Trust Tech Inc.

2154

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Summary

Announced the new Mid-term Plan with the aim of realizing sustainable growth, centered on IT
Plans to change the company name to BeNEXT Group Inc. to express its concept of evolving engineers' growth from improving their value

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. Has updated the Mid-term Plan. Intends to realize a sustainable growth strategy

Up to the present time, the Company has formulated and implemented a rolling-type Mid-term Plan, aiming for growth in the medium- to long-term. However, based on the fact that it achieved the medium-term EBITDA target ahead of schedule in FY6/19, it has formulated a new three-year Mid-term Plan. In the previous Mid-term Plan, it took the approach of prioritizing the growth rate in order to establish positioning in the market. But in the new Mid-term Plan, there has been a major change in focus to prioritizing the realization of sustainable growth based on the current business portfolio. As the numerical target, in the next three years up to FY6/22 it intends to achieve EBITDA of more than ¥10bn (a three-year, average annual growth rate of approximately 15%).

2. The source of growth is its engineers. Plans to change to the new company name, BeNEXT Group, to incorporate this concept.

The driving force behind growth in the period of the new Mid-term Plan will be the engineering field, the same as up to the present time. The content of the work is being transformed from "design and development by industry" to "development that straddles industries using the common language of IT." In order to respond to this environmental change, the Company will focus even more on recruiting and training new engineers. It is clear that engineers are its greatest asset, so it decided to change its name to BeNEXT Group Inc., and to become a holding company to incorporate the concept of prioritizing engineers and a feeling of energizing and supporting each and every engineer toward them taking on the challenges of new technologies and improving value. The Company believes that taking the activities of its engineers to the next stage will lead to the sustainable growth of earnings, and reflecting this, it has formulated a policy to increase returns to shareholders (incorporating buybacks of treasury shares).

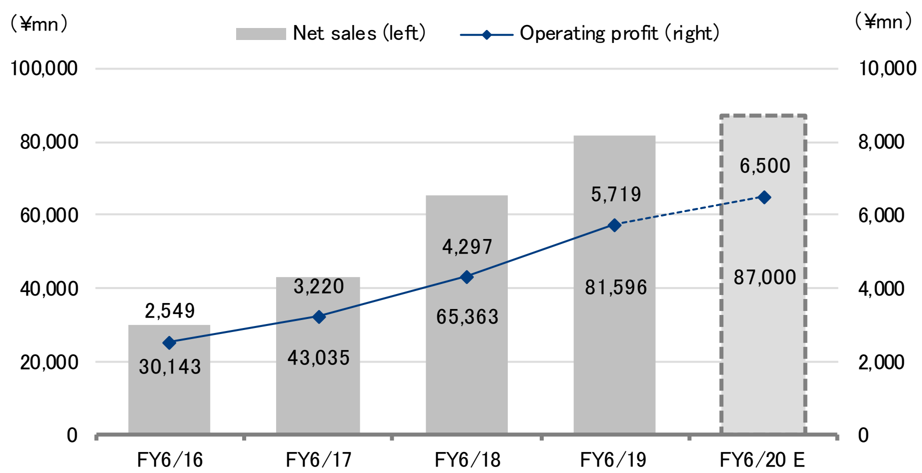
3. Results continue to be strong. In FY6/20, the impact of exchange rates in the overseas field will be covered by the domestic business, and profits will continue to increase

Results are favorable. In FY6/19, both sales and profits increased significantly, with net sales of ¥81,596mn (up 24.8%) and EBITDA of ¥6,843mn (up 28.3%). Results steadily grew in the core engineering field, while in the overseas field also, earnings increased from the full fiscal year contribution of the subsidiary acquired in the previous fiscal year. In FY6/20, which is the first fiscal year of the new Mid-term Plan, the forecasts are for sales and profits to continue to increase, with net sales of ¥87,000mn (up 6.6% YoY) and EBITDA of ¥7,533mn (up 10.1%). On an actual results basis, each of the three segments are expected to continue to achieve steady growth in line with the growth strategy set out in the Mid-term Plan. But in the overseas field, the forecasts are for sales and profits to decline on a reporting basis that incorporates the strong yen and the weak pound. But this will be covered by the higher sales and profits in the engineering field, so the forecasts are that sales will rise YoY and a double-digit increase in profits to be secured.

