Trust Tech Inc.

2154 Tokyo Stock Exchange First Section

8-Sept.-16

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FISCO Ltd. Analyst
Hiroyuki Asakawa

Aims to sustain the strong growth pace and achieve high profitability through initiatives to broaden regional and business field scope

Trust Tech Inc. <2154> is a staffing company that mainly dispatches engineers and manufacturing staff and handles consignments for development, design, and production. Its core strength is dispatching engineers, and Trust Tech stands out among listed companies in the technology staffing industry with its aggressive pursuit of overseas opportunities too.

Trust Tech prepared a medium-term business plan in August 2015 that set business goals of “sustaining an annual growth pace of at least 20%” and “achieving 10% consolidated operating margin.” It also presented a growth strategy in August 2016 that places emphasis on regional and business field initiatives aimed at realization of plan’s goals. Specifically, Trust Tech intends to expand business in IT and software development areas and bolster operations to capitalize on Internet of Things (IoT) and artificial intelligence (AI) areas at subsidiary Freedom Inc., and it recently announced the acquisition of MTrec Limited (below, MTrec), a staffing company based in the United Kingdom.

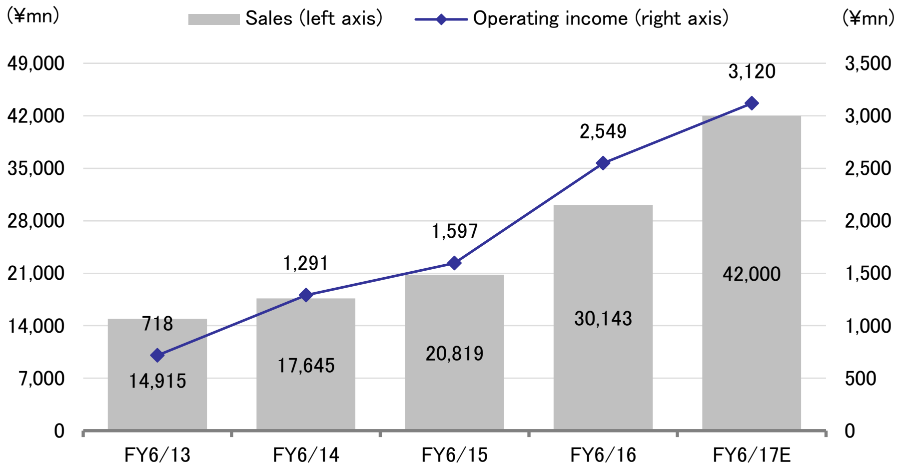
MTrec is located in northeastern England and mainly handles dispatching and consignment services for manufacturing. It caters to automotive and consumer electronics firms as core customers and is growing at a rapid pace. We have a very positive view of Trust Tech’s future potential highlighted by this acquisition due to alleviation of M&A failure risk through selection of a company operating in the UK that has a mature staffing market, use of an earn-out arrangement, and retention of an ownership stake by a founder and major shareholder. We think it clarifies a path for subsequent M&A deals.

Trust Tech has been sustaining robust growth. It posted large increases in sales and profits in FY6/16, albeit with contributions from subsidiaries acquired during the period, to ¥30,143mn in sales (+44.8% YoY) and ¥2,549mn in operating income (+59.6%). It also aims to continue high sales and profit growth rates in FY6/17 to ¥42,000mn in sales (+39.3%) and ¥3,120mn in operating income (+22.4%), through organic growth and M&A benefits. We believe Trust Tech is capable of attaining the FY6/17 guidance in light of continuation of tight supply-demand conditions for engineers in Japan as well as upbeat momentum at MTrec.

Check Point

- Sustaining a high utilization rate even while hiring over 200 new graduates in recent years
- Steadily improving profitability in the manufacturing field segment
- Posted steep sales and profit increase in FY6/16 that exceeded expectations

Results Trends



Company Overview

Two major business fields – engineering and manufacturing

(1) History

Sanei Shoji Inc. established Kyousei Sangyou Inc. (Trust Tech's predecessor) in 1997 as a special subsidiary based on the Act on Employment Promotion etc. of Persons with Disabilities. Amuse Capital acquired all of the company's shares and changed its name to Trust Works Sanei Inc. in 2004 and also expanded business scope to dispatching services (specified worker dispatching business) and other areas. Trust Works Sanei acquired all shares in former Trust Tech Inc., which was a company under Amuse Capital, in 2005 and entered the engineer dispatching business. It merged with former Trust Tech in 2008 and changed its name to Trust Tech Inc., completing the foundation of current operations.

Trust Tech subsequently pursued a strategy of M&A deals to accelerate growth, including rapid acquisitions as subsidiaries of PLM (now, consolidated subsidiary TTM Inc.) in 2009, International Dispatching Human Resources Limited (now, consolidated subsidiary HKTT Limited) in 2010, and Freedom (consolidated subsidiary) and Kanamoto Engineering (now, consolidated subsidiary Trust Ideal Inc.) in 2015. It announced a plan to acquire UK-based dispatching firm MTrec as a subsidiary in August 2016.

Trust Tech listed shares on the JASDAQ Securities Exchange in June 2007 (it was named Trust Works Inc. at the time of the listing) and switched to the First Section of the Tokyo Stock Exchange in December 2013.

