

# **TechnoPro Group Current Business Environment and Management Policies**

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

January 31, 2020

# Contents

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Page

I	: Our responses to investors inquiries	2
---	--	---

---

II	: Progress of internal IT systems development	9
----	---	---

---

III	: Advancements in globalization	11
-----	---------------------------------	----

---

IV	: New medium-term management plan development	12
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# Our responses to investors inquiries

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**1**

**Impact of uncertain economy**

**2**

**Causes of increase in employee turnover**

**3**

**Impact of work-style reform**

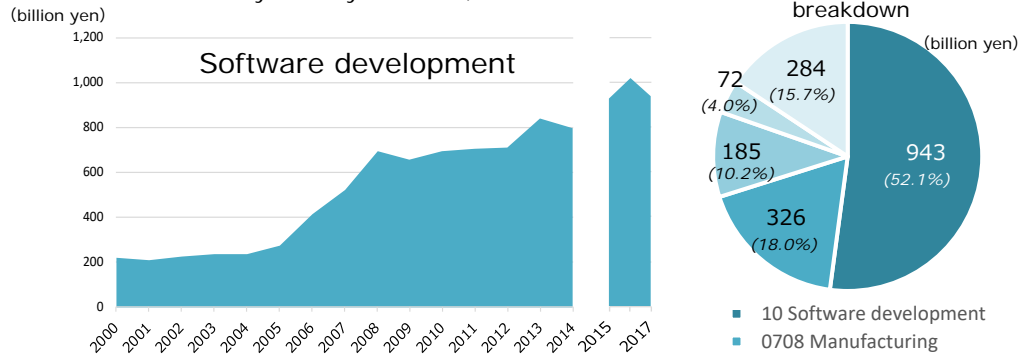
# 1. Impact of uncertain economy

## Total addressable market size and future outlook

- Estimated the whole staffing market size is about 6.5 trillion yen. (2017)  
Engineer staffing market size is about 1.8 trillion yen, about 250,000 engineers
- R&D is a field less susceptible to impact of the economy. As a nation, Japan reported a record-high for R&D expense and growth is expected to continue in the future.
- We expect shortages of IT engineers will only worsen, which will serve as a tailwind for our business

### Trend of engineer staffing market size

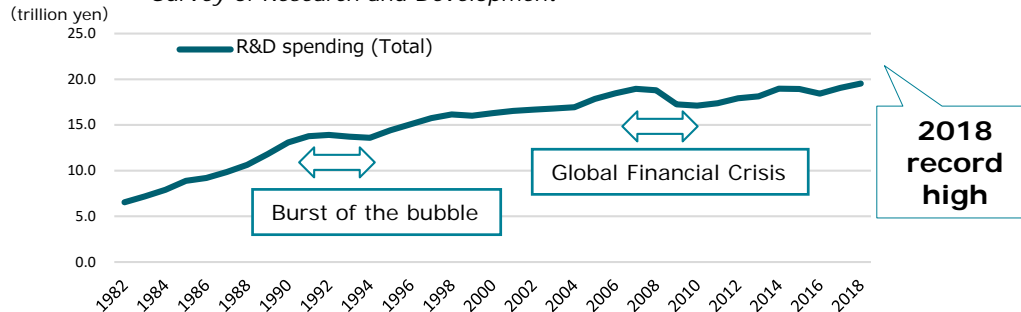
Source: TechnoPro estimates based on the data researched by Ministry of Health, Labor and Welfare.



† The aggregate standard has been changed as of 2015 due to revision of the classification of occupation on September 30, 2015

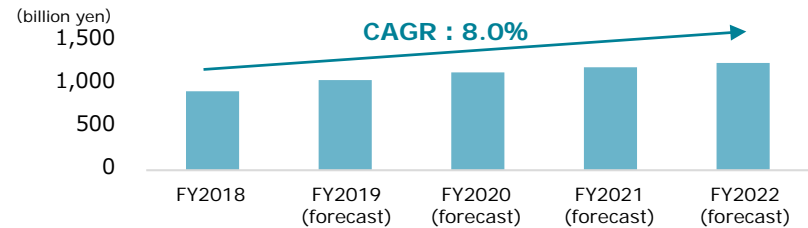
### Trend of R&D spending in Japan

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



### Forecast of engineer staffing market size

Source: Human Resources Business 2019, Yano Research Institute Ltd.

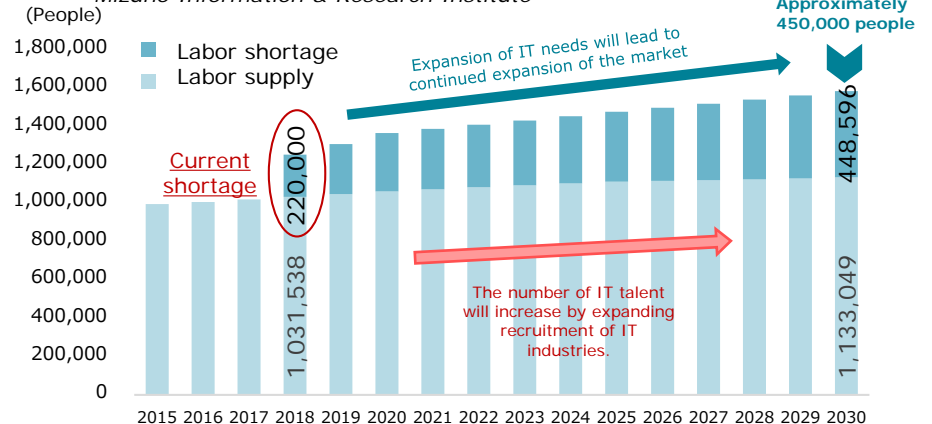


\* The market size is based on the sales of businesses, after FY2019 are forecast (as of November 2019)

Note: Market size for large-scale providers calculated by Yano Research Institute based on an independent survey. Growth may be higher than for the market as a whole.

