COMPANY RESEARCH AND ANALYSIS REPORT

Trust Tech Inc.

2154

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Index

Summary

Healthy progress in human resource recruitment measures Strong emphasis on growth deserves notice

Trust Tech Inc. <2154> (hereafter, also "the Company") is a staffing company that mainly dispatches engineers and manufacturing staff and handles subcontracting 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.

1. Achieved double-digit sales and profit growth in FY6/17

Trust Tech reported sharply higher sales and profits in FY6/17 at ¥43,035mn in net sales (+42.8% YoY) and ¥3,220mn in operating income (+26.3%). While contributions from UK-based MTrec Limited, which Trust Tech acquired as a subsidiary in August 2016, lifted sales growth to over 40%, the mainstay domestic engineer dispatching business also realized annual growth at the target level of 20%. Trust Tech also improved profitability that had been an issue in the manufacturing staff dispatching business. Besides the business environment, we attribute upbeat results to healthy progress in hiring human resources and arranging dispatching sites and various measures to achieve efficient matching of these two areas.

2. Aims to maintain growth rates of 20% in sales and 30% in earnings in FY6/18

Trust Tech plans to continue strong growth in FY6/18 with ¥51,500mn in sales (+19.7% YoY) and ¥4,250mn in operating profit (+32.0%). It believes that personnel shortages at manufacturing sites have become a structural problem in Japan and intends to pursue personnel recruitment with even more aggressive measures than up to now in light of this environment. It hopes to raise the hiring ratio together with existing recruitment measures and thereby broaden business scope further.

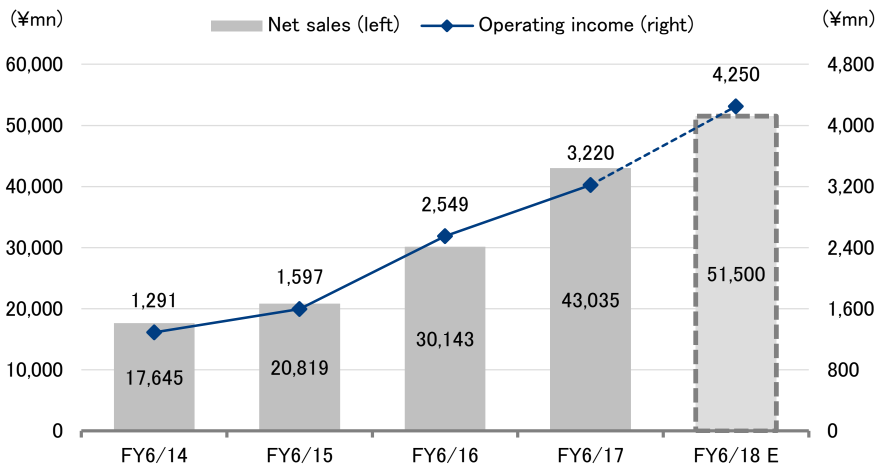
3. Realizing medium-term plan goals a year ahead of time; continues to aim for 20% annual growth

Trust Tech is utilizing the medium-term business plan formulated in August 2015 as the guidepost for its medium-term growth strategy, while updating values annually. It continues to adhere to a goal of 20% annual earnings growth driven by realization of "organic growth plus M&A" and "business expansion in regions and fields." It acquired MTrec, FUSIONi Co., Ltd., and other companies and established local entities and joint ventures as seeds for future growth in Asia thus far. While it realized earnings targeted in the initial plan a year ahead of time, Trust Tech remains committed to the goal of 20% annual growth.

Key Points

- Aims to maintain annual growth at 20% through "organic growth plus M&A" and "business expansion in regions and fields"
- MTrec is likely to continue expanding at a healthy pace; also steadily building capabilities to capitalize on future market expansion in Asia

Results trends



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 Co., Ltd. (now, 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, giving it a foothold to promote full-fledged overseas initiatives. It is also implementing measures to broaden business scope to IT and software, including the acquisition of FUSIONi as a subsidiary in March 2017.

Pursuing three main fields – engineer dispatching, manufacturing staff dispatching, and overseas business

2. Business overview

Trust Tech has had two main business domains – the engineering field, which covers engineer dispatches and the development and design subcontracting, and manufacturing field, which 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.

The corporate group consists for Trust Trech and consolidated subsidiaries TTM, Freedom (and its subsidiaries), and FUSIONi in Japan. As business fields, Trust Tech and other group companies handle engineering while TTM runs the manufacturing.

In overseas initiatives, Trust Tech took its first action with the acquisition of a Hong Kong-based company handling engineer recruitment and other services in June 2010. It renamed this subsidiary as HKTT and is still operating the business. Trust Tech acquired an 83.3% stake in MTrec, a UK-based dispatching company for engineering and manufacturing staff in August 2016. This is an important step toward full-fledged delivery of staffing services in overseas markets.

At around the same timing, Trust Tech took steps to expand business in Asia with the establishment of a local entity in Indonesia in September 2016 and a joint venture in Shandong, China, in October 2016. It established a local entity in Shanghai, China, in July 2017 as well. While the Shandong joint venture is conducting Japan-style personnel dispatching, other Asian local entities mainly engage in recruitment business.

Recruiting engineers is vital to growth in the engineering field
Responding with mid-career hires and new university graduates

3. Income structure of the engineering field segment

In the engineering field segment, 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 subcontracting and outsourcing, with about 85% dispatch of engineers and 15% is subcontracting and outsourcing The subcontracting and outsourcing business mainly involves work conducted by the Company's engineers at customer facilities, and outsourcing development at its own facilities is very rare.

