

Trust Tech Inc.

2154

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■ Index

■ Summary	01
1. 1H FY6/17 results beat expectations, upbeat momentum likely to continue in FY6/17 too	01
2. Steadily implementing measures aimed at realization of medium-term growth strategies	01
3. MTrec's earnings proceeding at the anticipated pace	01
4. Possibility of sales growth staying at 20% YoY in FY8/16 too	01
■ Company profile	02
1. History	02
2. Business overview	03
3. Income structure of the engineering field	04
4. Income structure of the manufacturing field segment	05
■ Business Performance	01
1. Overview of 1H FY6/17 results	07
2. Trends in the engineering field	08
3. Trends in the manufacturing field	10
4. Overseas field trends	11
■ Business Outlook	01
1. FY6/17 outlook	12
2. Outlook for FY6/18	14
■ Longer-term growth strategy	16
1. Medium-term business plan background and overview	16
2. Details of the medium-term growth strategy	17
■ Shareholder return policy	20

■ Summary

Making healthy progress in the medium-term growth strategy with profits expanding as planned in domestic and overseas businesses

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

1. 1H FY6/17 results beat expectations, upbeat momentum likely to continue in FY6/17 too

Sales and profits exceeded period-start forecast in 1H FY6/17. Key drivers of upside in overall results were that UK-based MTrec Limited (below, MTrec), which Trust Tech acquired as a subsidiary in August 2016, posted income on track with expectations and domestic technology and manufacturing segments both beat initial targets on robust demand and smooth recruitment of human resources. Healthy business conditions are continuing in 2H too, and we think Trust Tech is likely to overshoot full-year forecast.

2. Steadily implementing measures aimed at realization of medium-term growth strategies

Trust Tech is making steady progress with medium-term growth strategies. Upbeat 1H FY6/17 results offer evidence of this progress. Additionally, Trust Tech is implementing measures that are “laying seeds” for business from FY6/18, including reorganization to optimize human resource assignments and sales activities in the engineering field, strengthening business capabilities in local areas for the manufacturing field, and investing in Asia for the overseas field.

3. MTrec’s earnings proceeding at the anticipated pace

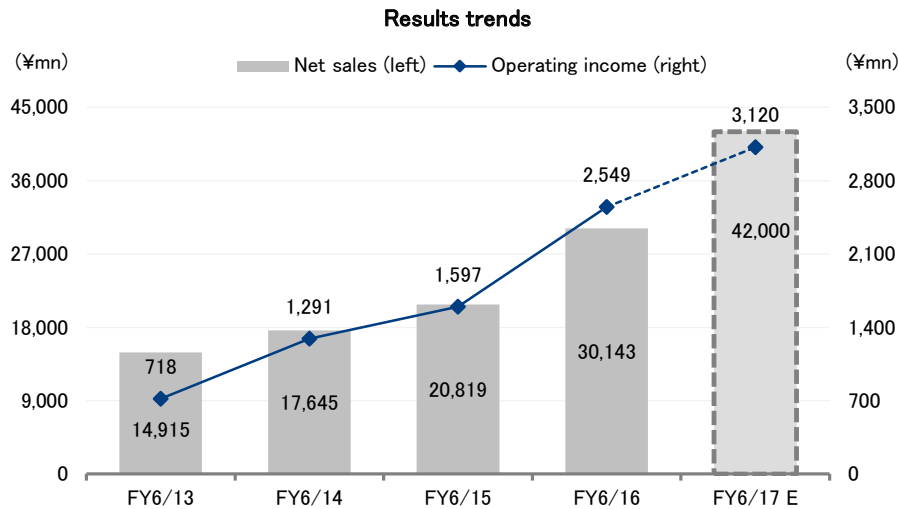
MTrec, which has a central role in the medium-term growth strategy, continues to perform well. Customer firms in northeastern England, where MTrec is headquartered, have been bolstering production facilities, and this activity is likely to tighten supply-demand conditions for staffing services. MTrec is broadening core coverage from automotive to electric equipment and machinery and steadily growing results in line with the anticipated view at the time of the acquisition. Trust Tech’s curtailment of acquisition risk by utilizing an earn-out format for the acquisition is another positive aspect.

4. Possibility of sales growth staying at 20% YoY in FY8/16 too

We think healthy momentum should continue in FY6/18 as well, driven by double-digit growth in engineering and overseas fields and further improvements in manufacturing profitability. While Trust Tech targets sales gains of over 20% from organic growth and M&A in the medium-term growth strategy, we believe it is capable of coming close to the target just with organic growth.

Key Points

- Possibility of beating FY6/17 period-start forecast as well
- Targeting continuation of strong advances led by organic growth and M&A
- Seeking realization of growth targets through regional and business field scope



Source: Prepared by FISCO from the Company's financial results

Company profile

Make active use of M&A to achieve high growth. Aggressive overseas development

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 and broaden scope, 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 (changed its name to Trial but was absorbed into Trust Tech in October 2016) in 2015. It acquired UK-based dispatching firm MTrec as a subsidiary in August 2016 and is moving more quickly with overseas initiatives.

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 Sagami-hara 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. (now, Trust Tech With 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
September 2016	Established a local entity in Indonesia and a joint-venture company in China
October 2016	Absorbed consolidated subsidiary Trust Ideal

Source: Prepared by FISCO from securities reports and Company releases

Utilizes three business segments – engineering, manufacturing, and overseas

2. Business overview

Trust Tech has two main business domains – the engineering field that covers engineer dispatches and the development, design, subcontracting and manufacturing field that handles manufacturing subcontracting and dispatching of manufacturing workers to production lines. It switched to three business segments from FY6/17 with the addition of an overseas field to cover overseas business. Trust Tech's overall income consists of these three reporting segments plus other income from special subsidiary Trust Tech With Inc. that handles employment for disabled persons and the real estate leasing business.

Trust Tech has expanded business scope through multiple M&A deals, as seen in the history section. In Japan, it currently operates as a corporate group with the parent business and consolidated subsidiaries TTM and Freedom (and its subsidiary). TTM manages the manufacturing-related field, and other group firms, including parent business, handle the engineering field. Trust Tech absorbed 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. Trust Tech took its first overseas action with the acquisition of a Hong Kong-based company handling engineer introductions and other services in June 2010. It renamed this subsidiary as HKTT and is still operating the business. Trust Tech acquired an 85% stake in MTrec, a UK-based dispatching company for technology and manufacturing staff in August 2016. This is an important first step toward full-fledged delivery of staffing services in overseas markets.