### IT talent shortage projections

Source: Survey report on IT talent supply and demand, Mizuho Information & Research Institute



# 1. Impact of uncertain economy

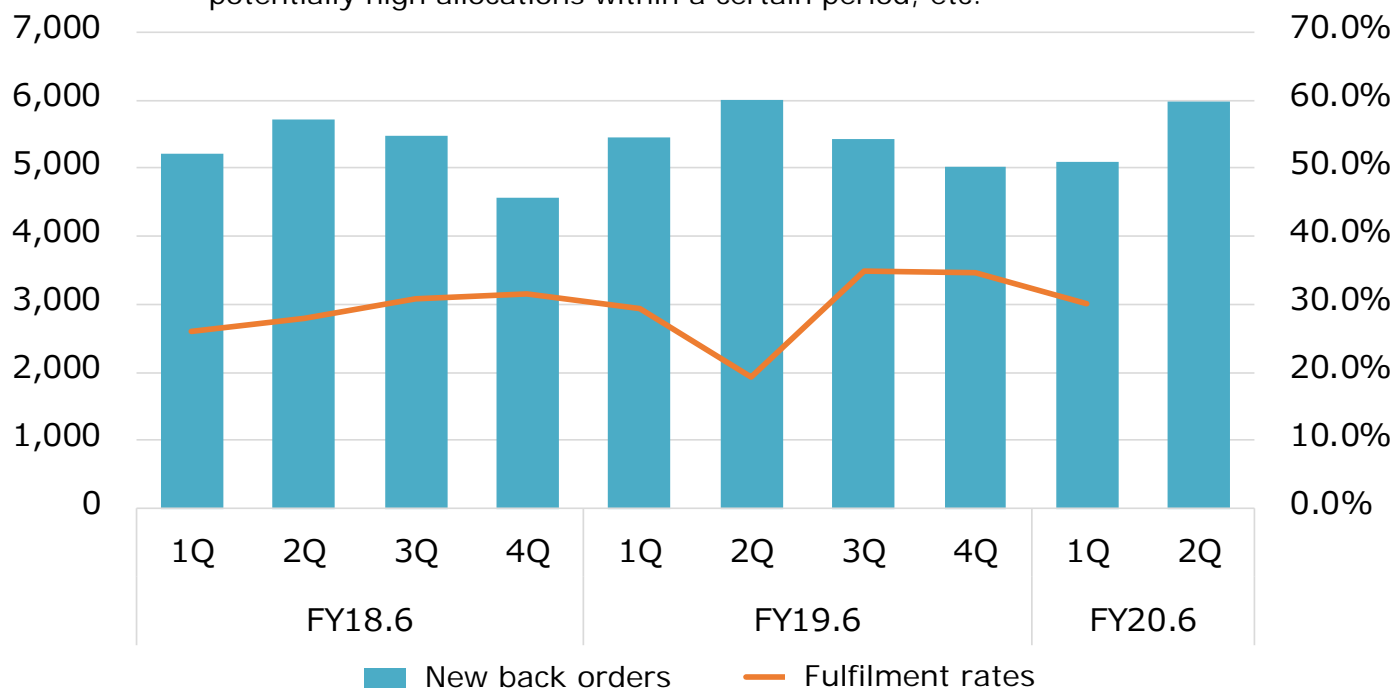
## Back orders

- No sign of deceleration for orders overall (avg. 1,500 to 2,000 engineers/month); fulfilment rates remaining stable at around 30%
- Looking by technology field, we see a declining pattern in orders for mechanical (machinery, electric/electrical) engineers; however, orders for IT engineers continue to rise
- While not included in the graph below, orders for construction engineers are robust and are likely to continue to be firm even after the Tokyo Olympics

### New back orders and fulfilment rates

For single major subsidiary in Japan only (TechnoPro, Inc. )

Note: New back orders which satisfy TechnoPro Inc. standards and may reflect potentially high allocations within a certain period, etc.



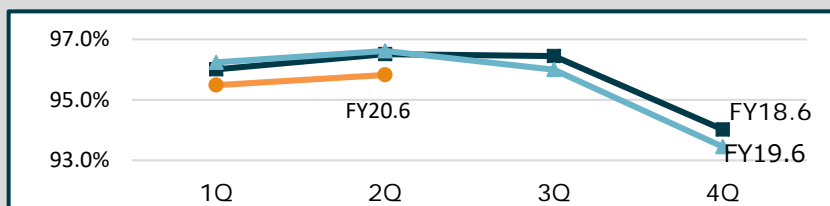
\*New back orders received during Q2, FY20.6 are not presented in fulfilment rates as the matching and proposal is under current negotiations.