Average prices are higher in the engineering field compared with those in the manufacturing field because of the added value of "engineers." Price difference results in the profitability gap between the two segments. While it might appear that subcontracting and outsourcing should be more profitable than dispatching service, dispatching delivers higher profitability in many cases because process step estimates, deadlines, and other aspects of subcontracting and outsourcing business often differ from the initial budget in actual implementation.

Growth in this field 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).

Trust Tech continues to hire mid-career employees at a pace of about 150 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.

Profitability from efficient matching of personnel and dispatching sites is vital in manufacturing field; utilizing a local-supply model

4. Income structure of the manufacturing field segment

The manufacturing field segment operates services that supply personnel for production lines at customer companies using its production line staff. It uses operation subcontracting (on-site subcontracting) and manufacturing staff dispatches as the two service formats. While sales ratios of subcontracting and dispatching fluctuate, the split appears to be roughly equal.

In a comparison of subcontracting and staff dispatches for manufacturing, profitability should be higher for subcontracting because of leeway to raise margin by enhancing productivity with autonomous efforts. The reality, however, is profitability does not differ much because of stringent terms from the customer side.

Manufacturing services have a lower average fee than engineering, and fees vary more due to impact of changes in demand for manufactured products. Contract periods tend to be shorter as well. These attributes contribute to lower profitability in manufacturing services versus engineering.

Given this industry structure, Trust Tech is focusing on regional hiring and sales activities in order to enhance profitability in the manufacturing field. It is fairly evident that accommodations and other expenses differ dramatically between sending staff from the Kanto area and utilizing local staff from Hokkaido for manufacturing subcontracting at a plant in Hokkaido. Japan has many corporate communities in automotive, electric equipment, and other fields in its regional cities. Effective matching via recruitment of workers and subcontracting and dispatching customers in such regional cities is the most efficient approach. Trust Tech has been improving its profitability in the manufacturing segment due to success in steadfast efforts with this type of regional focus.

Employee numbers in the manufacturing field segment has been in a range of 2,000 to 2,500 people up to now due to responses to changes in subcontracting and dispatching demand. Furthermore, manufacturing subcontracting and dispatching demand is rooted in efforts to lower labor costs at customer firms. Considering this background, Trust Tech enlists a mix of full-time employees and non-regular employees in the manufacturing field to flexibly meet demand. While details are covered below, some changes are occurring in the manufacturing field recently. Trust Tech sees shortages in manufacturing personnel in Japan as a structural issue and expects robust demand for manufacturing staff even with some fluctuation in economic activity. It thus plans to boost manufacturing employee numbers from a range of 2,000 to 2,500 people to a range of 2,500 to 3,000 people.

Overseas business mainly consists of dispatching manufacturing staff in the UK
Personnel recruitment is the focus in Asia

5. Overseas field details and income structure

The “overseas field” is a categorization based on the geographical aspect of the business, rather than a distinction related to the nature of business in Japan. MTrec mainly operates a “manufacturing staff dispatching business” in domestic terms, as explained above, and we think its income structure is roughly the same as the domestic manufacturing field.

Asian subsidiaries, meanwhile, are just handling personnel recruitment at this point given their positioning as operations to conduct market research and gather information at this point. However, the Shandong joint venture is engaged in a Japan-style personnel dispatching business. It already has an outlook for attaining profitability and expectations are rising for profit contributions.

Business performance

Healthy advances in the three business fields

1. Overview of FY6/17 results

Trust Tech reported sharp sales and profit growth in FY6/17 with net sales at ¥43,035mn (up 42.8% YoY), ¥3,220mn in operating income (up 3,220%), ¥3,185mn in ordinary income (up 26.0%), and ¥1,923mn in profit attributable to owners of parent (up 26.3%).

Results were very upbeat and exceeded period-start targets in sales and profit items.

Overview of FY6/17 results

(¥mn)

	FY6/16 full year	FY6/17 full year				
	Actual	Period-start forecast	YoY	Actual	YoY	vs. period-start forecast
Net sales	30,143	42,000	39.3%	43,035	42.8%	2.5%
Operating income	2,549	3,120	22.4%	3,220	26.3%	3.2%
Ordinary income	2,528	3,100	22.6%	3,185	26.0%	2.8%
Profit attributable to owners of parent	1,523	1,870	22.7%	1,923	26.3%	2.9%

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

In Japan, transportation equipment and electric equipment industries, which are major customer segments for Trust Tech, fared well with strong production activity and healthy earnings. Personnel demand held at a high level, as the effective job openings ratio for full-time employees showed a record high since the Ministry of Health, Labour and Welfare began this survey. It was a year with a tail wind to the personnel services industry to which Trust Tech belongs.

Trust Tech actively and continuously pursued hiring and placements in this environment. It also moved forward with measures to expand the business foundation based on its medium-term growth strategy by acquiring MTrec, a UK-based personnel dispatching firm, in August 2016 and FUSIONi, which operates in the IT and software field, in March 2017 as subsidiaries. These initiatives paid off with the above-mentioned results.

Below we review details for the business segments. A key point is that the two domestic segments (engineering and manufacturing) and the overseas segments that rapidly expanded with the MTrec acquisition each realized higher sales and profits (YoY).

In net sales, mainstay engineering field led overall growth with advances in employee placements in a wide range of industries and MTrec's contribution sharply expanded overseas results.