Key Points

- Announced the new three-year Mid-term Plan. The Company is targeting EBITDA in excess of ¥10bn for FY6/22.
- Aiming to further increase scale by actively recruiting human resources in the IT and software field
- Plans to change to the new company name BeNEXT Group to incorporate the concept of employees first

Results trend



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

Company profile

Currently sustaining robust growth with multiple acquisitions in Japan and abroad

1. History

Sanei Shoji Inc. and others 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 M&A deals to broaden its business 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, BeNEXT Solutions Inc.) 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 Limited as a subsidiary in August 2016, giving it a foothold to promote full-fledged overseas initiatives, and then purchased UK-based Gap Personnel Holdings Limited (Gap Personnel) as a subsidiary in December 2017 (this deal involved direct acquisition of holding-company 1998 Holdings Limited). It also acquired FUSIONi Co., Ltd. as a subsidiary in March 2017 (now, BeNEXT Solutions Inc.) as part of broadening business scope to IT and software.

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. (renamed from Kyousei Sangyou Inc. in March 2017) that handles employment for disabled persons and from real estate leasing business.

The corporate group consists for Trust Tech and consolidated subsidiaries TTM Inc. and BeNEXT Solutions in Japan. As business fields, BeNEXT Solutions handle engineering while TTM runs the manufacturing.

Overseas initiatives started with the acquisition of a Hong Kong-based company, which provides engineering recruitment and other services, in June 2016. Since then, the Company has rapidly expanded business scope by setting up sites in Asia, with emphasis on China, and simultaneously making acquisitions in the UK. Overseas field sales are rising above the ¥30bn range due to major acquisitions in the UK of MTrec in August 2016, Gap Personnel in December 2017, and Quattro Group in August 2018. In January 2019, it purchased shares of L&A INVESTMENT CORPORATION (LAI) acquiring a 44.42% stake, which owns one of Vietnam's largest staffing companies.

Overview of Trust Tech group companies

Business segment	Company name	Business content	Equity stake	Comment
Engineering field	Trust Tech Inc.	Provides dispatching, subcontracting, outsourcing, and recruitment services in the engineering field	-	
	BeNEXT Solutions Inc. (former TRUST NEXT SOLUTIONS Inc.)	Provides control-related software development, design assistance, and testing	100%	Acquired as a subsidiary in July 2015, merged with the group and changed the company name in April 2018, merged with the group and changed the company name in July 2019
	BeNEXT Solutions Inc. (former Trust iPowers Inc.)	Provides dispatching and outsourcing services in the ICT field	100%	Acquired as a subsidiary in March 2017, changed the company name in January 2018, changed the company name in July 2019
Manufacturing field	TTM Inc.	Provides subcontracting and dispatching services in the manufacturing field	100%	
Other	Trust Tech With Inc.	Provides an environment for disabled people to engage with others as members of society	100%	Formerly Kyousei Sangyou Inc.
Overseas field	MTrec Limited	Handles dispatching and recruitment business	83%	Acquired shares in August 2016
	PT.TRUST TECH ENGINEERING SERVICE INDONESIA	Personnel placement	100%	Established in September 2016
	Shan Dong Trust Bridge Human Resources Inc.	Dispatching, subcontracting and personnel placement	49%	Established in October 2016
	Trust Tech Human Business Consulting Shanghai Inc.	Personnel placement	100%	Established in July 2017
	Guangzhou Trust Dianmi Human Resources Inc.	Dispatching, subcontracting and personnel placement	49%	Established in June 2017, began business in January 2018
	Gap Personnel Holdings Limited	Dispatching and personnel placement	75%	Acquired shares in December 2017
	Quattro Group Holdings Limited	Dispatching and personnel placement	75%	Acquired shares in August 2018
	L&A INVESTMENT CORPORATION (LAI)	Handles staffing, staff introductions, and executive searches	44.42%	Acquired shares on January 23, 2019, treated as an equity-method affiliate