In September 2016, Trust Tech established a local entity in Indonesia and a joint venture in Shandong (China) with aims of expanding business in Asia. It is also working on establishment of a joint-venture company in Shanghai (China) (as of March 2017).

Overview of Trust Tech's group companies

Company name	Business domain	Business content	Equity stake	Comment
Trust Tech Inc.	Engineering field	Dispatch of Engineers, subcontracting, and outsourcing business	-	
TTM Inc.	Manufacturing field	Manufacturing subcontracting, outsourcing, and dispatch business	100%	
Freedom	Engineering field	Control-related software development and design assistance	100%	Including subsidiary
Kyousei Sangyou Inc.	Others	Job placement for disabled persons	100%	
HKTT Limited	Engineering field	Engineer recruitment	100%	
MTrec Limited	Manufacturing field	Worker dispatch business and worker recruitment business for manufacturing workers and engineers	85%	As of August 30, 2016; including subsidiary
PT. TRUST TECH ENGINEERING SERVICE INDONESIA	Manufacturing field	Dispatch of manufacturing staff and engineers, personnel introductions, etc.	100%	Established in September 2016
Shandong Trust-Bridge Human Resources Inc.	Manufacturing field	Dispatch of Manufacturing staff and engineers, personnel introductions, etc.	49%	Established in September 2016

Source: Prepared by FISCO from securities reports and Company releases

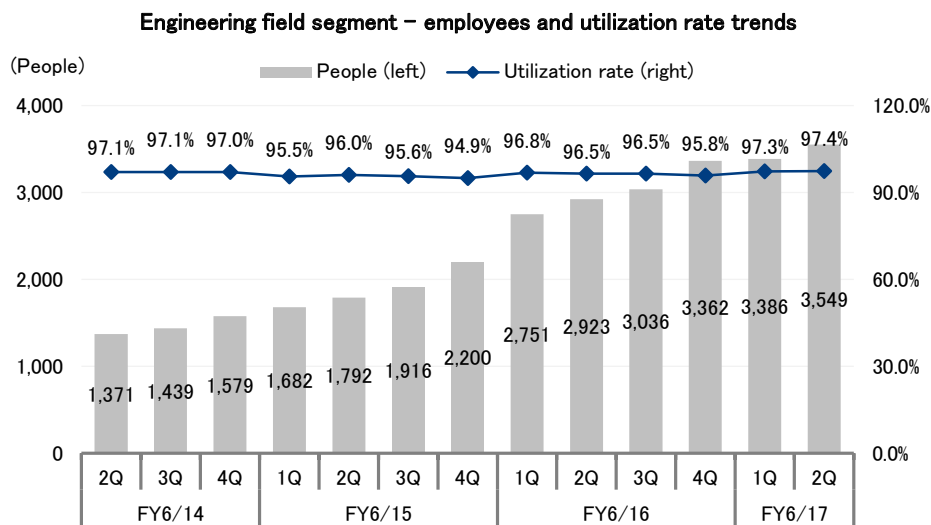
Recruiting engineers is vital to growth in the engineering field

3. Income structure of the engineering field

In the engineering field, Trust Tech handles the dispatch, subcontracting, and outsourcing of its engineers for R&D, design, production technology, and other technology areas at customer companies. Actual business content can be largely divided into dispatching engineers and development, design, and other consignments. Segment sales totaled ¥21,903mn in FY6/16 with about ¥16,000mn from dispatch of engineers and around ¥6,000mn from outsourcing. The outsourcing business mainly involves work conducted by the Company's engineers at customer facilities, and outsourcing development at its own facilities is very rare.

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

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 has been hiring from this group at a pace of 200-300 people per year over the past few years, including about 200 graduates in April 2015 and roughly 260 graduates in April 2016 (these values are just for Trust Tech’s parent business).



Source: Prepared by FISCO from the Company’s financial results

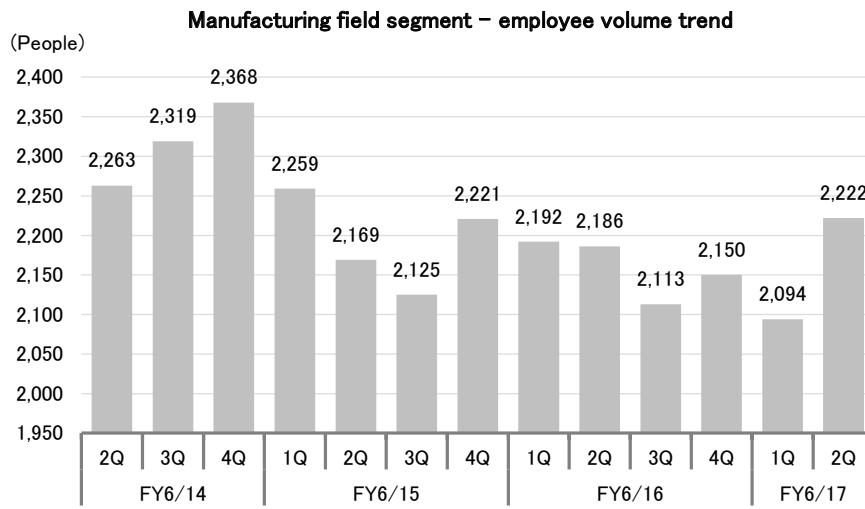
Trust Tech continues to hire mid-career employees at a pace of about 80-90 people per month from the roughly 1,000 who contact it. The staffing industry, including Trust Tech, is managing to acquire mid-career human resources because of the high job mobility of dispatched engineers. Although dispatched 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.

Pursuing stable growth and higher earnings with business initiatives in local areas for manufacturing field

4. Income structure of the manufacturing field segment

In the manufacturing field, Trust Tech handles subcontracting of production line operations (on-site subcontracting) at customer companies and dispatch of manufacture workers utilizing its production line staff. Actual business content can be largely divided into on-site subcontracting and dispatch of manufacturing staff 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 dispatch of manufacturing workers.

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.



Source: Prepared by FISCO from the Company's financial briefing materials

Dispatch of manufacturing workers and subcontracting services charge an average price that is typically 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 worker dispatch and subcontracting service has lower profitability due to these factors. Manufacturing subcontracting and manufacturing worker dispatch services currently generate similar profitability. It is theoretically possible to obtain higher profitability in subcontracting than dispatch 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. 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.