In earnings, manufacturing field margin improved substantially and EBITDA rose 46.2% YoY. Overseas field shifted from the FY6/16 EBITDA loss to a ¥304mn profit in FY6/17 with the MTrec performance meeting expectations.

Breakdown by business segments

(¥mn)

	FY6/16	FY6/17			
	Full year	Full year (E)	Full year	YoY	vs. forecast
Engineering field	21,802	25,770	26,717	22.5%	3.7%
Manufacturing field	8,220	8,800	8,957	9.0%	1.8%
Overseas field	105	7,520	7,399	6941.2%	-1.6%
Others	37	-	57	52.8%	-
Sales prior to adjustments (total)	30,166	-	43,131	43%	-
Adjustment value	-22	-	-95	-	-
Sales (total)	30,143	42,000	43,035	42.8%	2.5%
Engineering field	2,744	-	3,319	21.0%	-
Manufacturing field	295	-	432	46.2%	-
Overseas field	-13	-	304	-	-
Others	-68	-	-84	-	-
Total EBITDA prior to adjustments	2,957	-	3,971	34.3%	-
Adjustment value	84	-	39	-	-
Total EBITDA	3,041	-	4,010	31.9%	-

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

Healthy progress in recruiting engineers with successful reorganization; attained steep sales and profit increases

2. Trends in the engineering field

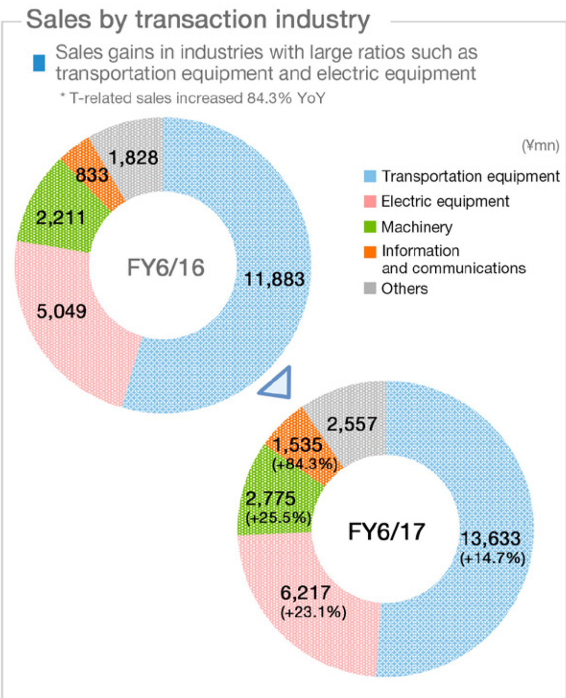
The engineering field posted ¥26,717mn in net sales (+22.5% YoY), ¥2,887mn in operating income (+27.5%), and ¥3,319mn in EBITDA (+21.0%) in FY6/17. Trust Tech acquired multiple firms over the past few years and thereby expanded amortization of goodwill. We hence think EBITDA, which reflects earnings prior to amortization of goodwill, is useful in assessing actual profitability.

EBITDA margin dropped 0.2pp YoY to 12.4% in FY6/17. This is not a concern, in our view, as movement within a high range. In pricing, while it is difficult to boost fees for existing customers, Trust Tech appears to be raising fees in new contracts (versus existing ones).

Successful recruitment of engineering employees was an important source of robust 22.5% YoY sales growth in this mainstay segment. Trust Tech reorganized in FY6/17 to a framework that optimizes business operations in engineering areas and regions (refer to the growth strategy section for details). It achieved steady progress in mid-career hiring thanks to these efforts and also hired 374 new university graduates in April 2017. Engineer employee numbers climbed 28.9% versus a year earlier to 4,334 people at the end of FY6/17.

Sales breakdown by industry shows a 14.7% YoY gain to ¥13,633mn in core transportation equipment and a 23.1% rise to ¥6,217mn in electric equipment, which has the second largest ratio, owing to vibrant conditions in semiconductor and semiconductor equipment areas. Information and communications, which Trust Tech views as a growth area, delivered rapid growth with an 84.3% increase to ¥1,535mn, including the addition of FUSIONi.

Sales trends by transaction industry



Source: The Company's results briefing materials

Further improvement in profitability on more efficient matches of personnel and dispatch sites

3. Trends in the manufacturing field

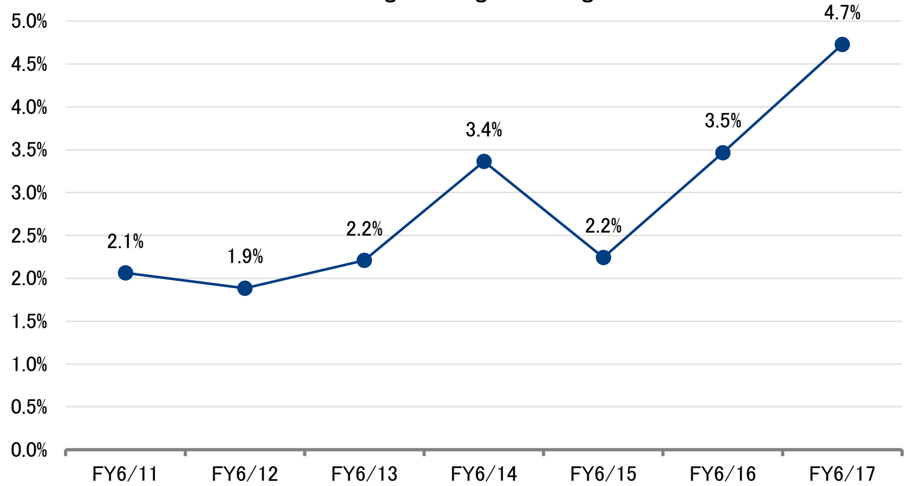
The manufacturing field reported ¥8,957mn in net sales (+9.0% YoY), ¥423mn in operating income (+48.8%), and ¥432mn in EBITDA (+46.2%) in FY6/17. Operating income moved sharply higher.