Source: Prepared by FISCO from securities reports and press releases

Securing engineers is the key to growth; accelerating the pace of mid-career and new university graduate hires and focusing on a higher retention rate with better terms

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, with about 90% dispatch of engineers and about 10% is subcontracting. The outsourcing business mainly involves work conducted by the Company's engineers at customer facilities, and outsourcing development at its own facilities is 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 should be more profitable than dispatching service, dispatching delivers almost the same profitability in many cases because process step estimates, deadlines, and other aspects of subcontracting 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, ramped up mid-career recruitment for the year ending June 30, 2019. It has also been hiring new graduates more aggressively in the past few years; in addition to hiring around 500 graduates in April 2018, the Company is making progress on recruitment for this year as well with over 700 new graduates hired in April 2019.

An important point along with hiring is boosting the engineer retention rate. Trust Tech is putting efforts into increasing the average dispatching price and improving compensation for engineers. Increase in the average price is often achieved through assignments to customers paying higher prices. Key points in accomplishing this are more precise understanding of individual engineer skills and market value and matching these features with suitable assignments. Trust Tech intends to place even stronger emphasis on talent management.

Profitability is the top priority, strongly promoting efficient matching with locally-oriented hiring and sales activities

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 services 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 sales 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.

Trust Tech is focusing on locally-oriented hiring and sales activities in order to enhance profitability in the manufacturing field. Dispatches of manufacturing personnel to remote locations involve moving and transfer expenses. This approach aims to curtail and reduce such costs. 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 enhances the cost reduction efficiency. Trust Tech has been improving its profitability in the manufacturing field due to success in steadfast efforts with this type of regional focus; EBITDA margin reached 5.6% and operating margin was 5.5% in FY6/19, arriving at a leading position in the industry.

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 indefinite-term employees and limited-term employees in the manufacturing field to flexibly meet demand. Trust Tech sees shortages in manufacturing personnel in Japan as a structural issue and expects continued rise in demand in the medium to long term for manufacturing staff. 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.

Implements manufacturing staffing business at three subsidiaries in the UK, expanding Asian business to Vietnam

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. In the overseas field, the Company adjusts its market engagement and growth strategy by mature markets (mainly developed countries) and immature markets in Asia and other areas because extent of development in human resource service business differs depending on the level of social maturity.

In mature markets, the Company follows a basic policy of entering through acquisition of local companies due to the large number of existing human resource companies. It has acquired three subsidiaries in the UK (MTrec, Gap Personnel, and Quattro Group) with business content that corresponds to the manufacturing field in Japan. Income structure hence is nearly the same as its domestic manufacturing field.

Asia, meanwhile, is an immature market, and the Company is gradually building operations as the market advances. Its local subsidiaries are only engaged in staff introduction business at this point. This is because staffing markets are still under-developed. These sites are currently serving in a role of implementing market surveys and gathering information. The Company’s subsidiaries appear to be profitable thanks to having light cost structures.

Currently, the Company is progressing the staffing business in Asia the form of joint ventures and investing capital due to factors such as the aim of reducing business risk and the legal restrictions in each country. The earnings it receives are equity-method investment profit or loss. Currently, the (Japanese-style) staffing business is conducted by three companies, two joint ventures in Shandong Province and Guangdong Province in China, and a major staffing company in Vietnam.