# 1. Impact of uncertain economy

## Relationship between utilization ratio/base charge and gross profit margin

- Q2 FY20.6 utilization rate for two major subsidiaries in Japan was 95.8% (-0.8 pts YoY); however, allocated engineers growth is strong at +12.8% YoY
- Despite a decline in utilization rate, base charge for existing engineers is rising at a stable rate; accordingly, gross profit margin is levels off on YoY bases

Utilization rate\*



\*Average utilization on each quarter

Allocated engineers growth rate\*

	1Q	2Q	3Q	4Q
FY18.6	+9.9%	+10.8%	+11.3%	+14.6%
FY19.6	+16.1%	+16.1%	+16.1%	+14.2%
FY20.6	+13.6%	+12.8%		

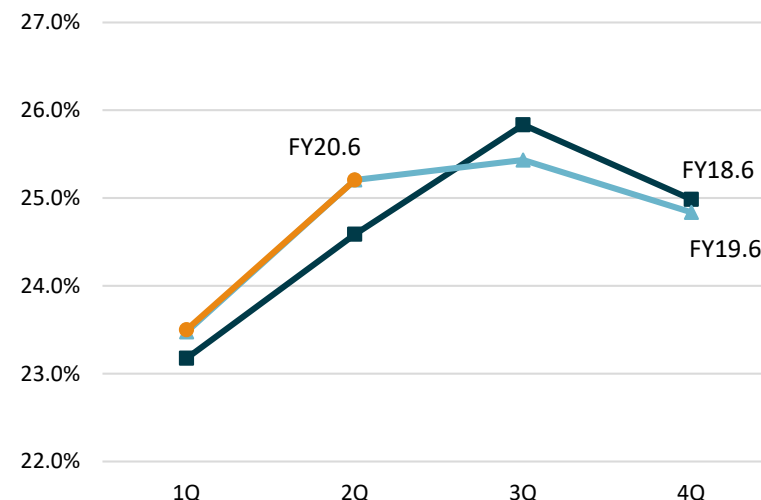
\*year-on-year comparison for each quarter end