Trust Tech has consistently aimed to improve operating profitability in the manufacturing field as a management goal. To address this issue, it is promoting hiring activities in local areas and bolstering sales capabilities. These efforts seek to facilitate efficient matching of personnel and dispatch sites. Trust Tech sought to increase applicants by launching the Job Park job openings website and established a real-world office as a hiring location.

Segment operating margin improved 1.2pp YoY to 4.7% in FY6/17 thanks to these actions. Trust Tech wants to reach 5% margin and sustain profitability at this level. It approached the goal in FY6/17.

We think the reason for the operating margin improvement was a combination of robust demand mainly in transportation equipment and electric equipment industries, progress in efficient matching based on the regional operation model it promotes, and enhanced employee efficiency and labor productivity.

Manufacturing field segment margin trend



Note: Segment profit utilized ordinary income in past years, but switched to operating income from FY6/17. While this is no problem in observing graph trends due to almost no difference in operating and ordinary income values, it should be noted that this removes continuity in precise terms.
Source: Prepared by FISCO from the Company's financial results

Smooth progress in the MTrec business with income meeting expectations, steady advances in Asia too

4. Overseas field trends

The overseas field booked ¥7,399mn in net sales (+6,941.2% YoY), a ¥45mn operating loss (vs. a ¥13mn loss in the previous year), and ¥304mn in EBITDA (vs. a ¥13mn loss) in FY6/17. Sales increased sharply, and EBITDA moved well into profitable territory.

The MTrec acquisition is the source of a major change in the overseas field. This subsidiary's fiscal year ends in March and it contributed a full 12 months (April 2016 to March 2017) to Trust Tech's FY6/17 results.

MTrec performed well by responding to personnel demand from automotive and other industries mainly from Japan-related companies. MTrec recorded ¥7,343mn in net sales with a 15% YoY increase excluding the forex rate impact (equivalent to local-currency sales).

In Asia, the other overseas initiative region, Trust Tech established a local entity to handle personnel recruitment business in Indonesia in September 2016, in addition to the existing site in Hong Kong. A joint venture running a Japan-style personnel dispatching business began operating in Shandong, China, in October 2016 (income from this business affects ordinary income and following items as an equity-method affiliate). Income contributions from these Asian businesses are still small.

Discrepancy between OP and EBITDA in the overseas field segment comes from amortization of goodwill related to the MTrec acquisition. Trust Tech uses a 10-year period to amortize goodwill. MTrec generates about 5% margin at the operating level on a real basis, as seen in the EBITDA value.

Medium-term business plan and longer-term growth strategy

Aims to maintain annual growth at 20% through "organic growth plus M&A" and "business expansion in regions and fields"

1. Overview of the medium-term business plan and progress

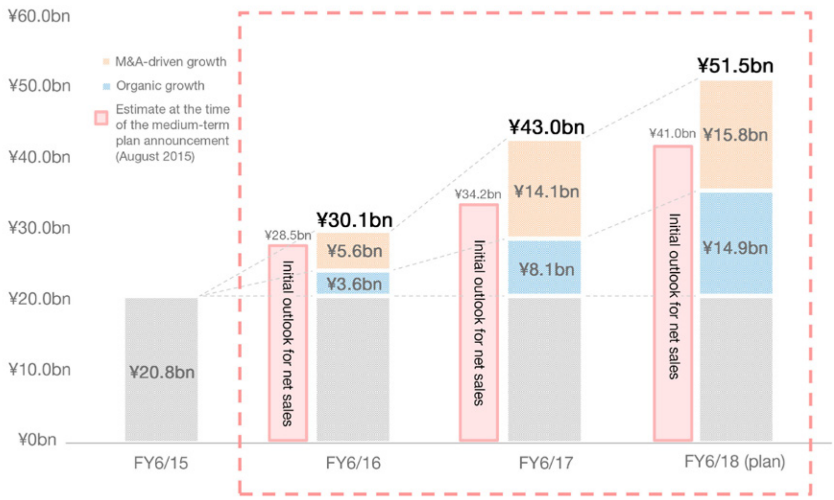
Trust Tech announced the medium-term business plan in August 2015 and has been updating it annually since then at full-year results announcements. The medium-term growth strategy hence is steady implementation of the medium-term business plan.

In the medium-term plan, Trust Tech presents management indicators of 1) sustaining annual growth at a pace of at least 20% and 2) attaining 10% consolidated operating margin. Its growth strategy consists of 1) combining organic growth and M&A and 2) broadening scope by regions and fields.

Looking at progress thus far, Trust Tech reported sales exceeding initial estimates in two straight years in FY6/16 and FY6/17. While details are covered below, we think Trust Tech is likely to beat the initial outlook again in FY6/18 and roughly attain the target growth rate of 20% YoY. This means that sales should reach ¥50bn one year ahead of the timing anticipated at the formulation of the medium-term business plan.

In content too, Trust Tech is realizing balanced sales additions from organic growth and M&A.