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. Accommodation 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.

Business Performance

1H FY6/17 results exceeded period-start forecast

1. Overview of 1H FY6/17 results

Trust Tech reported double-digit sales and profit growth to all-time highs in 1H FY6/17 with sales at ¥20,471mn (up 40.7% YoY), ¥1,306mn in operating income (up 18.0%), ¥1,283mn in ordinary income (up 16.3%), and ¥726mn in profit attributable to owners of parent (up 12.9%).

Compared to period-start forecast, sales overshot by 3.4% and operating income and other profit items exceeded targets by 14.4%, 14.7%, and 10.1% respectively. Progress rates toward full-year initial forecast were 48.7% for sales (coming close to 50%) and about 40% for the profit items.

Overview of 1H FY6/17 Results

	(¥mn)						
	FY6/17				Full year		
	1H		YoY	vs. period-start forecast	Progress rate toward FY6/17 forecast	Period-start forecast	YoY
Period-start forecast	Actual						
Net sales	19,800	20,471	40.7%	3.4%	48.7%	42,000	39.3%
Operating income	1,142	1,306	18.0%	14.4%	41.9%	3,120	22.4%
Ordinary income	1,119	1,283	16.3%	14.7%	41.4%	3,100	22.6%
Profit attributable to owners of parent	660	726	12.9%	10.1%	38.8%	1,870	22.7%

Source: Prepared by FISCO from the Company's financial results

Strong demand continued in the staffing services industry, including Trust Tech, in 1H FY6/17 amid positive conditions in domestic employment, as seen in the high effective job openings ratio. Important drivers are upbeat production of industrial machinery and electronic parts and devices and healthy personal consumption.

Trust Tech expanded results in domestic engineering and manufacturing fields in this environment. For engineering, it posted sharply higher sales and profits at ¥12,418mn in sales (up 20.3% YoY) and ¥1,292mn in operating income (up 30.3%). The number of engineering employees grew more than expected amid robust demand for engineer dispatching and subcontracting. While the operating loss in the overseas field expanded more than the outlook as explained below, we think strong earnings in the engineering field played a major role in enabling Trust Tech to absorb this impact and beat initial forecast in overall earnings.

For the manufacturing field, it reported ¥4,308mn in sales (up 4.3% YoY) and ¥171mn in operating income (up 61.4%). Sales growth was slower than in the engineering field, though the manufacturing field reached 49.0% fulfillment of the full-year target and achieved healthy progress similar to engineering.

The overseas field expanded 47.6-fold YoY to ¥3,756mn in sales due to the income contribution from MTrec, which was acquired as a subsidiary in August 2016. The ¥141mn operating loss largely stems from amortization of MTrec goodwill and a one-off charge for all of the acquisition-related expenses in 2Q. While the operating loss was bigger than anticipated because of temporary sales shortfall during the summer in August and September 2016, this negative portion appears to have been offset in 2H. EBITDA (operating income + goodwill amortization + depreciation costs + one-off acquisition costs), which removes acquisition-related extraordinary and one-off costs, shows a significant improvement to ¥135mn in 1H, from a slight loss a year earlier, and a 3.6% sales ratio.

Breakdown by business segments

	(¥mn)				
	FY6/16		FY6/17		
	1H	1H	YoY	Progress rate	Full year (E)
Net sales					
Engineering field	10,320	12,418	20.3%	48.2%	25,770
Manufacturing field	4,131	4,308	4.3%	49.0%	8,800
Overseas field	78	3,756	47.6	49.9%	7,520
Others	23	30	31.5%	-	-
Sales prior to adjustments (total)	14,554	20,513	40.9%	-	-
Adjustment value	-9	-42	-	-	-
Sales (total)	14,545	20,471	40.7%	48.7%	42,000
Operating income					
Engineering field	991	1,292	30.3%	44.4%	2,910
Manufacturing field	106	171	61.4%	45.2%	380
Overseas field	-0	-141	-	-	420
Others	-32	-35	-	-	-
Operating income prior to adjustments (total)	1,065	1,287	20.8%	-	-
Adjustment value	42	19	-	-	-
Operating income (total)	1,107	1,306	18.0%	41.9%	3,120

Source: Prepared by FISCO from the Company's results briefing materials

Segment earnings ahead of forecast on healthy progress in recruiting engineering

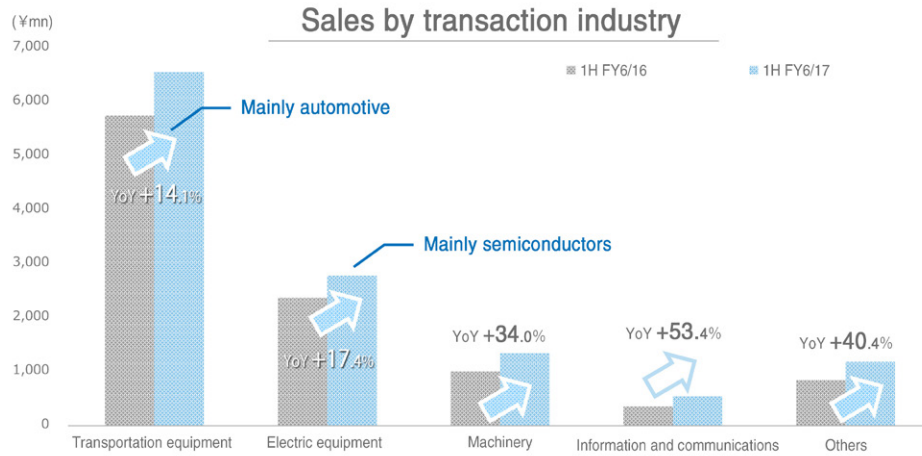
2. Trends in the engineering field

(1) Results trends and business environment

The engineering field, the primary business, reported sharply higher sales and profits in 1H FY6/17 at ¥12,418mn in sales (up 20.3% YoY) and ¥1,292mn in operating income (up 30.3%). While EBITDA margin dropped by 0.8pp YoY to 11.8%, operating margin rose 0.8pp from 9.6% a year ago to 10.4%, confirming healthy conditions.