History

August 1997	Sanei Shoji Inc. established Kyousei Sangyou Inc. (Trust Tech's predecessor) in Sagamihara city (Kanagawa Prefecture) as a special subsidiary based on the Act on Employment Promotion etc. of Persons with Disabilities
November 2004	Amuse Capital acquired all of the company's shares and renamed it Trust Works Sanei
December 2004	Trust Works Sanei submitted a notification as a specified worker dispatching business and acquired operations and some assets for human resource services and other businesses (restaurant and movie theater business) from Sanei Shoji; started these businesses
March 2005	Acquired Techno Assist Sagami as a wholly owned subsidiary
June 2005	Acquired all shares in Trust Tech from Amuse Capital and started engineer dispatching business
July 2005	Established Kyousei Sangyou Inc. as a special subsidiary based on the Act on Employment Promotion etc. of Persons with Disabilities
November 2006	Changed the company name to Trust Works
June 2007	Listed shares on the JASDAQ Stock Exchange
October 2008	Absorbed Trust Tech and changed the company name to Trust Tech Inc.
March 2009	Acquired all shares of PLM from Radia Holdings Premier and changed the company name to TTM Inc.
April 2010	Following the merger of the JASDAQ Securities Exchange and the Osaka Securities Exchange, listed on the Osaka Securities Exchange JASDAQ market
June 2010	Acquired all shares in International Dispatching Human Resources Limited and changed the company name to HKTT Limited
August 2012	TTM Inc. and Techno Assist Inc. merged under the company name TTM Inc. (TTM Inc. became the surviving company.)
August 2013	Changed from TSE JASDAQ standard to the Second Section of the Tokyo Stock Exchange
December 2013	Switched shares to the First Section of the Tokyo Stock Exchange
July 2015	Acquired all shares in Freedom, making it a wholly owned subsidiary
July 2015	Acquired an IT-related technical solutions business from Techno Power
October 2015	Acquired Kanamoto Engineering, the engineer dispatching subsidiary of Kanamoto, as a subsidiary (by acquiring its shares) and changed the name to Trust Ideal Inc.
August 2016	Acquired an 85% stake in MTrec Limited, a UK-based dispatching company, and converted it to a consolidated subsidiary
October 2016	Plans to absorb consolidated subsidiary Trust Ideal

Source: FISCO Ltd. from securities reports and company releases

(2) Situation at group companies

Trust Tech has two main business domains – engineering field that covers engineer dispatches and development and design consignments and manufacturing field that handles manufacturing consignments and dispatching of manufacturing staff to production lines. These two businesses appear as reporting segments in the company's financial statements. Trust Tech's overall income consists of these two reporting segments plus "others" income from special subsidiary Kyousei Sangyou that handles employment for disabled persons and real estate leasing business.

Trust Tech has expanded business scope through multiple M&A deals. In Japan, it currently operates as a corporate group with the parent business and consolidated subsidiaries TTM, Freedom (and its subsidiary), and Trust Ideal. TTM manages manufacturing-related field, and other group firms, including parent business, handle engineering field. Trust Tech has already announced plans to absorb Trust Ideal in the parent business as of October 1, 2016 aimed at improving business efficiency due to overlap of business content with the parent.

Overseas initiatives are an important element of Trust Tech's growth strategy. Hong Kong-based HKTT is handling engineer introductions and other services as end-June 2016. Trust Tech announced plans to acquire an 85% stake in MTrec, a UK-based dispatching firm for technology and manufacturing staff, and make it a consolidated subsidiary at the start of August 2016 (it plans to implement the purchase on August 30, 2016). This is an important first step toward full-fledged delivery of staffing services in overseas markets, and Trust Tech is headed toward healthy income contributions by overseas business from FY6/17.

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Overview of Trust Tech's Group Companies

Company name	Business domain	Business content	Equity stake	Comment
Trust Tech Inc.	Engineering field	Engineer dispatches, subcontracting, and outsourcing business	-	
TTM Inc.	Manufacturing field	Manufacturing subcontracting, consignment, and dispatch business	100%	
Freedom Inc.	Engineering field	Control-related software development and design assistance	100%	Has a subsidiary
Trust Ideal Inc.	Engineering field	Engineer dispatches and subcontracting	100%	Slated for absorption on October 1, 2016
Kyousei Sangyou Inc.	Others	Job placement for disabled persons	100%	
HKTT Limited	Engineering field	Engineer recruiting	100%	
MTrec Limited	Manufacturing field	Worker dispatch business and worker recruitment business for manufacturing workers and engineers	85%	August 30, 2016

Source: FISCO Ltd. from securities reports and company releases
*Also plans to establish multiple companies in Asia

■ Detailed Trends by Business Segment

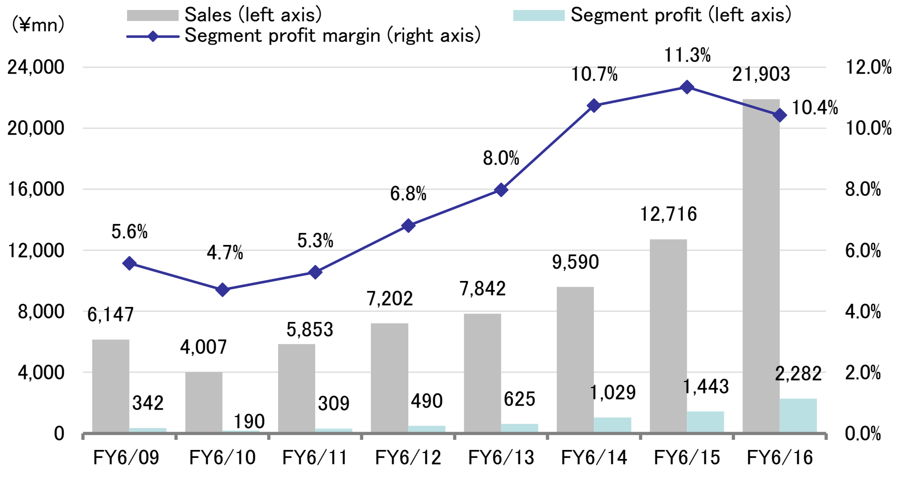
Sustaining a high utilization rate even while hiring over 200 new graduates in recent years

(1) Engineering field

a) Business summary
Trust Tech previously referred to the engineering field as "engineer dispatches, subcontracting, and outsourcing." In other words, this business handles dispatches, subcontracting, and outsourcing for R&D, design, production technology, and other technology areas at customer companies. Actual business content can be largely divided into dispatching engineering and development, design, and other consignments. Segment sales totaled ¥21,903mn in FY6/16 with about ¥16,000mn from engineer dispatches and around ¥6,000mn from consignments. The consignments business mainly involves work conducted by the company's engineers at customer facilities, and outsourcing development at its own facilities is very rare.

1) Business profitability
The engineer dispatch and consignment business charges higher average prices, because of the added value of "engineers," versus manufacturing staff dispatches and manufacturing outsourcing described below. Price difference results in the profitability gap between the two segments. While it might appear that consignments should be more profitable than dispatching service, dispatches deliver higher profitability in many cases because process step estimates, deadlines, and other aspects of consignment business often differ from the initial budget in actual implementation.