Medium-term business plan sales trends



Source: The Company's results briefing materials

Trust Tech has not yet achieved its other goal of solidifying an operating margin in the 10% range. Operating margin dropped to 7.5% in FY6/17 due to amortization of goodwill accompanying the MTrec acquisition. EBITDA margin, which adds back amortization of goodwill other items, meanwhile, was 9.3% in FY6/17, putting it close to 10%, but it narrowed from the previous year. We think Trust Tech still has room to improve profitability.

Balanced, upbeat expansion of business scope with entry into the personnel dispatching in the overseas market via the MTrec acquisition and entry into the IT field through the acquisition of FUSIONi as a subsidiary in Japan

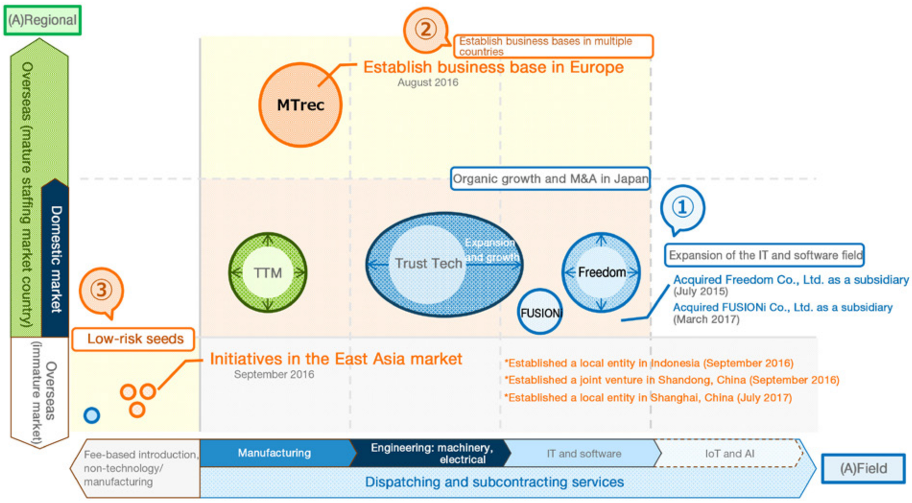
2. Growth strategy details and progress

As explained above, the medium-term plan's growth strategy consists of 1) combining organic growth and M&A and 2) broadening scope by regions and fields.

Core business fields in Japan have been manufacturing and engineering, with Trust Tech covering engineering field and TTM in charge of manufacturing supply.

A key theme in the medium-term business plan, meanwhile, is pursuit of growth in domestic IT and software development and strengthening these fields. Freedom, which Trust Tech acquired in July 2015, is positioned in this space. While the Freedom business continues to realize organic growth, Trust Tech bolstered its presence with the purchase of FUSIONi as a subsidiary in March 2017.

Conceptual diagram of the growth strategy



Source: The Company's results briefing materials

Overseas opportunities are naturally receiving attention versus existing domestic business in Japan. Trust Tech is interested in overseas initiatives as an important component of the growth strategy because of much larger market scale in developed countries (US and Europe). Furthermore, geographically close Asia is highly attractive in terms of latent market size and growth potential with its large population and role as the world's factory.

Trust Tech began its overseas activity with direct efforts in East Asia. This started with personnel recruitment due to the immaturity of the personnel service industry in Asia and also provided valuable market information. Trust Tech had been looking for ways to enter developed countries with mature personnel service industries and discovered and acquired MTrec to give it the current foundation.

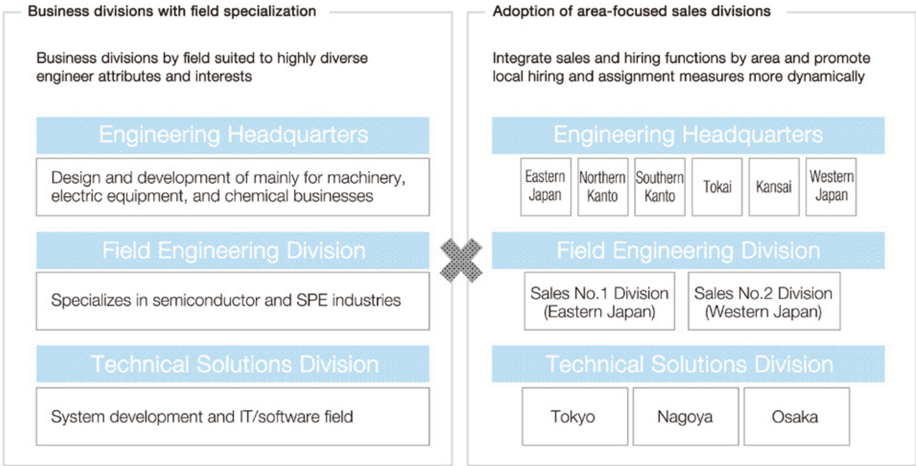
"Business divisions x sales divisions" reorganization working well
Aims to increase engineers by raising the hiring rate

3. Initiatives in the engineering field segment

Growth strategy in this field equates to recruitment measures for engineers as explained in the section reviewing the income structure for the engineering field. To address this point, Trust Tech reorganized with the adoption of business units and sales units in July 2016 aiming for dynamic sales and hiring in accordance with field attributes to expand income.

Engineer characteristics and interests are highly diverse, and adoption of business units enabled proposals and provisions of job opportunities in accordance with the personal attributes of engineers. Furthermore, the introduction of area-focused sales divisions contributed to integration of area sales and hiring functions and more dynamic promotion of local hiring and local assignment measures.