Demand was strong in a wide range of industries, including transportation equipment and electric equipment. Trust Tech accommodated this demand with steady progress recruiting engineers, adding 626 engineers over the previous year to put the total number of engineers at 3,549 people at the end of December 2016. These trends fueled sales and profit increases mentioned above. EBITDA margin, meanwhile, modestly declined because of the impact on production costs of improving engineer benefits.

Review of sales by transaction industry



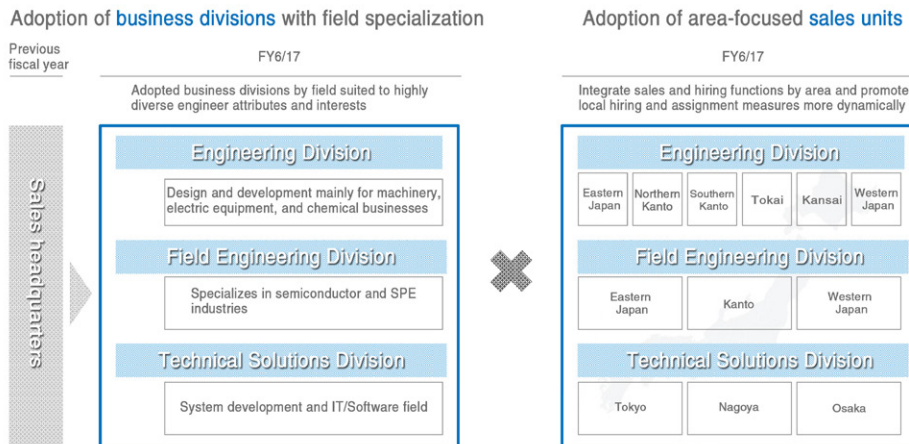
Source: From the Company's results briefing materials

(2) Main measures from 1H FY6/17

Human resource recruitment is the most important point for Trust Tech's engineering field, as noted earlier. As part of tackling this issue, Trust Tech reorganized in order to optimize business operations by engineering fields and regions. It created business units with field specialties (engineering, field engineering, and technical solutions) and sales units focused on areas (sales units for specific areas within the three business units).

The adoption of business units with field specialization seeks to provide opportunities suited to the highly diverse attributes and interests of engineers. Additionally, formation of sales units with area focus is an effort to achieve more dynamic promotion of local hiring and assignment measures. We think these initiatives are fundamentally aimed at recruitment of human resources and enhanced retention. The number of engineers employed by Trust Tech has been steadily rising and appears to have exceeded the plan target in 1H FY6/17.

Reorganization in the engineering field



Source: From the Company's results briefing materials

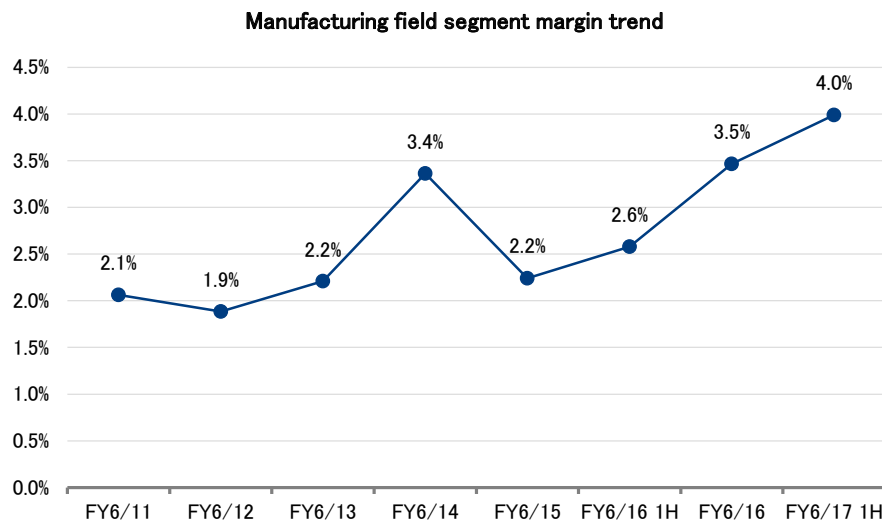
Significant improvement in operating margin thanks to success with business initiatives with local focus

3. Trends in the manufacturing field

(1) Results trends and business environment

The manufacturing field reported ¥4,308mn in sales (up 4.3% YoY) and ¥171mn in operating income (up 61.4%) in 1H FY6/17. Orders expanded from transportation equipment and electric equipment industries, lifting income.

Trust Tech has been focusing on “improvement of personnel efficiency through local-oriented sales activities” in order to raise business profitability, and the 1H results confirm contributions from this activity. Manufacturing EBITDA climbed from ¥111mn in the previous year to ¥175mn in 1H and EBITDA margin improved from 2.7% to 4.1%. Operating margin followed a similar trend with a 1.4pp YoY rise from 2.6% in the previous year to 4.0%.



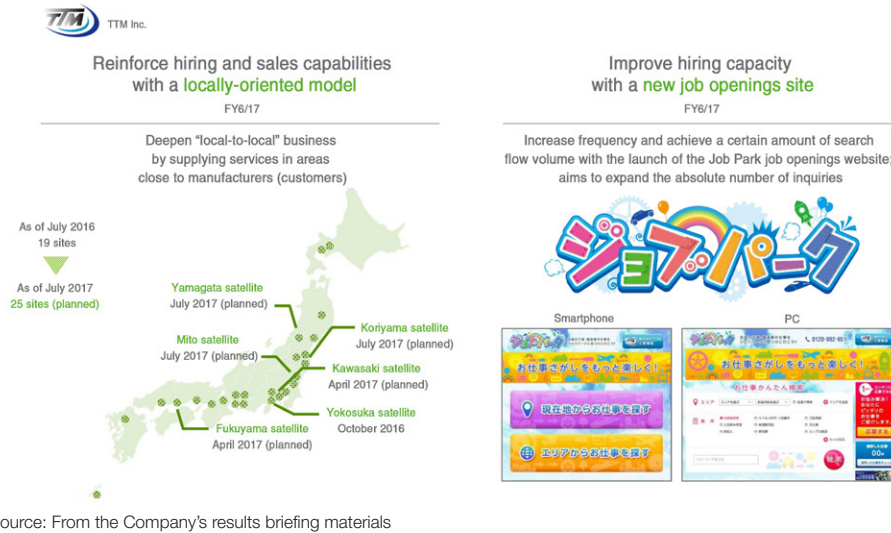
Note: Segment profit uses operating income from FY6/17; ordinary income in previous years
 Source: Prepared by FISCO from the Company's financial results

(2) Main measures in 1H FY6/17

Trust Tech emphasized improvements in hiring efficiency and sales efficiency by deepening area coverage in the manufacturing field. Subsidiary TTM, which handles the manufacturing business, continues to steadily establish local sites for hiring and sales activities. It aims to open six sites during FY6/17, expanding operations from 19 sites at period-start to 25 sites at period-end. TTM opened the Yokosuka satellite office in October 2016 and plans to launch the remaining five sites in 2H.