Engineering field Segment – Sales, Profit, and Profit Margin Trends



Source: FISCO Ltd. from company's financial results summary

2) Measures for acquiring personnel

Growth in this business obviously depends on the company's ability to secure a large number of talented engineers. It is more important to find engineers than destinations in the current tight labor environment. Trust Tech had focused on acquiring human resources by hiring people with an existing career who can be immediately used on projects. However, it has been hiring new graduates more aggressively since about two years ago and is hiring from this group at a pace of 200-300 people per year over the past few years, including 260 graduates in April 2015 and roughly 200 graduates in April 2016 (these values are just for Trust Tech's parent business).

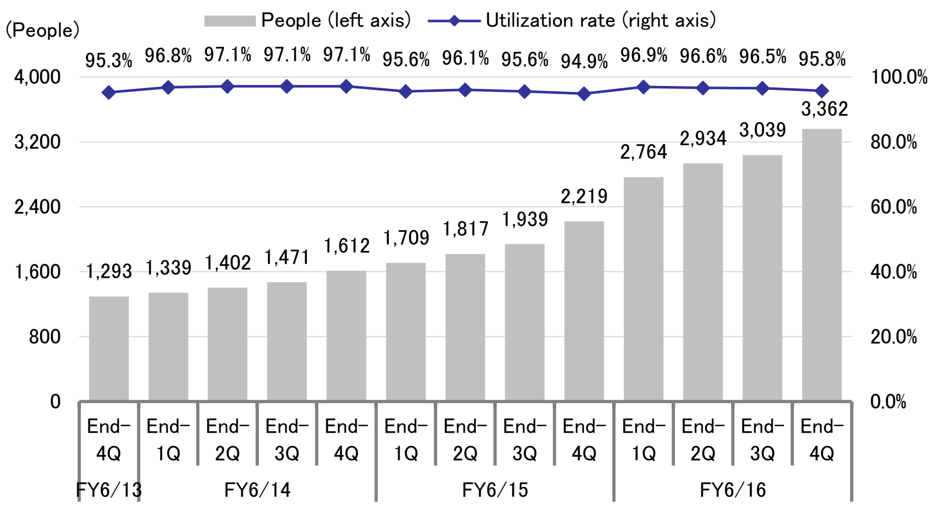
Trust Tech continues to hire mid-career employees at a pace of about 80-90 people per month from the roughly 1,000 who contact it. The staffing industry, including Trust Tech, is managing to acquire mid-career human resources because of the high job mobility of dispatched engineers. Although dispatched engineers are officially employees of the staffing company, they actually work at customer companies. Dispatched engineers have a variety of motivations for changing jobs, such as customer companies and working environments and treatment, and these aspects are contributing to vibrant mid-career hiring throughout the industry.

b) Recent trends

The engineering field had 3,362 engineer employees as of end-June 2016. Trust Tech makes efforts to diversify its dispatch destinations and raise the flexibility in meeting requests to change assignments in order to secure engineers. It has been steadily increasing the number of engineers it employs thanks to success in these efforts, aggressive recruitment measures, and M&A deals.

Another key indicator for an ordinary staffing company, besides the number of employees, is the utilization rate. This is the percentage of people who are actually working on dispatch and consignment business out of the engineers available for dispatching. Trust Tech has been sustaining this rate at a high level of 95-97% in recent years, an indication that its engineer dispatching and consignment business is effectively running at full capacity. The high utilization rate is a positive factor for earnings by boosting the average dispatching price in negotiations for dispatching service.

Engineering field Segment – Employees and Utilization Rate Trends



Source: FISCO Ltd. from company's financial results summary

Trust Tech has more than 600 customer sites for engineer dispatching and consignment services. While the customers cover a wide range of industries, needs are particularly strong at this point in transportation equipment and semiconductor and semiconductor production equipment (SPE) industries.

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Trust Tech has outlined the following growth strategies for the engineering field segment in the near term: 1) national initiatives to acquire human resources and recruit customer companies, 2) pursuit of synergies with consolidated subsidiary Freedom, and 3) improved business efficiency. Planned absorption of consolidated subsidiary Trust Ideal by the parent business in October 2016 is part of the promotion of better business efficiency. Engineer dispatching charges a higher average dispatching price, and this means that targeting increases in dispatch headcount and larger sales leads to more earnings than emphasis on cutbacks in employee logistic costs. This dynamic gives Trust Tech the incentive to deploy its business nationwide. Trust Tech also intends to proactively acquire other businesses that have the potential to broaden its scope.

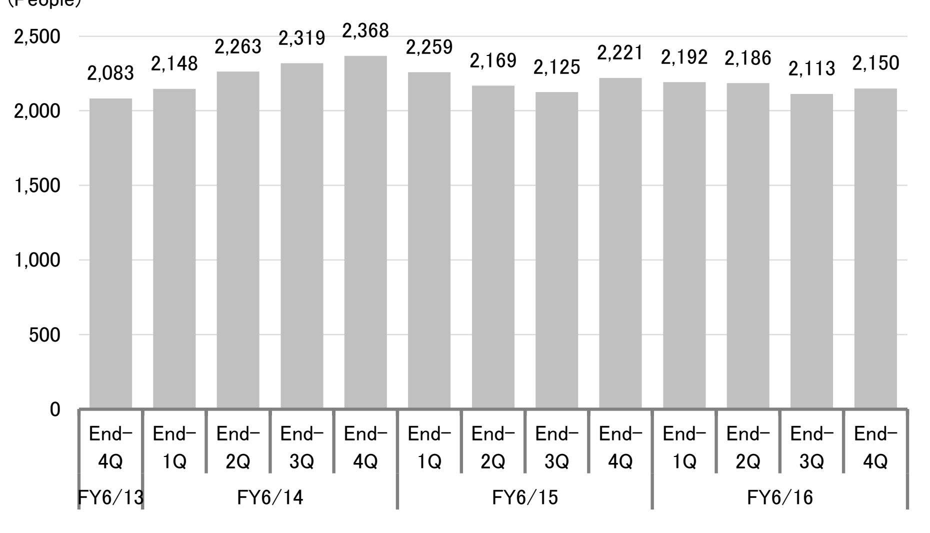
Steadily improving profitability in the manufacturing field segment

(2) Manufacturing business

a) Business summary
Trust Tech previously referred to the manufacturing field as “manufacturing subcontracting, consigning, and dispatching.” In other words, this business handles subcontracting of production line operations at customer customers and manufacturing staff dispatches. Actual business content can be largely divided into on-site subcontracting and manufacturing staff dispatches with respective shares that fluctuate in a range of 40-60%. The FY6/16 breakdown was roughly 40% in on-site subcontracting and 60% in manufacturing staff dispatches.