Reorganization in the engineering field



Source: The Company's results briefing materials

These actions already showed benefits in FY6/17. Trust Tech intends to continue refinement of the measures and thereby maintain and expand the number of engineers that join amid ongoing difficult hiring conditions.

More specifically, Trust Tech aims to raise the ratio of hires in applicants from about 17% in FY6/17 to at least 25% in FY6/18. This figure was less than 10% in FY6/16 prior to introducing business division and sales division measures.

We think it is likely to be difficult to increase the number of applicants given the difficult hiring environment. Trust Tech's measures take the perspective of finding ways to realize more hires with an assumption of flat applicant numbers. In this sense, it is a realistic and reasonable approach and we think this method has been successful in obtaining strong hiring results.

Labor shortage is a structural issue at manufacturing sites Aims to boost share through expansion of the manufacturing staff numbers and conversion to regular employees

4. Initiatives in the manufacturing field segment

Changes in economic activity affect manufacturing field more than the engineering field, and Trust Tech built operations that factored in this aspect. With steady aging of society and changes in the industrial structure and work style reforms, meanwhile, outlooks increasingly expect prolonged labor shortages at manufacturing sites as a structural issue. Trust Tech hence raised its target for employees in the manufacturing field at the end of June 2018 to 2,700 people, an all-time high. This represents an increase of 11.7% from the 2,418 people at the end of June 2017.

Trust Tech also intends to convert its staff to full-time employees in response to changes in the demand structure of the manufacturing field. The basic structure of a combination of regular and non-regular employment to address the impact of fluctuations in economic activity will continue. However, Trust Tech plans to increase the percentage of regular employees due to heightened confidence in earnings improvement and hiring expansion measures.

Efforts to enhance and maintain business profitability in the manufacturing field, meanwhile, are likely to continue as a top priority issue. Trust Tech's approach in this regard is reinforcement of local sales and hiring activities that it has already been promoting. TTM, the subsidiary handling the manufacturing field, continues to arrange local hiring and sales sites. It created five sites in FY6/17, boosting the framework from 19 sites at the start of the year to 24 sites (in July 2017).

Trust Tech launched the Job Park portal site for new job openings and is utilizing this brand for its hiring sites. It has raised awareness and thereby expanded hiring in Yamagata and Okinawa by integrating the site and real office brands as Job Park Yamagata and Job Park Okinawa. It aims to steadily apply this approach to other sites as well.

Trust Tech expects companies that are unable to achieve profitability in manufacturing staff dispatching business to exit the market over the longer term. It sees 5% operating margin as the condition for sustainable growth and will seek to maintain this level over the medium term and lift market share as a survivor.

Expecting MTrec to continue healthy growth
Plans to build the foundation for future market expansion in Asia

5. Initiatives in the overseas field

Trust Tech significantly expanded the overseas field with its acquisition of MTrec in August 2016. Northeastern England, 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 focused on recruiting personnel demand from automotive and other industries mainly from Japanese companies since entering the Trust Tech Group.

The UK accounts for 12% of the global personnel dispatching market, or roughly on par with Japan's 13% share. This market is actually a more mature and advanced than Japan considering the difference in populations. We think MTrec has potential to obtain higher profitability than the domestic business given its location.

Asia is another key component of Trust Tech's overseas strategy. While Asia is still immature as a personnel dispatching market, it offers significant potential with a large population and role as the world's factory, as explained above.

Trust Tech is making investments that target future growth in Asia. During FY6/17, it established PT. TRUST TECH ENGINEERING SERVICE INDONESIA, a personnel recruitment service, in Indonesia (September 2016) and formed a joint venture company for Japan-type personnel dispatching in Shandong, China (October 2016, equity-method affiliate). In FY6/18, it established XXX (Shanghai) to operate a business personnel recruitment in Shanghai (July 2017).

We think Shan Dong Trust Bridge Human Resources Inc. (Trust Bridge; 49% Trust Tech stake), the joint venture in Shandong, deserves attention. This business grew enough to attain single-month profitability in spring 2017 after its start in FY6/17. The outlook calls for realizing of a full-year profit in FY6/18. The healthy launch of Japan-style dispatching business boosts expectations for further advances.

We are also interested in business initiatives in other mature dispatching markets (US and Europe), following MTrec, in the overseas field. However, we expect activities in these areas to utilize M&A, similar to the MTrec case. It is very difficult to forecast these opportunities ahead of time because M&A involves a counterpart firm. We will be closely monitoring progress in this area.

Business outlook

Expects to maintain the existing growth pace with increases of 20% in sales and 30% in earnings

1. Overview of the FY6/18 outlook

Trust Tech forecasts a continuation from the previous fiscal year of significantly increased earnings and profits, with net sales at ¥51,500mn (up 19.7% YoY), operating income at ¥4,250mn (up 32.0%), ordinary income at ¥4,250mn (up 33.4%), and net profit attributable to owners of parent at ¥2,620mn (up 36.2%) in FY6/18.

The outlook targets earnings on track with "sales and operating profit growth of at least 20% a year" presented in the medium-term business plan.