Base charge increase of existing engineers on assignment\*

	1Q	2Q	3Q	4Q
FY18.6	+3.0%	+2.8%	+2.7%	+3.0%
FY19.6	+3.0%	+2.8%	+2.7%	+3.2%
FY20.6	+3.6%	+3.4%		

\*year-on-year comparison for each quarter end

GP margin \*

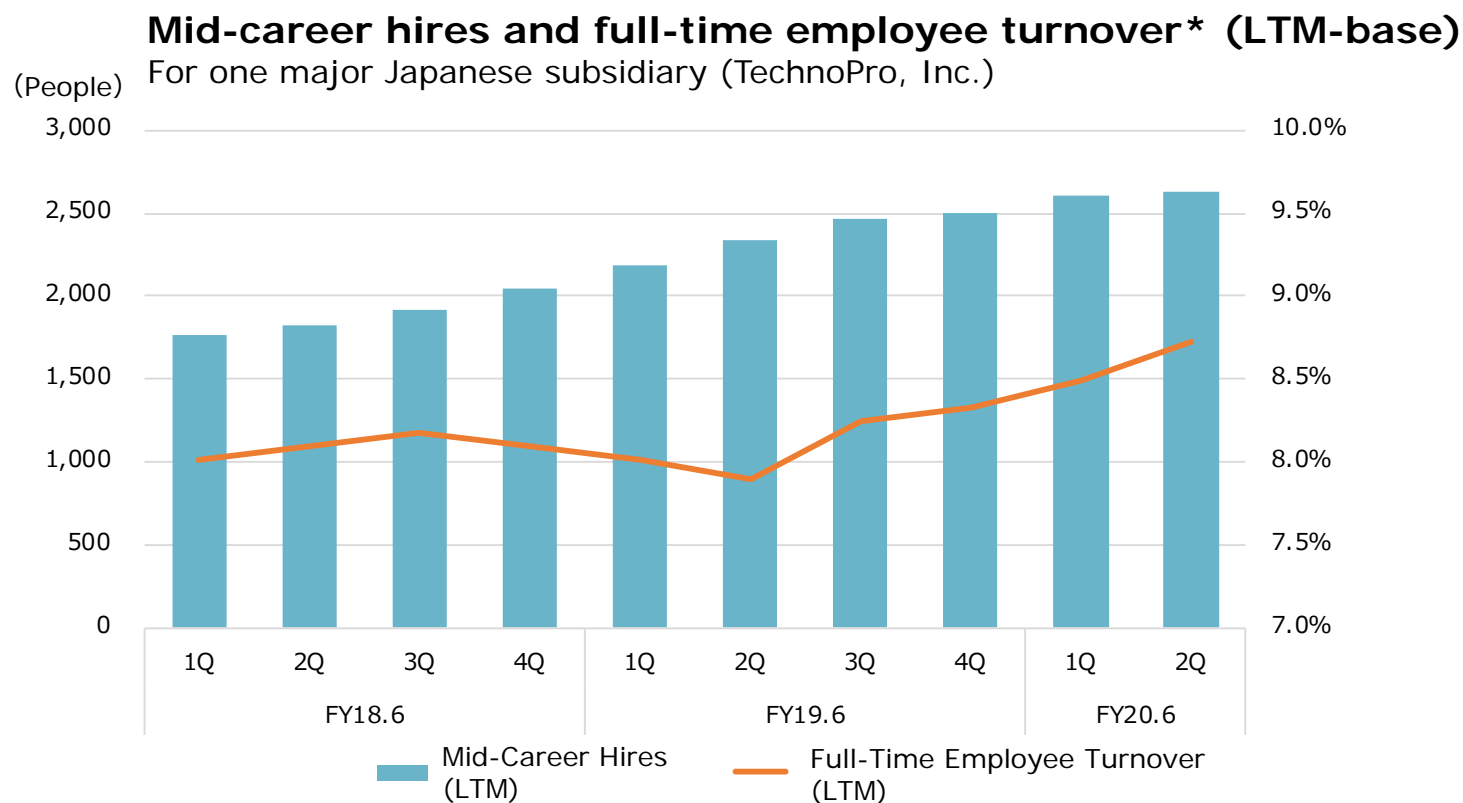


\* Calculated based on two major subsidiaries in Japan (TechnoPro, Inc., TechnoPro Construction, Inc.); therefore figures on this document may differ slightly from those on the "TechnoPro Group Financial Results for the 2nd Quarter of FYE June 2020" slide presentation disclosed separately

## 2. Causes of increase in employee turnover

### Increase in turnover associated with increase in new hiring

- Turnover tends to be higher among engineers hired more recently; the recent increase in mid-career hires has resulted in worsening retention among full-time employees\*
- In addition to better treatment for engineers, we have increased administrative staff to prevent recruiting and/or assignment mismatches. We have implemented a follow-up system for employees after entering the company, offering career planning support, etc.
- We plan to introduce our IT-based talent management system which uses AI for greater recruiting efficiencies and retention functions.



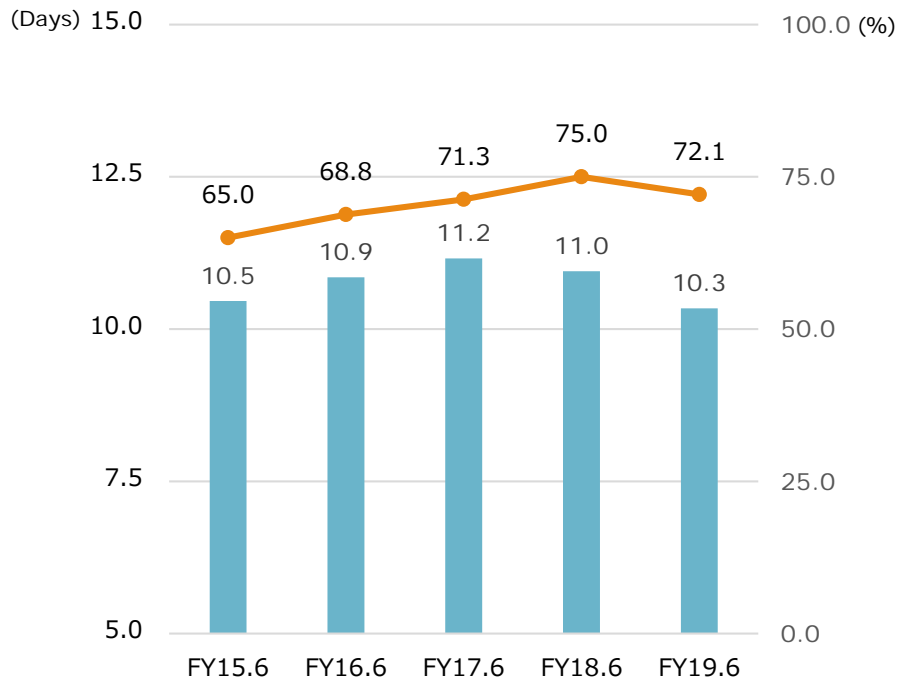
\*Full-time employee turnover does not include fixed-term employees who leave the company upon conclusion of their contracts