Business performance

Achieved higher sales and profits for new record highs

● Overview of FY6/19 results

The Company posted steep sales and profit gains in FY6/19 with net sales at ¥81,596mn (up24.8% YoY), operating profit at ¥5,719mn (up33.1%), ordinary profit at ¥5,606mn (up32.6%), and profit attributable to owners of parent at ¥3,706mn (up44.3%). Net sales and operating profit reached all-time highs. EBITDA (operating profit + amortization expenses of goodwill + depreciation + one-time acquisition costs), which the Company monitors as a key performance indicator (KPI), rose 28.3% to ¥6,843mn.

Overview of FY6/19 results

(¥mn)

	FY6/18			FY6/19					
	1H	2H	Full year	1H	2H	Full-year forecast	Full year	YoY	Change from forecast
Net sales	29,676	35,687	65,363	40,246	41,350	82,000	81,596	24.8%	-0.5%
Operating profit	2,210	2,086	4,297	3,112	2,607	6,000	5,719	33.1%	-4.7%
(Operating profit margin)	7.4%	5.8%	6.6%	7.7%	6.3%	7.3%	7.0%	-	-
Ordinary profit	2,201	2,027	4,228	3,079	2,527	5,900	5,606	32.6%	-5.0%
Profit attributable to owners of parent	1,312	1,256	2,569	2,000	1,706	3,700	3,706	44.3%	0.2%
EBITDA	2,803	2,529	5,332	3,673	3,170	7,048	6,843	28.3%	-2.9%

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

The EBITDA value of ¥6,843mn exceeded the target for FY6/21 of ¥6,217mn*, which is the target in the Mid-term Plan that the Company was working on up to the present fiscal period. In other words, it achieved the target in the Mid-term Plan two years ahead of schedule, and as described below, this was a major reason why it decided to update the Mid-term Plan.

* Based on the two polices in the Mid-term Plan, of "maintain a growth speed of an annual rate of more than 20%" and "achieve a consolidated operating profit margin of more than 10%," the Company calculates and discloses it targeting an annual profit growth rate of approximately 25% (for further details, please refer to the medium- to long-term growth strategy and the progress made section).

Below we review trends by business segments.

Breakdown by business segments

(¥mn)

