (in Japan)

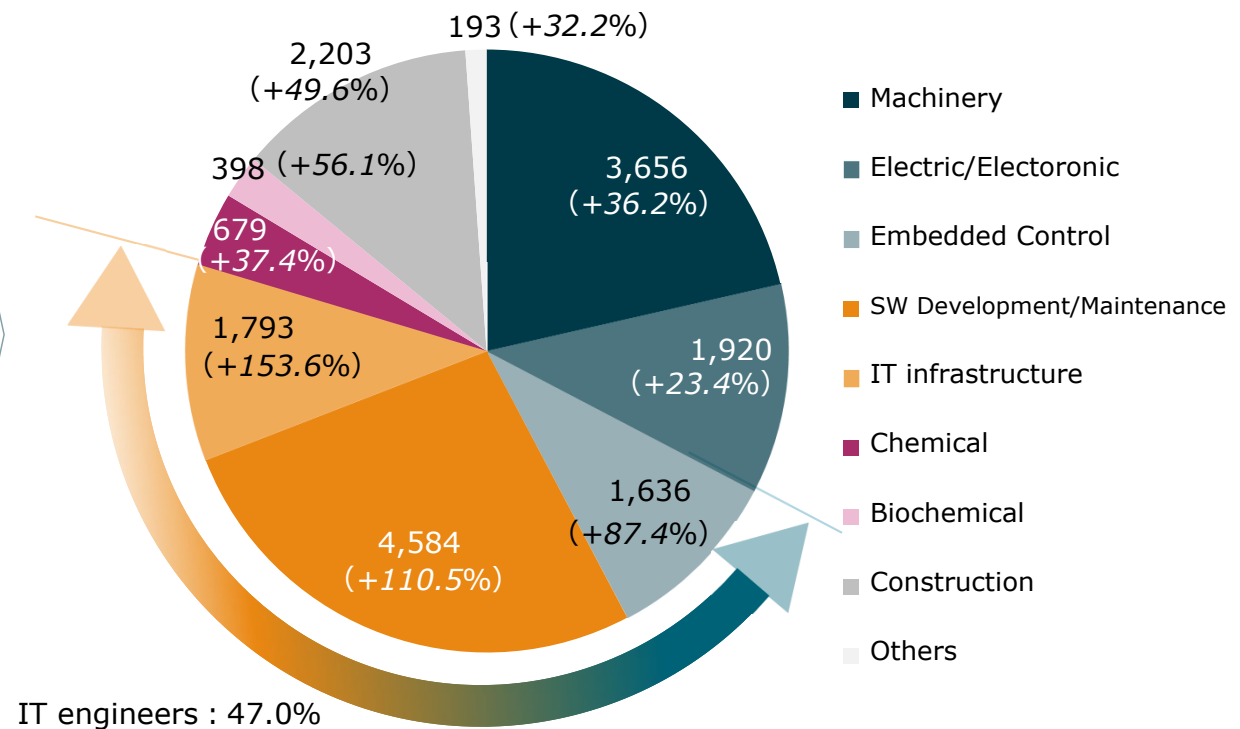
As of June 1, 2014

Assigned engineers: 10,347



As of December 31, 2018

Assigned engineers: 17,062



* Figure in parenthesis indicates % change.

TechnoPro's approach -Human resource development-

Enhancement of training ability

- We have acquired one of the largest domestic technology education companies
- We have 60 training centers and schools in Japan
- We have more than 250 Japanese e-learning programs
- We have launched RPA, Python, AI/IoT courses

Partnering with leading companies

- We have business tie-ups with advanced technology companies such as ALBERT, I's factory, dSPACE and CYBERGYM
- We have dispatched suitable engineers for 6 month without charge and them with high skills
- Aim to train 100 people each year

Establish of construction technical center

- We have established a technical center in Tokyo and Osaka to tackle the shortage of young construction workers
- We have implemented 1 month training programs, when required nurtured construction management engineers



Introduction training for new employees

TECHNOPRO

Albert
Analytical technology

dSPACE



Training at the Technical Center

TechnoPro's approach –improve employee satisfaction–

	KPI	FY2015	FY2016	FY2017	FY2018	Target value	
1	Employee Satisfaction (FY2013:100)	111	119	127	122	Ongoing improvements in employee satisfaction	
2	Training and Education	Group training	—	—	Cumulative 55,521 people	Cumulative 71,023 people	Total of 200,000 people/year by 2022 (including e-learning)
		E-learning	—	—	—	8,082名	
		Time Spent in Training	—	—	—	258,115h/year ave. of 15.8 hours	
		Number of Unique Participants	—	—	—	7,034 people ave. of 36.6 hours	
3	Long-Term Training for People without Field-Specific Industry Experience	People generally undergoing one month or more of training	—	—	—	964 people	Continuing increase in the number of attendees
4	Percentage of People Taking Paid Leave	65.0%	68.8%	71.3%	75.0%	Maintain at 75% or more	
5	Percentage Employment of Women	New graduates	16.6%	14.0%	15.6%	15.3%	16% for new graduates 20% for mid-career hires
		Mid-career hires	16.3%	17.3%	18.1%	21.1%	
6	Number of Non-Japanese Recruits	Number of people working in Japan	315 people	444 people	550 people	756 people	Number of non-Japanese nationals working in Japan: 1,100 by 2020, 1,500 by 2022
7	Percentage of Employees with Disabilities		1.98%	1.99%	2.21%	2.21%	Remain at or above the statutory rate of 2.2%
8	Average Hours of Overtime	(hours/month)	23.3 hours/month	20.6 hours/month	19.2 hours/month	17.6 hours/month	Maintain a level of 20 hours/month or less

※details disclosed on “Integrated Report 2018”

Appendix: Japanese legal revision impact

Worker Dispatching Act

Effective date: Oct. 1st 2015 (Partial grace period: 3 years)

- Finish the grace period (by Oct. 2018) and establish a licensing system for all personnel dispatching companies
- Set a maximum dispatch period of three years for fixed-term jobs
- Mandate the provision of education and training to dispatch workers

Impact on general personnel business

 **Neutral**

- × 3 years limit on dispatch period, mandatory education and training could lead to higher costs
- could also shift customers more to major companies

Impact on technical personnel business

 **Positive**

- Virtually all employment at major firms is open-ended, so easing of regulations is likely to promote an industry realignment through the weeding-out of small/mid-sized companies

Labor Contract Act

Effective date: Apr. 1st 2013 (5 years passed: Apr. 2018)

- Mandates that fixed-term employment contracts become open-ended after five years on the job

Impact on general personnel business

 **Neutral**

- Demand likely to rise as a result of customers reducing direct employment
- × additional costs could arise as a result of dispatch employees' contracts becoming open ended

Impact on technical personnel business

 **Positive**

- Demand likely to rise as a result of customers reducing direct employment
- Increase demand for temporary workers who can continue to use for a long time

Work-style reforms (overtime and pay regulations)

Effective date: Apr. 2019

- Sets upper limit on working hours
- Mandates use of paid time off

Impact on general personnel business

 **Investigating**

- Demand likely to rise as a result of customers reducing their regular employees' working hours
- × staffing employees' working hours could also be reduced

Impact on technical personnel business

 **Investigating**

Same as general personnel business

Equal pay for equal work

Effective date: Apr. 2020

- Bars unreasonable differences in treatment of regular employees and non-regular employees within the same company
- It is necessary to equalize the treatment of dispatched workers to employees of the client company (or administrative notice).

Impact on general personnel business

 **Investigating**

Uncertain government policies

Impact on technical personnel business

 **Investigating**

Uncertain government policies

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