Trends in the number of employees for the manufacturing field slightly differ from the engineering field described above. Employee volume varies in a range of 2,000 to 2,500 people in response to fluctuations in manufacturing subcontracting and dispatching demand. Additionally, demand for manufacturing subcontracting and dispatching services is rooted in labor cost reduction at customer companies. Given this background, the company uses a combination of full-time employees and part-time employees in the manufacturing field. These aspects manifest in the fluctuation of headcount in the manufacturing field segment.

Manufacturing field Segment – Employee Volume Trend



Source: FISCO Ltd. from company’s financial results summary

1) Business profitability
Manufacturing staff dispatch and subcontracting services charge an average price that is typically about 30% less than the price for engineers. The average price also fluctuates sharply and contract terms tend to be shorter because of impacts from strong and weak demand periods. Manufacturing dispatch and subcontracting service has lower profitability due to these factors. Manufacturing subcontracting and manufacturing staff dispatch services currently generate similar profitability. It is theoretically possible to obtain higher profitability in subcontracting than dispatches because of room in this business to raise profitability through effort-driven improvements in productivity. In reality, however, it is difficult to generate surplus spread in subcontracting owing to tough pricing and terms presented by customers.

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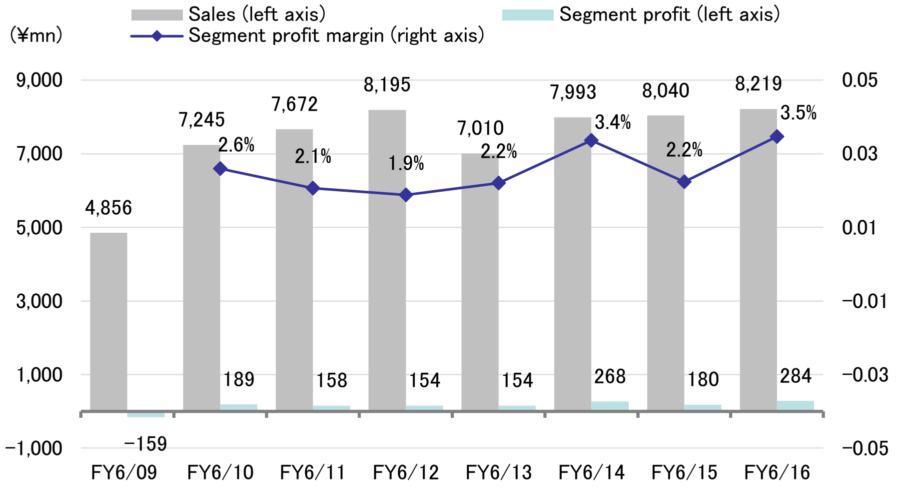
We think emphasis on boosting business profitability through measures related to human resource acquisition described below are a higher priority in assessing profitability for manufacturing subcontracting and dispatch business.

2) Measures for acquiring personnel
Human resource recruitment and efficient management are key points for expansion of manufacturing subcontracting and dispatch business profits too. However, the business strategy differs because of significant discrepancies in average pricing, contract term, and other conditions compared to engineer dispatching. Regionality affects “efficient human resource management” in the manufacturing subcontracting and dispatch business. A good example of this issue would be an order for manufacturing subcontracting from a plant in Hokkaido and utilization of production staff living in the Kanto area. Accommodations for production staff and other costs clearly squeeze profit margin. Conversely, recruitment of production staff living near the plant leads to significant cost savings.

Trust Tech pursues customer deals nationwide but also promotes human resource acquisition activities with a theme of “local hiring and local work,” in light of the above-mentioned features of manufacturing subcontracting and dispatch business. This is an effort to improve the efficiency of hire matching. These ground-level efforts are paying off in steady improvement of manufacturing field profitability.

Manufacturing field Segment – Sales, Profit, and Profit Margin



Source: FISCO Ltd. from company’s financial results summary

b) Recent trends
Demand in the manufacturing field remains upbeat, and inquiries are rising mainly from transportation equipment and electronic equipment manufacturers. Trust Tech promotes the efficiency of hire matching and orders recruitment with emphasis on earnings per deal in this environment, in line with a management policy focused on earnings and profitability.

These measures are succeeding as seen in the increase in manufacturing field segment profitability to 3.5% in FY6/16. The 3.5% margin is a sufficiently healthy level for the manufacturing subcontracting industry. However, Trust Tech is aiming for 5% margin from this segment and plans to achieve 5% by improving the efficiency of manufacturing field business as a whole through better efficiency in hire matching as seen in its “local hiring and local work” theme and customer recruitment that takes into account regionality.

Medium-Term Business Plan and Growth Strategy

Expansion achieved through broadening regional and business area scope

(1) Medium-term business plan background and overview

Trust Tech prepared and disclosed a medium-term business plan in August 2015. It set business goals of “sustaining an annual growth pace of at least 20%” and “achieving 10% consolidated operating margin” based on organic growth and M&A.

In August 2016, Trust Tech announced a medium-term business plan that retains content from the plan disclosed on August 2015 and updates growth strategies for realizing the goals. It specifically calls for realization of growth and expansion, thereby “sustaining an annual growth pace of at least 20%” and “achieving 10% consolidated operating margin,” through establishment of a “unique position” in regional and business field scope.

Specific income values in the medium-term business plan only go through FY6/17, but the plan’s business goals imply just over ¥50,000mn in sales in FY6/18 and just over ¥60,000mn in sales in FY9/16. Trust Tech hopes to attain the goal of 10% operating margin in FY9/16.

(2) Details of the medium-term growth strategy

The medium-term growth strategy fundamentally aims to expand in regional and business field scope and thereby realize overall growth. Trust Tech outlined unique positions it is targeting in each of these thrusts in order to solidify attainment of growth.

a) Regional scope
Regional scope refers to the geographical areas where the company operates its businesses. Trust Tech understands that it will be difficult to maintain the growth pace just in the domestic market, and it also expects competition to get tougher in the domestic market. The global market, meanwhile, is seven times larger than Japan’s staffing market (about ¥6trn) at roughly ¥42.4trn. We think it only natural for Trust Tech to seek growth room with global initiatives in light of the global market size and the current situation in which its customers are deploying design, development, and production sites overseas. Additionally, we believe Trust Tech is capable of making effective use of business and operational knowhow cultivated in the domestic market in the global market (particularly mature markets in developed countries).