# 3. Impact of work-style reform

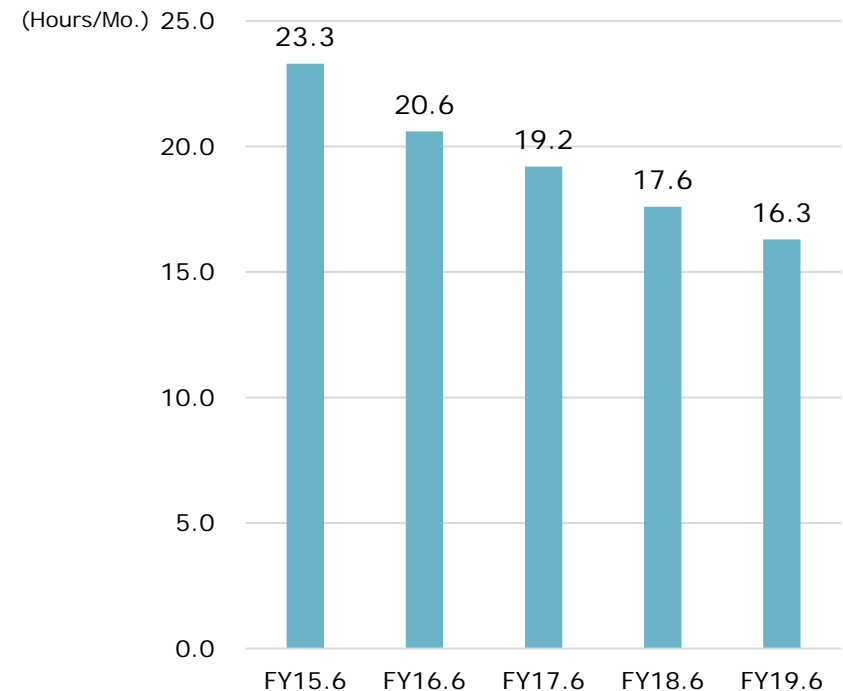
## Mandatory paid leave, overtime rules

- Under the revised Labor Standards Act, employees accruing 10 days or more of paid leave must take at least five days. As a rule, overtime is limited to 45 hours per month in principle and 360 hours per year
- Both paid leave taken and average overtime have been improving (in particular, long holidays for FY19.6 resulted in a temporary decrease of paid leave taken)
- The decrease in paid leave taken and overtime hours stem from a decrease in working days and operating hours, which had a negative impact on sales and profits; however, we aim to increase base charge and expand managed contract business to mitigate this negative impact and take advantage of work-life balance improvements for lower staff turnover

### Paid leave accrued vs. paid leave taken



### Avg. overtime hours





### 3. Impact of work-style reform

#### Equal-pay-for-equal-work policy

- Under the revised Worker Dispatching Act, staffing companies must select either the Labor-Management Agreement Method or Dispatch Client Equivalent/Balanced Method; the TechnoPro Group has selected Management-Labor Agreement Method
- We created a pay table for each job rank, signing an agreement with our labor union (employee representative); employees paid below the pay table are dealt with on an individual basis

#### Labor-Management Agreement Method

Agreement reached between staffing company and labor to determine dispatch staff pay

\*Selected especially by staffing company required to resolve treatment gap with dispatch client as well as internal treatment gap

Basis for Comparison  
Regular employees engaged in the same work task

#### Dispatch Client Equivalent/Balanced Method

Determine balanced/equal pay for dispatch staff based on information provided by each dispatch client

Basis for Comparison  
Permanent employees at dispatch client

#### TechnoPro Group Response

- ✓ Hold labor-management discussions, create pay table based on Employment Stability Statistics and indexed by prefectures
- ✓ Compare with individual pay tables to determine whether our employee job details are comparable with general employees in similar jobs and similar years of service
- ✓ **Dec. 2019 Signed agreement with our labor union**
- ✓ Deal individually with employees at rates below pay table

Employment stability statistics  
(Ministry of Health, Labour and Welfare, revised annually)

Employment Stability Statistics	基準値 (0年)	基準値に能力・経験調整指数を乗じた値						(円) 参考値(0年)
		1年	2年	3年	5年	10年	20年	
職業計	1,156	1,341	1,467	1,525	1,605	1,890	2,358	1,362
07開発技術者	1,235	1,433	1,567	1,629	1,714	2,019	2,519	1,614
071食品開発技術者	1,148	1,332	1,457	1,514	1,593	1,877	2,342	1,397
072電気・電子開発技術者等	1,259	1,460	1,598	1,661	1,747	2,058	2,568	1,651
073機械開発技術者	1,220	1,415	1,548	1,609	1,693	1,995	2,489	1,591
074自動車開発技術者	1,231	1,428	1,562	1,624	1,709	2,013	2,511	1,652
075輸送用機器開発技術者	1,150	1,334	1,459	1,517	1,596	1,880	2,346	1,506
076金属製錬・材料開発技術者	1,186	1,376	1,505	1,564	1,646	1,939	2,419	1,469
077化学品開発技術者	1,252	1,452	1,589	1,651	1,738	2,047	2,554	1,559
079その他の開発技術者	1,219	1,414	1,547	1,608	1,692	1,993	2,487	1,521