Additionally, TTM created the Job Park job openings website in order to enhance its hiring capabilities. It intends to implement measures that increase access volume, thereby boosting responses and hiring volume.

Example of manufacturing field measures



MTrec generating income roughly in line with expectations, pursuing investments in Asia

4. Overseas field trends

(1) Results trends and business environment

The overseas field grew considerably in 1H FY6/17 because of the MTrec acquisition effect. Sales rose sharply with a 47.6-fold YoY increase to ¥3,756mn, as noted above. While this segment posted an operating loss for 1H due to goodwill amortization and one-off expenses booked in 2Q, EBITDA, a real indicator of earnings that excludes these impacts, was ¥135mn, putting EBITDA margin at 3.6%.

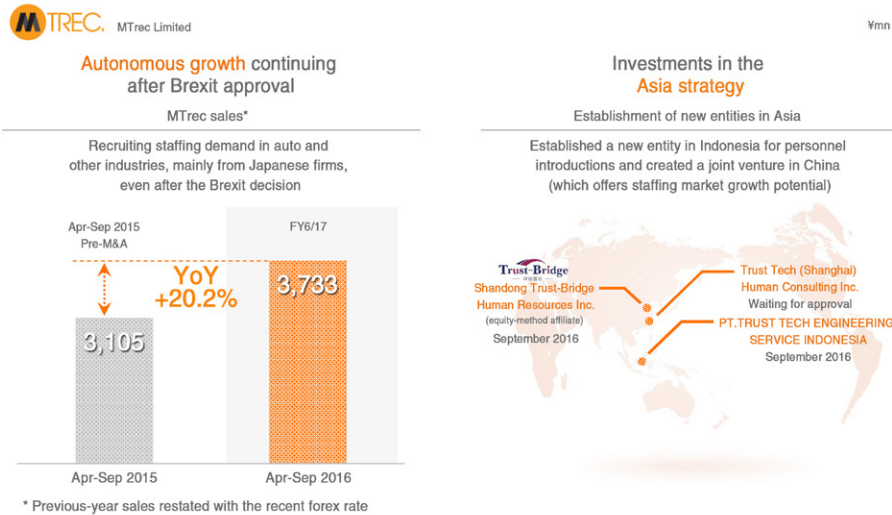
The UK business environment remains healthy without major changes in actual conditions, despite the national referendum voting to leave the EU (Brexit). MTrec results are roughly contributing as expected, even with the temporary sales decline, and sales in Apr-Sep 2016 were up 20.2% to ¥3,733mn on a real basis excluding the forex rate impact.

(2) Main measures in 1H FY6/17

Trust Tech strengthened the MTrec business foundation in the UK as a major initiative in overseas business during 1H. While there is concern in the UK about the future Brexit impact, as mentioned above, Trust Tech focused on securing human resources demand from the automotive industry and other sectors, mainly from Japanese companies, in order to support MTrec's ability to grow on its own after Brexit.

Trust Tech made investments aimed at future growth in Asia. Specifically, it established PT.TRUST TECH ENGINEERING SERVICE INDONESIA in Indonesia to handle personnel placements in September 2016 and also created a joint venture in Shandong, China (September 2016; equity-method affiliate). We think Shandong Trust-Bridge Human Resources (Trust-Bridge; Trust Tech owns 49%) deserves notice. While the Indonesia initiative has a research emphasis, mainly involving personnel placements and information gathering, Trust-Bridge aims to expand actual personnel dispatching business. The nationwide scope of the Trust-Bridge license also fosters expectations for future developments. We anticipate income contributions from this business as soon as FY6/18.

Initiatives in the overseas field



Source: From results briefing materials

Business Outlook

Possibility of beating FY6/17 period-start forecast as well

1. FY6/17 outlook

Trust Tech forecast for sales at ¥42,000mn (up 39.3% YoY), operating income at ¥3,120mn (up 22.4%), ordinary income at ¥3,100mn (up 22.6%), and net profit attributable to owners of parent at ¥1,870mn (up 22.7%) in FY6/17. These values have not changed from period-start levels.

Overview of the FY6/17 outlook

	FY6/16	FY6/17			YoY
		1H	2H (E)	Period-start forecast	
Net sales	30,143	20,471	21,528	42,000	39.3%
Operating income	2,549	1,306	1,813	3,120	22.4%
Operating margin	8.5%	6.4%	8.4%	7.4%	-
Ordinary income	2,528	1,283	1,816	3,100	22.6%
Profit attributable to owners of parent	1,523	726	1,143	1,870	22.7%

Source: Prepared by FISCO from the Company's financial results

Comparison of the 1H results and FY6/17 forecast demonstrates that the income structure is weighted toward 2H. We are not concerned about this distribution because of the following reasons. The first is seasonality of income in the staffing services business, including Trust Tech, and pattern of June as the peak month. This reflects the entry of new graduate employees in April and actual start of income contributions from these employees in June. The second is MTrec. While MTrec sales were weaker than expected in the summer months (August and September), which affected 1H numbers, MTrec has been catching up in 2H (January and February) and this trend should expand the discrepancy in 1H and 2H results. The third is income in the domestic engineering field. Employee build-up strongly affects results in the engineering field, as noted above. Trust Tech continues to steadily increase engineer volume, and this should expand the income base in 2H, versus the 1H level. Employment growth hence is also likely to drive the larger scale of 2H results. Given these factors, we expect 2H income to exceed 1H results and think Trust Tech should be capable of attaining FY6/17 targets. Individual segment income prospects and business conditions should be largely unchanged during 2H from trends seen through 1H.