Given the situation described above, Trust Tech is targeting a unique position in regional scope with “business foundations for engineering and manufacturing dispatch services in multiple countries.”

b) Business field scope
Business field scope refers to the domains it covers. Trust Tech provides engineering and manufacturing services. For the manufacturing dispatch and subcontracting business, customers are manufacturers and dispatch and subcontracting involve “production” regardless of the manufactured items. Engineer dispatches, meanwhile, currently mainly consist of services for machinery and electrical customers through the parent business. Subsidiary Freedom covers IT and software areas. Trust Tech hopes to strengthen IT and software areas and also enter IoT and AI areas with large market potential to establish a unique position in business area scope.

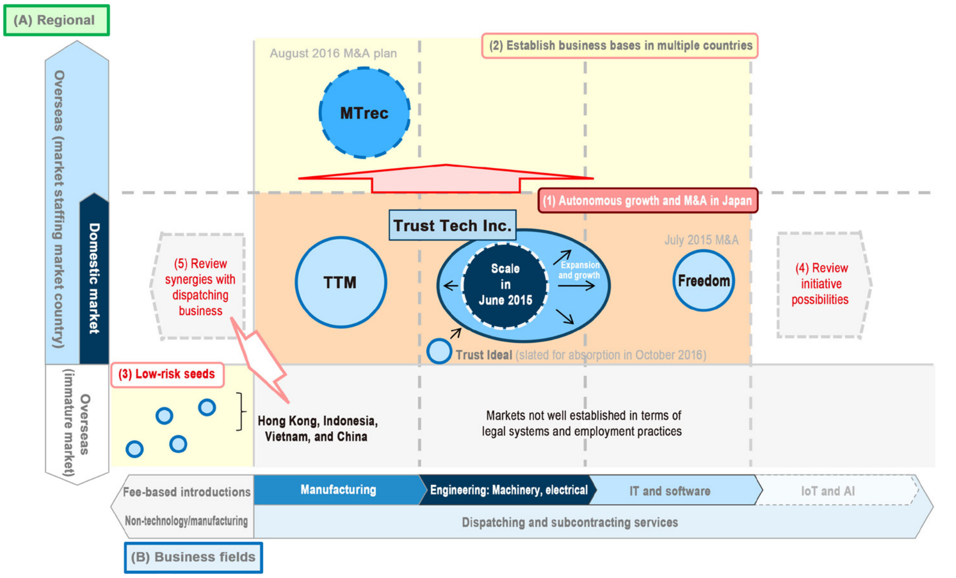
c) Conclusions
We review Trust Tech’s growth strategy in the medium-term business plan. For business fields, it supplies manufacturing dispatch and subcontracting as well as engineer dispatch and subcontracting in machinery and electrical and IT and software development areas in the Japanese market.

For regions, it operates the businesses explained above in Japan, but it only handles human resource introductions through the Hong Kong subsidiary in overseas markets. Hong Kong is an immature country from the standpoint of the staffing market, and constraints existed for expansion of the business. Trust Tech realized from this experience that it needed to pursue ramp-up of overseas business in countries and regions with mature staffing markets. It subsequently heard about the M&A opportunity at MTrec and decided to make the purchase after a review of the content and acquisition scheme. It is in the process of taking a major step forward in overseas business as of August 2016.

Trust Tech indicated in “initiatives and measures under review from FY6/17” that it is looking at domestic M&A deals for engineering field (machinery, electrical, IT, and software) and M&A opportunities in mature overseas staffing markets, such as Europe and the United States. It is also reviewing possibilities of establishing local entities and collaboration with local Chinese companies in immature Asian markets.

We think the growth strategy targeting regional and business field scope has the potential to give clear guidelines for executive decisions at Trust Tech. These two views are also useful in making an accurate assessment of past M&A deals and various business actions. Trust Tech is capable of learning from an accumulation of past successes and failures to realize future success.

Conceptual Diagram of Growth and Expansion by Broadening Regional and Business Field Scope



Source: From medium-term business plan briefing materials

MTrec acquisition is an attractive deal with significant potential

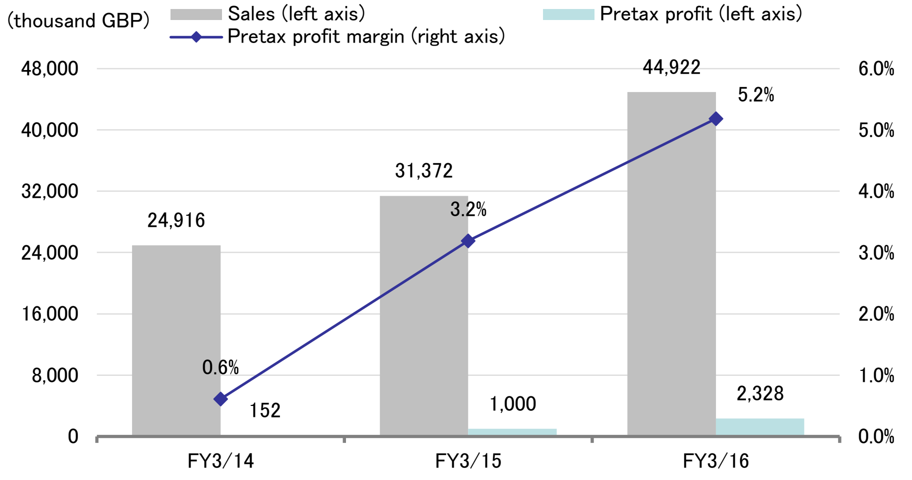
(3) Acquisition of UK-based MTrec

Trust Tech announced that it plans to acquire MTrec, a staffing company based in the United Kingdom, in August 2016. We believe this acquisition is an attractive deal with significant potential because MTrec fits well with the growth strategy focused on regional and business field scope and the purchase uses a scheme that curtails financial risk and management risk as much as possible.

a) MTrec summary

MTrec is a staffing company established by Robin Armstrong and David Musgrave in 2006. It has headquarters in Newcastle Upon Tyne in northeastern England, and businesses include manufacturing staffing and engineer dispatch and introduction services at MTrec itself and nurse, helper, and other care human resource services at subsidiary MTrec Care. MTrec reported GBP44.9mn in sales and GBP2.3mn in pretax profit in FY3/16.