# Contents

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Page

---

I	: Our responses to investors inquiries	2
---	--	---

---

II	: Progress of internal IT systems development	9
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III	: Advancements in globalization	11
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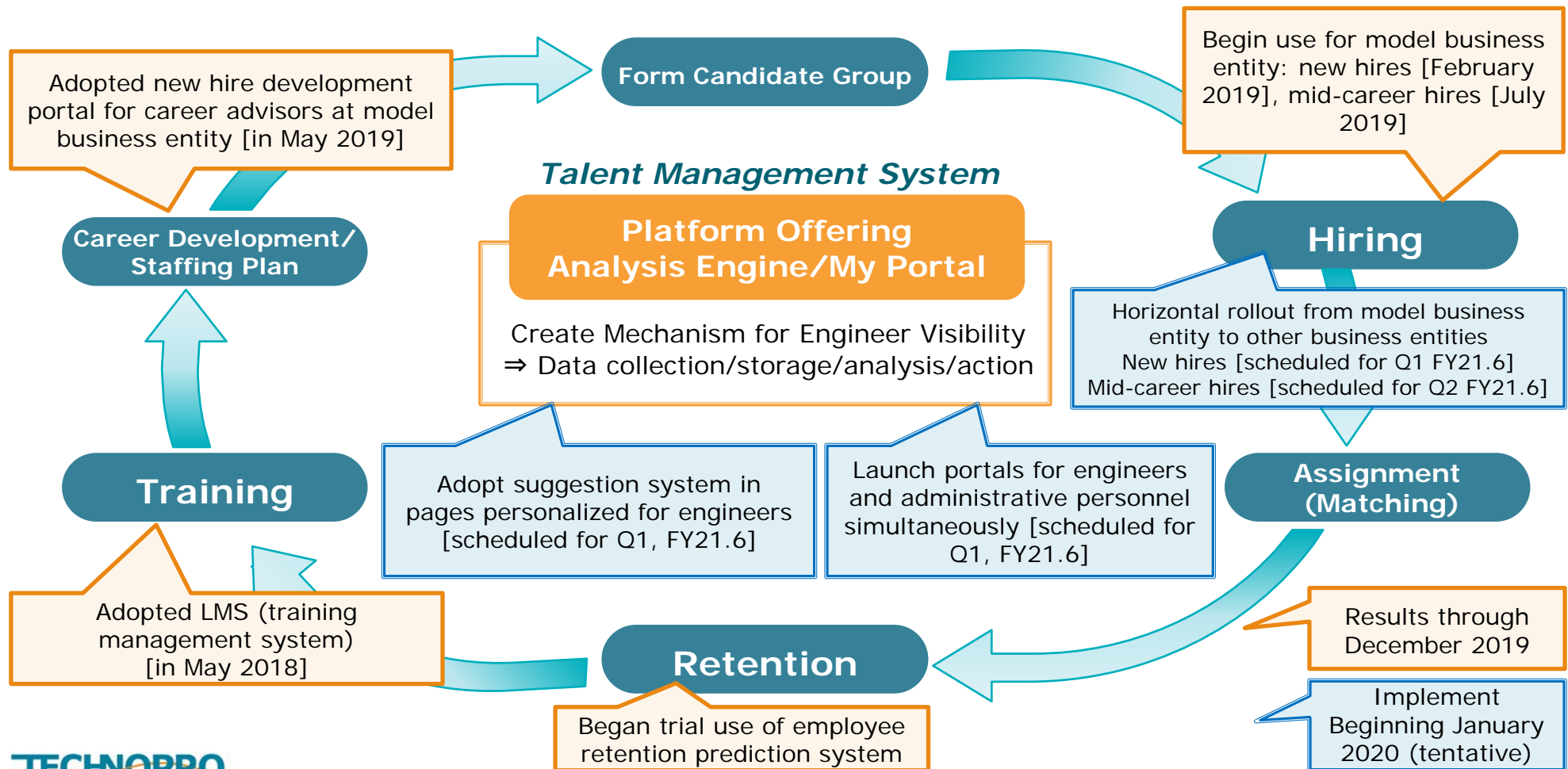
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IV	: New medium-term management plan development	12
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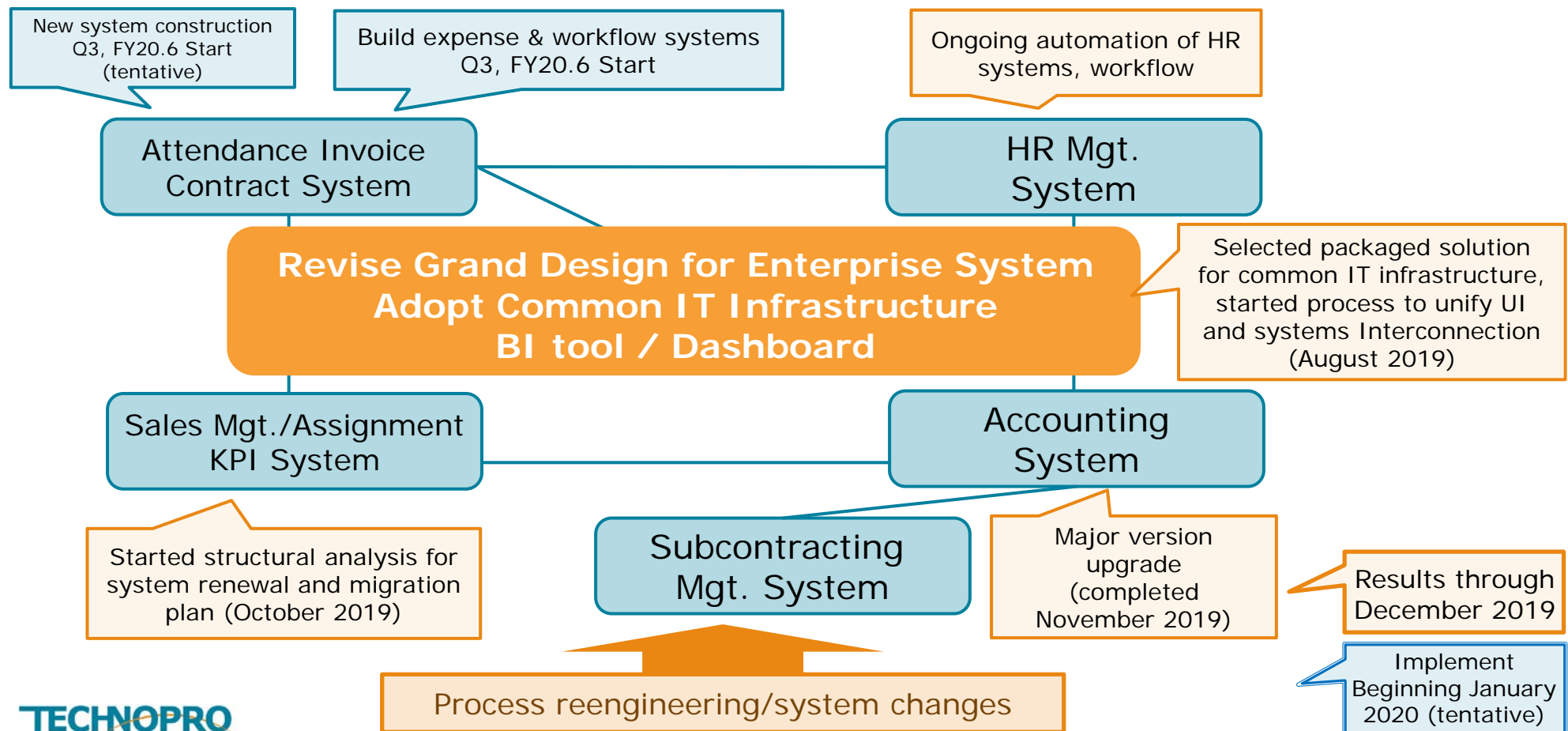
# Talent management system using IT