Overview of the FY6/18 outlook

(¥mn)

	FY6/17		FY6/18			
			1H		Full year	
	1H result	Full-year result	Forecast	YoY	Forecast	YoY
Net sales	20,471	43,035	24,620	20.3%	51,500	19.7%
Operating income	1,306	3,220	2,065	58.0%	4,250	32.0%
Ordinary income	1,283	3,185	2,062	60.6%	4,250	33.4%
Profit attributable to owners of parent	726	1,923	1,273	75.3%	2,620	36.2%

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

The breakdown of the roughly ¥8,500mn YoY rise in sales consists of ¥7,140mn from the engineering field, ¥940mn from the manufacturing field, and ¥390mn from the overseas field. As noted earlier, labor shortage is a structural problem in both engineering and manufacturing fields in Japan. Healthy recruitment of personnel resources should enable Trust Tech to steadily realize its targets in this business environment.

The operating profit analysis, meanwhile, shows ¥540mn from engineer dispatching in Japan covered by Trust Tech itself, ¥120mn from a full-year contribution by FUSIONi, ¥130mn from business growth in manufacturing and overseas fields, and ¥260mn from absence of one-time costs related to the acquisition in FY6/17. Trust Tech expects a 32.0% (¥1,020mn) increase in operating profit.

Trust Tech's costs are primarily fixed expenses besides the variable nature of engineering and other personnel costs and resource recruitment costs. We expect Trust Tech to maintain high personnel utilization rates because of robust demand for personnel services in engineering and manufacturing fields and overseas markets. Personnel acquisition costs, meanwhile, appear to be trending lower in terms of the outlay per person thanks to various measures cited earlier. We hence expect upbeat earnings growth if Trust Tech can obtain the anticipated sales.

Aiming to expand income through accelerated personnel acquisition in Japan
Upside room at MTrec with its conservative forex rate assumption

2. Trends by business segment

Breakdown by business segment

(¥mn)

	FY6/16 full year	FY6/17 full year	FY6/18	
			Full year (E)	YoY
Engineering field	21,802	26,717	33,863	26.7%
Manufacturing field	8,220	8,957	9,900	10.5%
Overseas field	105	7,399	7,795	5.3%
Others	37	57	47	-17.6%
Total net sales before adjustment	30,166	43,131	51,605	19.6%
Adjustment	-22	-95	-105	-
Total net sales	30,143	43,035	51,500	19.7%
Engineering field	2,744	3,319	4,080	22.9%
Manufacturing field	295	432	482	11.6%
Overseas field	-13	304	391	28.8%
Others	-68	-84	-137	-
Total EBITDA before adjustment	2,957	3,971	4,817	21.3%
Adjustment	84	39	58	48.9%
Total EBITDA	3,041	4,010	4,875	21.6%

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

(1) Engineering field

Engineering field targets are ¥33,863mn in net sales (+26.7% YoY) and ¥4,080mn in EBITDA (+22.9%). The reorganization (business divisions x sales divisions) implemented in FY6/17, which is explained above, is delivering results in line with expectations, including a steady rise in the ratio of people hired from applicants.

Trust Tech also plans to hire an all-time high of 450 new university graduates slated to enter the company in April 2018. These additions plus mid-career hires should lift total employee numbers in the engineering field to 5,000 people at the end of FY6/18. We will be closely monitoring progress in engineer hiring as a leading indicator of results because the number of engineers largely determines segment income.

(2) Manufacturing field

Manufacturing field targets are ¥9,900mn in net sales (+10.5% YoY) and ¥482mn in EBITDA (+11.6%). Trust Tech expects a 0.1pp YoY increase in EBITDA margin to 4.9%.

Economic fluctuations readily affect the manufacturing field, and Trust Tech addressed this aspect with a combination of regular and non-regular employment in its hiring format. However, Trust Tech has been broadening the regular employee framework and making other revisions on the basis that current labor shortage is rooted in structural factors and personnel demand is likely to remain strong over the long term. It aims to have 2,700 manufacturing employees at the end of June 2018 and is counting on new university graduates as an important source. Trust Tech wants to hire 200 new university graduates in April 2018.

The most important issue in the manufacturing field is still improvement of profitability (Trust Tech uses operating margin). Trust Tech intends to bolster local sales and hiring again in FY6/18 with the goal of reaching 5% operating margin. It views 5% margin as a vital threshold for whether the manufacturing dispatch and subcontracting business can achieve healthy expansion or slips into contraction. Trust Tech plans to aggressively pursue opportunities to increase market share on the basis that few companies are currently at 5% operating margin.

(3) Overseas field

Overseas targets are ¥7,795mn in net sales (+5.3% YoY) and ¥391mn in EBITDA (+28.8%). While Trust Tech is running businesses in the UK and Asia, MTrec's income trends are likely to determine overseas trends because Asian business is just personnel recruitment.

Trust Tech expects 5% sales growth at MTrec. However, this works out to sales growth over 10%, similar to last year, on a local currency basis that removes forex impact because the outlook factors in yen appreciation of about ¥10 with a GBP/JPY rate of ¥132.0 versus the ¥141.6 actual rate. MTrec is focusing on business with Japanese manufacturers as noted above and should be capable of realizing double-digit sales growth on a local currency basis. Additionally, the yen is currently weaker than the outlook rate.

Trust Tech forecasts a profit at the Shandong joint venture in FY6/18. This result should give a boost to ordinary income and following earnings items because the business is an equity-method affiliate, but we think the profit amount is likely to be small.