For the engineering field, Trust Tech targets ¥25,770mn in sales (up ¥3,970mn YoY) and ¥2,910mn in operating income (up ¥260mn). We think the 1H results outpaced forecast and this segment is well on track to exceeding the full-year outlook as well. We expect continuation of tight conditions for human resources from transportation equipment and semiconductor and SPE industries. Trust Tech has been increasing engineer volume and raising the retention rate, thanks to success in reorganization to business units with field specialization and local hiring and assignments in the sales division, and these trends are contributing to steady expansion of income results.

For the manufacturing field, Trust Tech envisions ¥8,800mn in sales (up ¥540mn YoY) and ¥380mn in operating income (up ¥110mn). Profitability is fundamentally weaker in manufacturing worker dispatch and manufacturing subcontracting business than in the engineering field, and raising profit margin is an important issue for the segment. Trust Tech is utilizing a strategy that seeks to expand profit margin by reducing logistics costs for manufacture workers by bolstering operations rooted in local areas. It improved operating margin to 4.0% in 1H FY6/17 (vs. 2.6% a year earlier) thanks to these efforts. Trust Tech aims to expand the network of satellite offices in order to further reinforce sales capabilities with local focus. We anticipate even higher profit margins in 2H with help from these contributions.

For the overseas field, Trust Tech's targets are ¥7,520mn in sales (up ¥7,410mn) and ¥420mn in operating income (up ¥420mn). MTrec results effectively account for this segment's values. While MTrec modestly undershot forecast in 1H due to a temporary dip in summer sales, its results were roughly within the anticipated range. MTrec appears to have returned to plan levels in sales and profits in 2H after removal of factors that caused temporary sales contraction.

FY6/17 Outlook by segment

	(¥bn)		
	Amount	FY6/17	
		YoY change	Growth rate
Net sales			
Engineering field	25.77	3.97	-
Manufacturing field	8.80	0.54	-
Overseas field	7.52	7.41	-
Total net sales	42.00	11.85	39.3%
Operating income			
Engineering field	2.91	0.26	-
Manufacturing field	0.38	0.11	-
Overseas field	0.42	0.42	-
Operating income before adjustments	3.73	0.79	25.4%

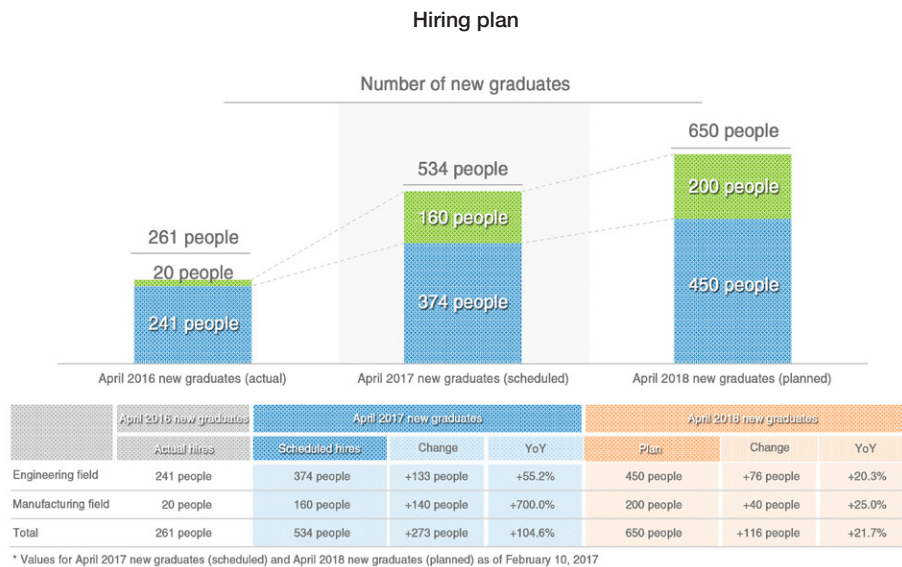
Source: Prepared by FISCO from the Company's results briefing materials

Capable of sustaining 20% sales growth again in FY8/16

2. Outlook for FY6/18

Trust Tech targets an annual sales growth rate of at least 20% in the current medium-term growth strategy. In the FY8/16 plan, this will be the one indicator. However, a 20% growth rate requires a sales increase of ¥8,400mn, which is not an easy hurdle, based on the ¥42,000mn sales target for FY6/17. Trust Tech aims to achieve the goal through a combination of organic growth and M&A-led growth.

We think the engineering field is capable of delivering 15-20% in organic growth, just as in FY6/17. This view takes into account the prospect of demand for staffing services that Trust Tech provides continuing current robust momentum and the Company's ability to steadily expand employment, including increases in new graduate hiring, at a corresponding pace. We expect engineering field sales to surpass ¥30,000mn in FY6/18 if the segment reaches about ¥26,000mn in FY6/17.



Source: From the Company's results briefing materials

Improvement in profitability is the main goal in the manufacturing field, and we see sales growth potential in a range of 5-10%. These points are the same as trends from FY6/17. We think this segment could target ¥9,400-9,500mn in FY6/18 sales if it posts ¥8,800mn in FY6/17 sales, as planned.

We expect MTrec to serve as the main source of overseas income again in FY6/18. Contributions from subsidiaries and joint ventures in Hong Kong, Indonesia, and China should still have relatively minor impacts on overall income during this fiscal year. MTrec achieved sales growth of over 20% in 1H FY6/17. We think MTrec is capable of attaining a similar level of growth in FY6/18 too because economic conditions are vibrant in northeastern England and many customer firms are expanding plant capacity. Forex fluctuations, however, could lower the sales outcome.

Our analysis suggests that organic growth should be capable of driving sales to about ¥48,000mn. This means that Trust Tech needs to add another ¥2,000mn in order to surpass ¥50,000mn. While M&A activity is one scenario for covering this portion, we believe Trust Tech also has the ability to reach ¥50,000mn through just organic growth.

Trust Tech Inc. | **24-Apr.-2017**
 2154 Tokyo Stock Exchange First Section | <https://www.trust-tech.jp/ir/>

For earnings, we think Trust Tech could come substantially closer to the 10% goal for companywide operating margin targeted in the medium-term business plan if sales increase in line with expectations thanks to healthy momentum in the engineering, manufacturing, and overseas fields supported by tight supply-demand conditions.