- Created a portal providing variety of valuable information on all engineers; provide optimal data to individuals through system
- Gradually initiating effectiveness measurement  
[Success case] Training Hours (YoY FY18.6 → FY19.6): 293,000 hours/year → 512,000 hours/year; ratio of which using LMS: 1.4% → 15.3%



# Enterprise system reform improve productivity

- We have completed the grand design formulation for our new system to generate productivity improvements. In parallel, we have confirmed that the return on invested capital (ROIC) will be sufficiently positive in terms of limiting administrative employee growth via reduced operational burden at branch level and SGA reductions stemming from transition to electronic-based evidence storage.
- We will begin building our new enterprise system from February 2020 and plan phased releases until January 2023 (we plan to adopt a common IT infrastructure to link systems in July 2020)



# Advancements in globalization:

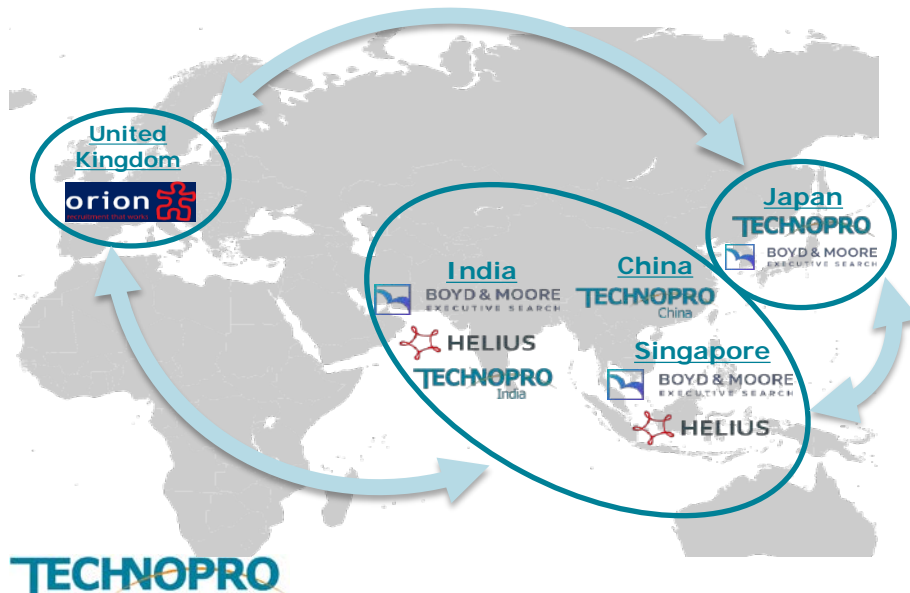
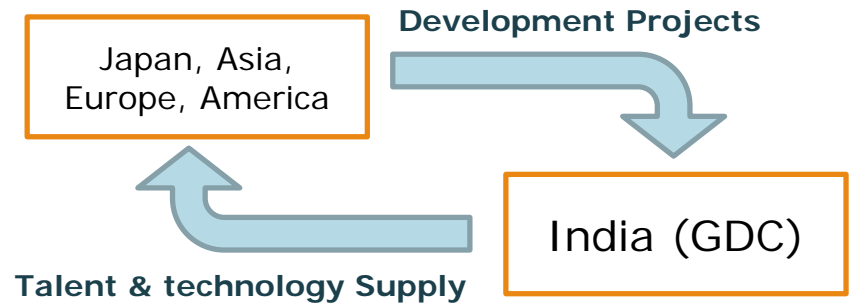
## Initiatives for global Collaboration

- Established a 100% subsidiary in India; added TPRI Technologies to the TechnoPro Group as a new overseas footprint
- TPRI functions as a global delivery center circulating engineers and new technologies across the world and offshoring base for around the world
- We intend to strengthen collaboration between Japanese and overseas locations, as well as between overseas locations, promoting global circulation of talent and technology (synergy creation)