Simplified income statement and key indicators

(¥mn)

	FY6/14	FY6/15	FY6/16	FY6/17	FY6/18	
					1H (forecast)	Full year (forecast)
Net sales	17,645	20,819	30,143	43,035	24,620	51,500
YoY	18.3%	18.0%	44.8%	42.8%	20.3%	19.7%
Gross profit	4,288	4,868	7,192	9,344	-	-
Sales ratio	24.3%	23.4%	23.9%	21.7%	-	-
SG&A expenses	2,996	3,271	4,643	6,124	-	-
Sales ratio	17.0%	15.7%	15.4%	14.2%	-	-
Operating income	1,291	1,597	2,549	3,220	2,065	4,250
YoY	79.9%	23.7%	59.6%	26.3%	58.0%	32.0%
Operating margin	7.3%	7.7%	8.5%	7.5%	8.4%	8.3%
Ordinary income	1,319	1,623	2,528	3,185	2,062	4,250
YoY	63.9%	23.1%	55.8%	26.0%	60.6%	33.4%
Profit attributable to owners of parent	797	1,024	1,523	1,923	1,273	2,620
YoY	73.2%	28.5%	48.7%	26.3%	75.3%	36.2%
EPS after the stock split (¥)	41.88	53.39	78.91	99.17	65.52	134.83
Dividend after the stock split (¥)	25.00	30.00	40.00	45.00	20.00	55.00
BPS after the stock split (¥)	200.47	228.22	274.80	339.37	-	-

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

Simplified balance sheet

(¥mn)

	End-FY6/13	End-FY6/14	End-FY6/15	End-FY6/16	End-FY6/17
Current assets	4,487	5,283	6,551	8,984	11,999
Cash and deposits	2,175	2,429	3,038	3,930	4,581
Notes and accounts receivable – trade	1,931	2,388	2,954	4,060	6,245
Non-current assets	1,056	1,172	1,174	2,929	4,805
Property, plant and equipment	192	193	221	256	427
Intangible assets	130	145	130	2,202	3,845
Investments and other assets	733	832	821	471	532
Total assets	5,544	6,455	7,725	11,914	16,805
Current liabilities	2,019	2,584	3,287	6,531	7,641
Accrued expenses	1,327	1,447	1,754	2,394	3,031
Short-term loans payable	-	-	-	1,900	1,571
Non-current liabilities	44	38	31	60	2,466
Long-term loans payable	-	-	-	-	2,306
Shareholders' equity	3,484	3,837	4,409	5,323	6,520
Capital stock	1,476	1,492	1,529	1,538	1,562
Capital surplus	634	650	687	696	720
Retained earnings	1,373	1,694	2,193	3,089	4,238
Accumulated other comprehensive income	-4	-5	-3	-5	74
Net assets	3,479	3,832	4,406	5,322	6,697
Total liabilities and net assets	5,544	6,455	7,725	11,914	16,805

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

Cash flow statement

(¥mn)

	FY6/13	FY6/14	FY6/15	FY6/16	FY6/17
Cash flows from operating activities	777	861	1,209	1,418	2,274
Cash flows from investing activities	-75	-154	-147	-1,807	-2,395
Cash flows from financing activities	-275	-451	-459	1,287	764
Effect of exchange rate change on cash and cash equivalents	1	-1	6	-7	7
Net increase (decrease) in cash and cash equivalents	427	254	609	891	651
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	4,581

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

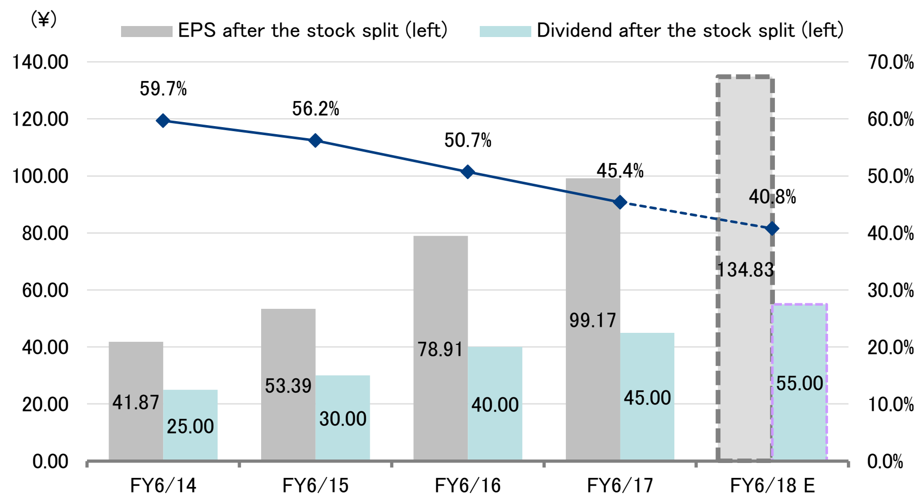
Shareholder return policy

In FY6/18, plans to increase the dividend by ¥10 YoY to ¥55

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.

In FY6/17, Trust Tech paid a ¥45 annual dividend with ¥15 as the interim dividend and ¥30 as the year-end dividend, as planned. This worked out to a dividend payout ratio of 45.4%. For FY6/18, it disclosed a dividend target of ¥55 (¥20 interim and ¥35 period-end), an increase of ¥10 YoY. The dividend payout ratio comes to 40.8% based on the ¥134.83 net profit target per share. We think Trust Tech might revise the dividend if earnings overshoot because the ratio is already about 10pp lower than the 50% goal.

Earnings per share, dividend, and dividend payout ratio



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

Trust Tech places emphasis on individual investors and shareholders and strives to foster an environment that is conducive to investments by individuals. It conducted a 2-for-1 stock split on April 1, 2016. The share price has risen since then and is currently well above where it stood at the split timing. We think expectations for another split are likely to be growing because it has been more than a year since the previous one.

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