Simplified income statement and key indicators

	FY6/14	FY6/15	FY6/16	FY6/17	
				1H	Full year (forecast)
Net sales	17,645	20,819	30,143	20,471	42,000
YoY	18.3%	18.0%	44.8%	40.7%	39.3%
Gross profit	4,288	4,868	7,192	4,357	-
Sales ratio	24.3%	23.4%	23.9%	21.3%	-
SG&A expenses	2,996	3,271	4,643	3,050	-
Sales ratio	17.0%	15.7%	15.4%	14.9%	-
Operating income	1,291	1,597	2,549	1,306	3,120
YoY	79.9%	23.7%	59.6%	18.0%	22.4%
Operating margin	7.3%	7.7%	8.5%	6.4%	7.4%
Ordinary income	1,319	1,623	2,528	1,283	3,100
YoY	63.9%	23.0%	55.8%	16.3%	22.6%
Profit attributable to owners of parent	797	1,024	1,523	726	1,870
YoY	73.2%	28.5%	48.7%	12.9%	22.7%
EPS after the stock split (¥)	41.88	53.39	78.91	37.46	96.63
Dividend after the stock split (¥)	25.00	30.00	40.00	15.00	45.00
BPS after the stock split (¥)	200.47	228.22	274.80	-	-

Source: Prepared by FISCO from the Company's financial results

Simplified balance sheet

	End-FY6/13	End-FY6/14	End-FY6/15	End-FY6/16	End-FY6/17
					1H
Current assets	4,487	5,283	6,551	8,984	9,725
Cash and deposits	2,175	2,429	3,038	3,930	3,998
Notes and accounts receivable –trade	1,931	2,388	2,954	4,060	4,941
Non-current assets	1,056	1,172	1,174	2,929	4,089
Property, plant and equipment	192	193	221	256	430
Intangible assets	130	145	130	2,202	3,132
Investment and other assets	733	832	821	471	525
Total assets	5,544	6,455	7,725	11,914	13,815
Current liabilities	2,019	2,584	3,287	6,531	6,900
Accrued expenses	1,327	1,447	1,754	2,394	2,325
Short-term loans payable	-	-	-	1,900	2,250
Non-current liabilities	44	38	31	60	1,254
Bonds payable	-	-	-	-	1,204
Shareholders' equity	3,484	3,837	4,409	5,323	5,590
Capital stock	1,476	1,492	1,529	1,538	1,550
Capital surplus	634	650	687	696	708
Retained earnings	1,373	1,694	2,193	3,089	3,332
Accumulated other comprehensive income	-4	-5	-3	-5	-8
Total net assets	3,479	3,832	4,406	5,322	5,660
Total liabilities and net assets	5,544	6,455	7,725	11,914	13,815

Source: Prepared by FISCO from the Company's financial results

Cash flow statement

	FY6/13	FY6/14	FY6/15	FY6/16	FY6/17 1H
	(¥mn)				
Cash flows from operating activities	777	861	1,209	1,418	973
Cash flows from investing activities	-75	-154	-147	-1,807	-1,578
Cash flows from financing activities	-275	-451	-459	1,287	677
Effect of exchange rate change on cash and cash equivalents	1	-1	6	-7	-4
Net increase (decrease) in cash and cash equivalents	427	254	609	891	67
Cash and cash equivalents at beginning of period	1,747	2,175	2,429	3,038	3,930
Cash and cash equivalents at end of period	2,175	2,429	3,038	3,930	3,998

Source: Prepared by FISCO from the Company's financial results

Longer-term growth strategy

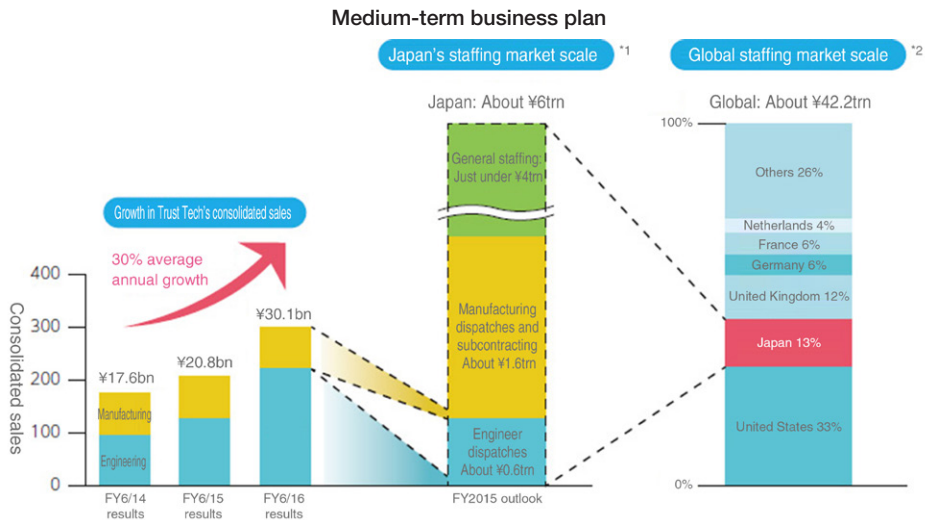
Targeting continuation of strong advances led by organic growth and M&A

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 & 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.

Trust Tech does not disclose detailed income values in the medium-term business plan and only provides official guidance for individual fiscal years (FY6/17 at this point). However, the plan's business goals imply just over ¥50.0bn in sales in FY6/18 and just over ¥60.0bn in sales in FY9/16. Trust Tech hopes to attain the goal of 10% operating margin over the medium term.



Source: 1. Yano Research Institute
2. Market share of the global staffing industry 2015 Staffing Industry Analysts World's Largest Staffing and Recruitment Firms
Source: From the Company website

Seeking realization of growth targets through regional and business field scope

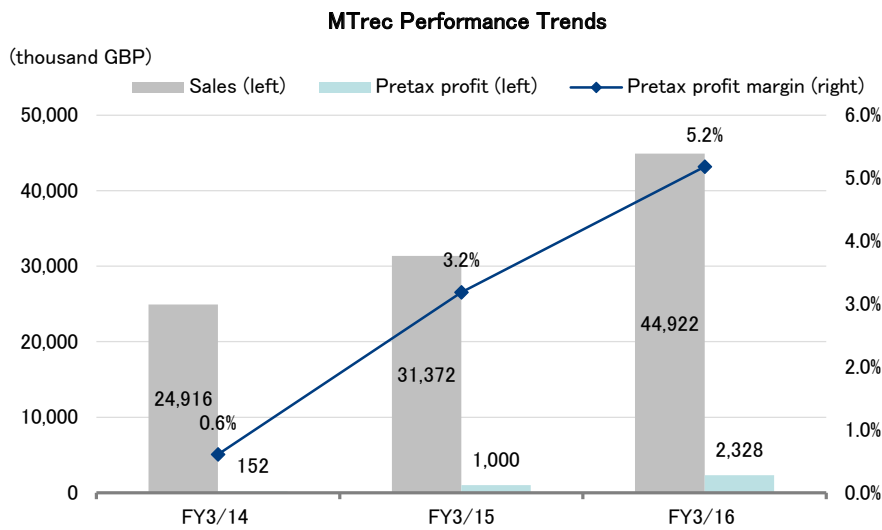
2. Details of the medium-term growth strategy

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.