In September 2019, we established a global base (Global Delivery Center, GDC) in **Bengaluru**, India, the city hosting companies from all over the world

Pursuing customers and orders from both Japanese and non-Japanese companies



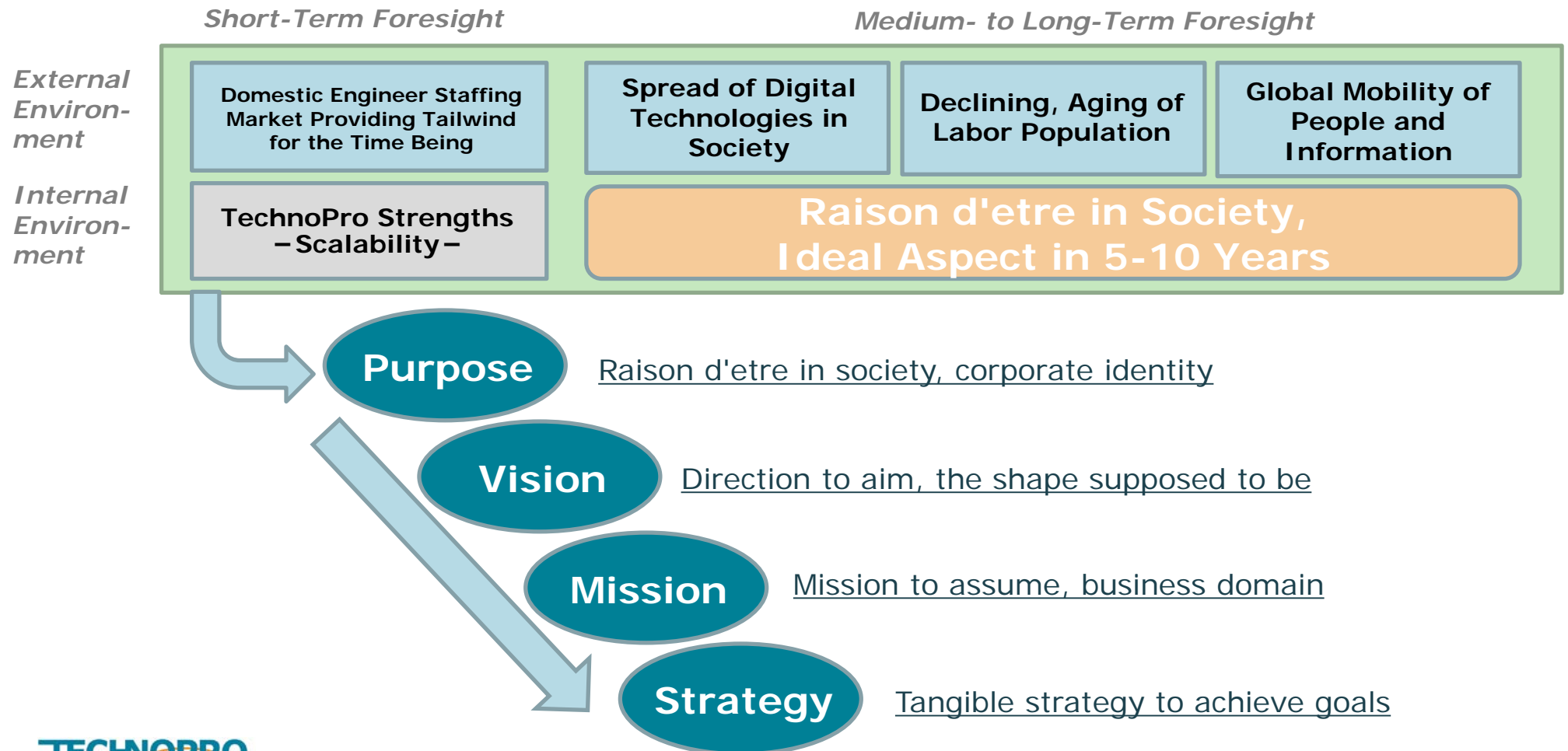
Regular Global Meetings held by TechnoPro Group overseas subsidiaries (deepen mutual understanding, encourage collaborative work, synergies)

### TechnoPro Group Collaborations (Partial List)

- |                               |  |
|-------------------------------|--|
| • TechnoPro ⇒ Helius/Orion    | Sales support to Japanese customers                  |
| • TechnoPro China ⇒ TechnoPro | Offshore development                                 |
| • Helius ⇒ TechnoPro          | RPA, recruitment services (IT)                       |
| • Techno Brain ⇒ Helius       | Recruitment services (IT)                            |
| • Orion ⇒ Techno Brain        | Recruitment services (Mechanical, IT)                |
| • Helius ⇒ Orion              | Service expansion support, recruitment services (IT) |
| • BMES ⇔ Helius               | Cross-selling  |

# New medium-term management plan development

- We began discussion in order to define the “**Purpose**” of TechnoPro Group based on the social demand derived from our consideration for the external environment over the medium to long term and specific strengths. Subsequently, we are building a new medium-term management plan, with the initiatives taken by **the next generation of management**, in order to be the ideal in the coming 5 or 10 years (our new plan to be announced in July end 2020)



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