MTrec Performance Trends



Source: FISCO Ltd. from company releases

MTrec delivers services to manufacturers located in northeastern England where it is headquartered. This region has a concentration of automotive and other manufacturing, including many Japanese-affiliated companies such as the plant of Nissan Motor Manufacturing UK (Sunderland) and Hitachi Rail Europe's train vehicle plant (Newton Aycliffe). MTrec has been steadily increasing business with automotive, consumer electronics, machinery, and other manufacturing firms as key customers in this market environment.

b) MTrec acquisition scheme

The acquisition scheme is also an important aspect of this deal with two key points. One point is David Musgrave, who is one of the founders, will continue to own a 15% stake and assist in achieving growth along with the existing management team. The second point is alleviation of investment risk through use of an earn-out format. Earn-out arrangements delay payment of a portion of the acquisition value until realization of future earnings growth. While it is widely used in the United States and other countries, awareness and usage frequency remain low in Japan.

In this case, the scheme utilizes MTrec's profits in FY3/17 and FY3/18 as earn-out items for the assessment. While the payment if conditions are met is ¥2,309mn (converting GBP17,104,000 at ¥135/GBP), the initial payment is just ¥1,440mn. The ¥869mn difference is deferred, and Trust Tech will make a payment in the range of zero to ¥869mn, based on fulfillment of profit targets for the above-mentioned two periods, as a lump sum two years later in May 2018.

Trust Tech does not disclose profit targets for FY3/18. We think they are set in line with the medium-term business plan's goals of 20% annual sales growth and 10% operating margin.

Summary of the MTrec Share Acquisition

Acquired shares	MTrec shares	1,700 shares
Shareholder composition after the purchase	Trust Tech David Musgrave (Founder, Director)	1,700 shares (85.0%) 300 shares (15.0%)

Purchase price	Roughly ¥1,440-2,309mn (GBP10,664k-17,104k)
Initial payment (August 30, 2016)	Roughly ¥1,440mn (GBP10,664k)
Deferred payment (May 2018)	Roughly zero to ¥0-869mn (GBP0-6,440k) *Payment value determined according to the extent of MTrec's earnings progress after the purchase based on the share purchase contract

(Reference rate: ¥135.00/GBP)

Source: From financial reports briefing materials

We believe the MTrec acquisition is an excellent deal in various respects (some of the following points overlap with content explained above). The first is acquiring a company in a country with a mature staffing market (United Kingdom). The UK's staffing market accounts for 12% of the global market, putting it on par with the Japanese market that has a 13% share. It is actually more mature than Japan considering the population difference between the two countries. We think it is significant that Trust Tech secured a site in a country with a mature staffing market as a first step in its full-fledged overseas initiative.

The second is continued involvement by a founder as a shareholder. While Trust Tech acquired companies outright (100% of equity) in past M&A deals, Mr. Musgrave, one of the founders, is remaining as a shareholder at the request of Trust Tech. We believe the retention of a UK person (and founder) who has the same interests as Trust Tech as a shareholder is effective in alleviating management risk.

The third is use of an earn-out format. M&A deals typically require an all-or-nothing decision of whether the two sides can agree on an acquisition price. This type of decision comes with substantial risk for either conclusion. Earn-out arrangements, meanwhile, are broadly utilized in Europe and the United States as an effective way of alleviating acquisition risk. While cases of Japanese companies using this format are not widely known, we think the number is small. Trust Tech asserts that its recovery period for invested funds is the same whether MTrec's growth pace meets its expectations or not owing to use of the earn-out format.

The acquisition has a variety of other potential implications too, though for the time being we will be closely monitoring MTrec's earnings growth trend.

Business Performance

Posted steep sales and profit increase in FY6/16 that exceeded expectations

(1) FY6/16 results

Trust Tech reported steep sales and profit gains in FY6/16 with sales at ¥30,143mn (+44.8% YoY), operating income at ¥2,549mn (+59.6%), ordinary income at ¥2,528mn (+55.8%), and net profit attributable to owners of parent at ¥1,523mn (+48.7%). While it disclosed upward revisions of FY6/16 guidance in February 2016, actual results exceeded the higher targets for sales and earnings.

Review of FY6/16 Results

(Unit: ¥mn)

	FY5/16	FY6/16					
		Initial forecast	Actual	YoY change		Difference	
				Growth rate	Versus the plan	Growth rate	Versus the plan
Sales	20,819	28,500	30,143	9,324	44.8%	1,643	5.8%
Operating income	1,597	2,300	2,549	951	59.6%	249	10.8%
Ordinary income	1,623	2,300	2,528	905	55.8%	228	9.9%
Net profit attributed to parent owners	1,024	1,450	1,523	499	48.7%	73	5.1%

Source: FISCO Ltd. from company's financial results summary

Engineering field posted ¥21,903mn in sales (+72.3%) and ¥2,282mn in ordinary income (+58.2%), achieving sharp increases. Trust Tech increased income substantially because of continuing robust human resource needs from the automotive industry, semiconductor firms, and others and upbeat results at Trust Ideal and Freedom added as subsidiaries and IT-related business acquired from Techno Power during the fiscal year. While ordinary income margin dropped from FY6/15's 11.3% to 10.4% in FY6/16, the setback reflects the impact of one-time costs related to M&A. The average dispatching price, an indicator of actual profitability, climbed steadily with support from tight labor market conditions.

Manufacturing field segment booked ¥8,220mn in sales (+2.2% YoY) and ¥284mn in ordinary income (+58.1%). Trust Tech bolstered profitability, amid strong orders from auto parts manufacturers and other transportation equipment firms and electrical equipment manufacturers, thanks to better hire matching, securing profits at the deal level, and fixed cost reductions. It thus lifted ordinary income margin from FY6/15's 2.2% to 3.5% in FY6/16. This was the highest level in the eight years since the Bankruptcy of Lehman Brothers (during FY6/09 to FY6/16).