(1) Growth strategy through 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).

Trust Tech moved forward substantially with the “regional” initiative in FY6/17 via the acquisition of UK-based MTrec in August 2016. MTrec, a staffing service company, was established in 2006 and has headquarters in Newcastle Upon Tyne in northeastern England. Its businesses include manufacturing worker and engineer dispatch and introduction services at MTrec itself and nurse, helper, and other care human resource services at subsidiary MTrec Care. The region where MTrec is headquartered 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 rolling stock 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. MTrec reported GBP44.9mn in sales and GBP2.3mn in profit before income taxes in FY3/16.



Source: Prepared by FISCO from Company releases

We believe the MTrec acquisition is an excellent deal in various respects. 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 and executive. 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, which delays payment of a portion of the purchase price until future earnings growth is achieved. Earn-out arrangements, though not well known in Japan, are broadly utilized in Europe and the United States as an effective way of alleviating acquisition risk.

Trust Tech also invested in Asia, setting up a local entity in Indonesia and a joint venture in China. We think the Trust-Bridge joint venture in Shandong (China) deserves attention. Trust-Bridge holds a license to provide staffing and subcontracting services throughout nationwide in China. It was the first firm to obtain a license. We will be closely monitoring the extent to which it capitalizes on this timing advantage to solidify its presence.

(2) Growth strategy through business field scope

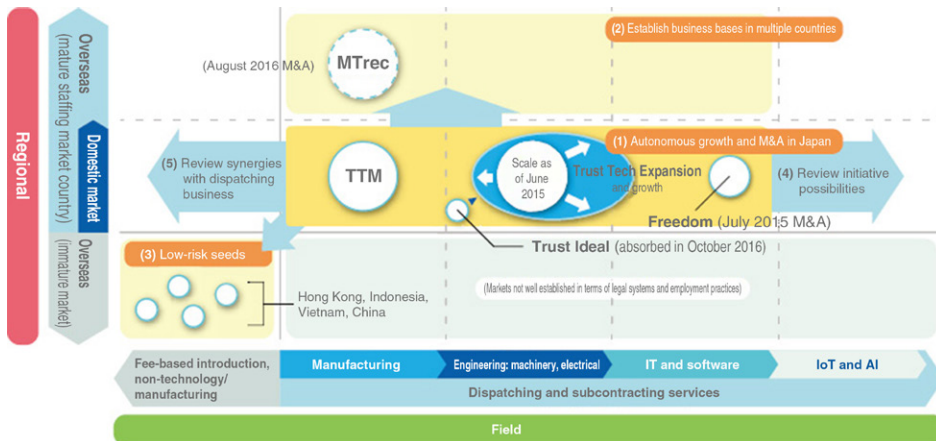
Business field scope refers to the domains it covers. Trust Tech provides services in engineering and manufacturing fields. For the manufacturing worker dispatch and subcontracting business, customers are manufacturers and dispatch and subcontracting involves “production” regardless of the manufactured 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 field scope.

(3) Conclusions

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

Trust Tech has achieved multiple major advances in line with this growth strategy during FY6/17. In the domestic engineering field, it absorbed Trust Ideal and reorganized operations with a focus on specialized areas, as explained above. In the domestic manufacturing field, TTM expanded satellite offices and is strengthening its emphasis on local operations. In the overseas field, it acquired MTrec and established local entities and joint ventures in Indonesia and China. We will be closely monitoring progress in and impacts from these measures and also further actions.

Conceptual diagram of growth and expansion by broadening regional and business field scope



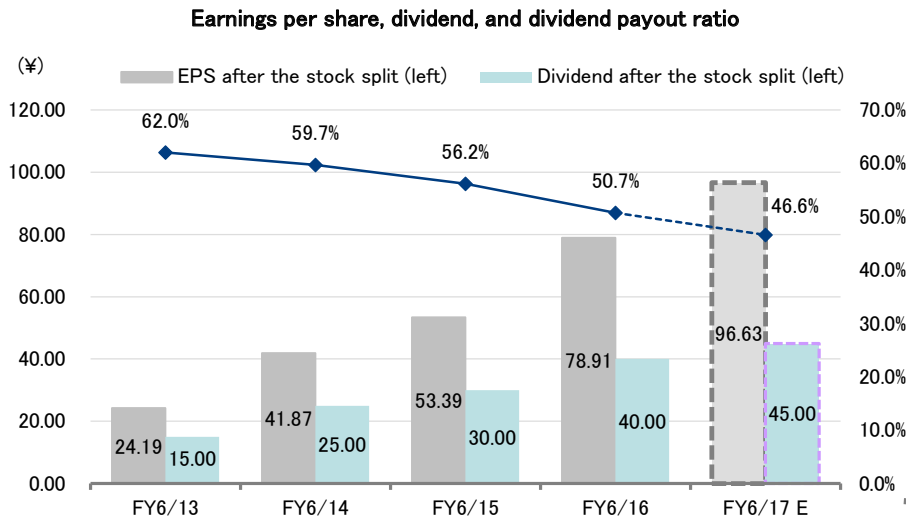
Source: From the Company website

Shareholder return policy

Aiming for healthy shareholder returns at a 50% dividend payout ratio while making growth investments

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.

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 the forecast ¥96.63 in earnings per share. Trust Tech has not revised the dividend target following the announcement of 1H FY6/17 results. 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.



Source: Prepared by FISCO from the Company's financial results
 *Implemented 2 for 1 stock split on April 1, 2016.



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