Others income reflects Kyousei Sangyou, which handles job placement for people with disabilities, and real estate leasing business. The hefty decline in FY6/16 occurred because of the sale of leasing real estate that terminated real estate leasing business at the end of September 2015.

Review of FY6/16 Segment Results Trends

(Unit: ¥mn)

		FY5/16	FY6/16		
			Actual	YoY change	Composition ratio
Sales	Engineering field	12,716	21,903	72.3%	72.6%
	Manufacturing field	8,040	8,220	2.2%	27.3%
	Others	85	37	-56.5%	0.1%
	Sales prior to adjustments (total)	20,842	30,161	44.7%	100.0%
	Adjustment value	-23	-18	-	-
	Sales (total)	20,819	30,143	44.8%	-
Ordinary income	Engineering field	1,443	2,282	58.2%	90.3%
	Manufacturing field	180	284	58.1%	11.3%
	Others	-0	-39	-	-1.6%
	Ordinary income prior to adjustments (total)	1,623	2,528	55.8%	100.0%
	Adjustment value	-	-	-	-
	Ordinary income (total)	1,623	2,528	55.8%	-

Source: FISCO Ltd. from company's financial results summary

Trust Tech achieved steep overall sales and profit gains thanks to proactive recruitment of human resources in new graduate and mid-career hires amid growing labor shortages with upbeat employment conditions and healthy progress in finalizing available M&A deals that targeted business succession and synergies. We think realization of the highest profit margin since the Bankruptcy of Lehman Brothers in FY6/16 in manufacturing field, an area where Trust Tech needed to make an improvement, deserves notice as a major success of management efforts.

(2) Outlook for FY6/17

Trust Tech guides for sales at ¥42,000mn (+39.3% YoY), operating income at ¥3,120mn (+22.4%), ordinary income at ¥3,100mn (+22.6%), and net profit attributable to owners of parent at ¥1,870mn (+22.7%) in FY6/17.

The FY6/17 guidance projects weak progress through 1H (vs. full-year targets) for operating income and other earnings items mainly because of costs related to the MTrec acquisition and fewer operating days than in the previous year. While Trust Tech will incur goodwill depreciation charges of about ¥140mn per year over a 10-year period, it factors in roughly ¥100mn for FY6/17, the first fiscal year. It also estimates about ¥200mn in one-time costs. Trust Tech projects low fulfillment rates through 1H due to pressure on operating income from booking these costs in 1H. Fewer operating days contribute directly to weaker income (sales) too. Payments to employees (expenses), however, are monthly values and Trust Tech pays fixed amounts unrelated to the number of operating days. The difference weakens operating income.

We think Trust Tech's guidance for a robust 22.4% YoY rise in FY6/17 operating income even with these one-time impacts deserves notice and favorable assessment.

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Trust Tech Inc.
2154 Tokyo Stock Exchange First Section

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Review of FY6/17 Guidance

(Unit: ¥mn)

	FY6/16		FY6/17 (E)				
		YoY change	1H			Full year	
	Actual	Growth rate	Initial forecast	YoY change	Progress rate	Initial forecast	YoY change
Sales	30,143	44.8%	19,800	36.1%	47.1%	42,000	39.3%
Operating income	2,549	59.6%	1,142	3.1%	36.6%	3,120	22.4%
Ordinary income	2,528	55.8%	1,119	1.4%	36.1%	3,100	22.6%
Net profit attributable to owners of parent	1,523	48.7%	660	2.6%	35.3%	1,870	22.7%

Source: FISCO Ltd. from company's financial results summary

Trust Tech plans to revise reporting segments because of the acquisition of MTrec as a subsidiary in August 2016. It has not finalized the details yet, but presented a breakdown of FY6/17 income for three segments – engineering field, manufacturing field, and overseas business. It removes the Hong Kong business from the reporting segments through FY6/16 (engineering and manufacturing fields) and adds it to MTrec as the overseas business.

Breakdown of FY6/17 Guidance

(Unit: ¥100mn)

		FY6/17 (E)		
		Value	YoY change	YoY growth rate
Sales	Engineering field	257.7	39.7	-
	Manufacturing field	88.0	5.4	-
	Overseas business	75.2	74.1	-
	Sales (total)	420.0	118.5	39.3%
Operating income	Engineering field	29.1	2.6	-
	Manufacturing field	3.8	1.1	-
	Overseas business	4.2	4.2	-
	Operating income before adjustments	37.3	7.9	25.4%

Source: FISCO Ltd. from financial reports briefing materials

For engineering field, it targets ¥25,770mn in sales (+¥3,970mn YoY) and ¥2,910mn in operating income (+¥260mn)*. These levels work out to 11.3% operating income margin. We believe Trust Tech is capable of attaining the targets. We expect continuation of tight conditions for human resources from transportation equipment and semiconductor and SPE industries, just as in FY6/16. Trust Tech is aggressively hiring in this environment and promoting assignments that address demand. We project steady expansion of operating income margin due to the prospect of a sustained upward trend in average dispatch and subcontracting prices.

* Trust Tech discloses values in hundreds of million yen, and we use this format in our report.

For manufacturing field, Trust Tech envisions ¥8,800mn in sales (+¥540mn YoY) and ¥380mn in in operating income (+¥110mn), and these values put operating income margin at 4.3%. Profitability is fundamentally weaker in manufacturing staff dispatch and manufacturing subcontracting business due to lower average prices for dispatch and subcontracting services than in the engineering field. Trust Tech is utilizing a strategy that seeks to expand profit margin by reducing logistics costs for manufacturing staff by bolstering operations rooted in local areas. While 4.3% operating income margin is not a simple goal to achieve, we believe it is within reach if Trust Tech makes progress in demand areas amid hiring amid tight labor market conditions and will be closely monitoring advances.

Overseas business covers income from UK-based MTrec and multiple Asian subsidiaries. Trust Tech intends to fully consolidate MTrec's FY3/17 results, and its overseas business targets are ¥7,520mn in sales (+¥7,410mn) and ¥420mn in operating income (+¥420mn). We expect the bulk of YoY changes to come from MTrec based on Asia (including Hong Kong) at about ¥100mn in sales and a roughly ¥10mn operating loss. MTrec has been sustaining healthy growth, as explained above, driven by automotive and electronic equipment firms concentrated in northeastern England. Although the UK's exit from the EU should be treated as a latent risk factor, we do not expect sudden manifestation of this risk in FY6/17.

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Simplified Income Statement and Key Indicators

(Unit: ¥mn)

	FY6/13	FY6/14	FY6/15	FY6/16	FY6/17 (E)
Sales	14,915	17,645	20,819	30,143	42,000
YoY change	-3.5%	18.3%	18.0%	44.8%	39.3%
Gross profit	3,320	4,288	4,868	7,192	-
Gross profit margin	22.3%	24.3%	23.4%	23.9%	-
SG&A expenses	2,602	2,996	3,271	4,643	-
SG&A expenses ratio	17.4%	17.0%	15.7%	15.4%	-
Operating income	718	1,291	1,597	2,549	3,120
YoY change	14.0%	79.9%	23.7%	59.6%	22.4%
Operating income margin	4.8%	7.3%	7.7%	8.5%	7.4%
Ordinary income	804	1,319	1,623	2,528	3,100
YoY change	20.6%	63.9%	23.1%	55.8%	22.6%
Net profit attributable to owners of parent	460	797	1,024	1,523	1,870
YoY change	29.9%	73.2%	28.5%	48.7%	22.7%
EPS after the stock split (¥)	24.19	41.87	53.39	78.91	96.63
Dividend after the stock split (¥)	15.00	25.00	30.00	40.00	45.00
BPS after the stock split (¥)	182.84	200.47	228.22	274.80	-

Simplified Balance Sheet

(Unit: ¥mn)

	End-FY6/12	End-FY6/13	End-FY6/14	End-FY6/15	End-FY6/16
Current assets	4,136	4,487	5,283	6,551	8,984
Cash and deposits	1,747	2,175	2,429	3,038	3,930
Sales credits	2,122	1,931	2,388	2,954	4,060
Non-current assets	1,073	1,056	1,172	1,174	2,929
Property, plant, and equipment	184	192	193	221	256
Intangible assets	140	130	145	130	2,202
Investments, etc.	749	733	832	821	471
Assets (total)	5,209	5,544	6,455	7,725	11,914
Current liabilities	1,877	2,019	2,584	3,287	6,531
Accrued expenses	1,371	1,327	1,447	1,754	2,394
Non-current liabilities	42	44	38	31	60
Shareholders' equity	3,288	3,484	3,837	4,409	5,323
Capital stock	1,476	1,476	1,492	1,529	1,538
Capital surplus	633	634	650	687	696
Retained earnings	1,179	1,373	1,694	2,193	3,089
Accumulated other comprehensive income	1	-4	-5	-3	-5
Net assets (total)	3,289	3,479	3,832	4,406	5,322
Liabilities and net assets (total)	5,209	5,544	6,455	7,725	11,914

Cash Flow Statement

(Unit: ¥mn)

	FY6/12	FY6/13	FY6/14	FY6/15	FY6/16
Cash flows from operating activities	477	777	861	1,209	1,418
Cash flows from investing activities	-85	-75	-154	-147	-1,807
Cash flows from financial activities	-270	-275	-451	-459	1,287
Effect of exchange rate change on cash and cash equivalents	-0	1	-1	6	-7
Net increase (decrease) in cash and cash equivalents	120	427	254	609	891
Cash and cash equivalents at beginning of period	1,626	1,747	2,175	2,429	3,038
Cash and cash equivalents at end of period	1,747	2,175	2,429	3,038	3,930

Shareholder Returns

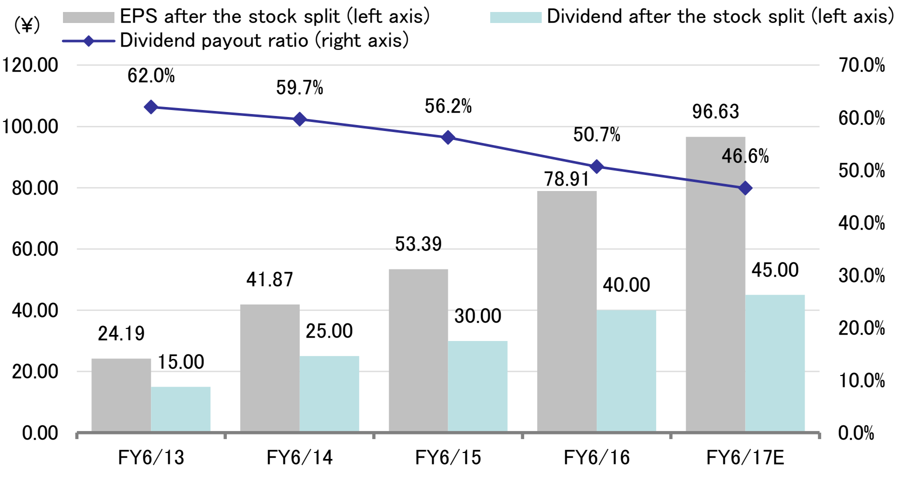
Plans to increase the FY6/17 dividend by ¥5

Trust Tech sees shareholder returns as an important management issue and is mainly focusing on dividends. It places emphasis on stability in setting the dividend value, but also intends to have the dividend reflect earnings while securing internal retention in order to fund expansion of business scope and improvements in the income structure. Trust Tech currently uses a 50% dividend payout ratio as a target for dividends adhering to this basic policy.

Trust Tech paid a ¥55 nominal dividend in FY6/16 with a ¥30 interim dividend and a ¥25 period-end dividend. However, it conducted a 1-to-2 split of the stock on April 1, 2016, and annual dividend value adjusted for the split was ¥40 with the interim dividend at ¥15 and the period-end dividend at ¥40. Dividend payout ratio came to 50.7% in FY6/16.

For FY6/17, Trust Tech has disclosed a ¥45 full-year dividend based on a ¥15 interim dividend and ¥30 period-end dividend. This level works out to a 46.6% dividend payout ratio given guidance's ¥96.63 in earnings per share. We think Trust Tech might expand the dividend in line with earnings upside in light of a basic policy of paying dividends that reflect earnings with a goal of a 50% dividend payout ratio, as noted above.

Earnings Per Share, Divided, and Dividend Payout Ratio Trends



Source: FISCO Ltd. from company's financial results summary
*Implemented 1-to-2 stock split on April 1, 2016

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