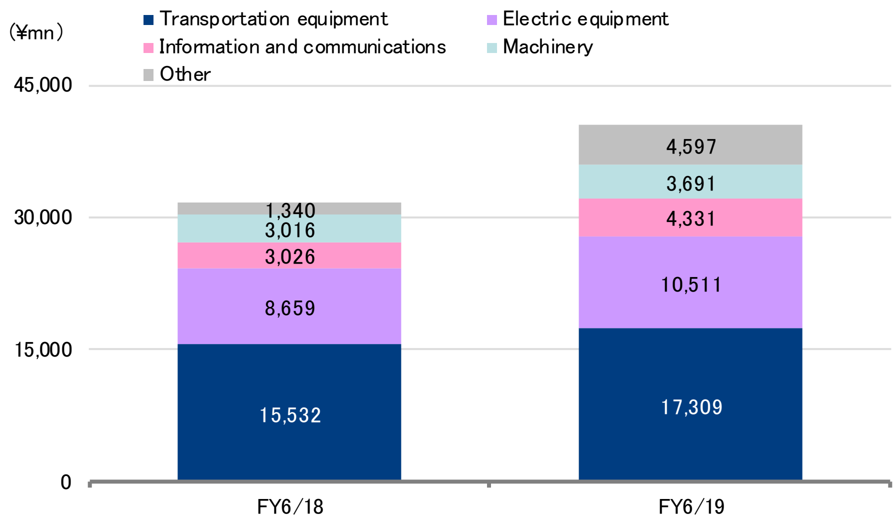
		FY6/18			FY6/19					
		1H	2H	Full year	1H	2H	Full-year forecast	Full year	YoY	Change from forecast
Net sales	Engineering field	16,069	17,504	33,573	19,875	20,564	41,230	40,439	20.5%	-1.9%
	Manufacturing field	4,918	4,984	9,902	5,105	4,884	11,000	9,989	0.9%	-9.2%
	Overseas field	8,711	13,262	21,974	15,317	15,991	29,830	31,308	42.5%	5.0%
	Other	30	38	69	51	54	78	105	52.2%	34.6%
	Net sales prior to adjustment (total)	29,729	35,790	65,519	40,349	41,493	82,138	81,842	24.9%	-0.4%
	Adjustment	-53	-102	-156	-103	-142	-138	-245	-	-
	Net sales (total)	29,676	35,687	65,363	40,246	41,350	82,000	81,596	24.8%	-0.5%
EBITDA	Engineering field	2,281	2,115	4,396	3,011	2,495	5,873	5,506	25.2%	-6.2%
	Manufacturing field	254	282	536	266	295	562	561	4.8%	-0.2%
	Overseas field	311	165	476	432	446	731	878	84.4%	20.1%
	Other	-57	-74	-131	-72	-110	-244	-182	-	-
	EBITDA prior to adjustment (total)	2,790	2,488	5,278	3,638	3,127	6,923	6,765	28.1%	-2.3%
	Adjustment	13	41	54	35	43	125	78	45.8%	-37.6%
	EBITDA (total)	2,803	2,529	5,332	3,673	3,170	7,048	6,843	28.3%	-2.9%
Margin	Engineering field	14.2%	12.1%	13.1%	15.2%	12.1%	14.2%	13.6%	-	-
	Manufacturing field	5.2%	5.7%	5.4%	5.2%	6.0%	5.1%	5.6%	-	-
	Overseas field	3.6%	1.2%	2.2%	2.8%	2.8%	2.5%	2.8%	-	-
	Company-wide	9.4%	7.1%	8.2%	9.1%	7.7%	8.6%	8.4%	-	-

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

(1) Trends in the engineering field

In the engineering field, sales and profits increased significantly, with net sales of ¥40,439mn (up 20.5% YoY) and EBITDA of ¥5,506mn (up 25.2%). In addition to the steady growth of demand destinations for items with high sales ratios, such as transportation equipment and electric equipment, the IT and software development field, which the Company is particularly focusing on, showed high growth and the target of 20% YoY growth was achieved.

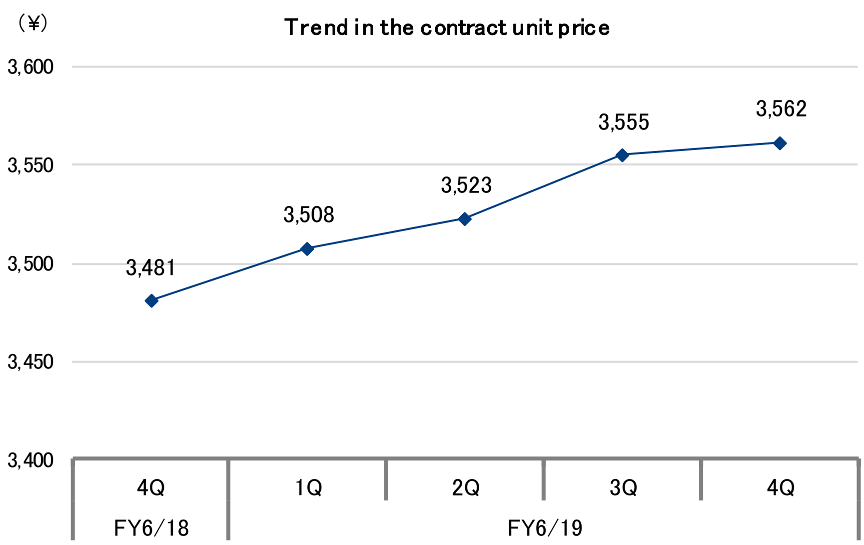
Sales trends by industry in the engineering field



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

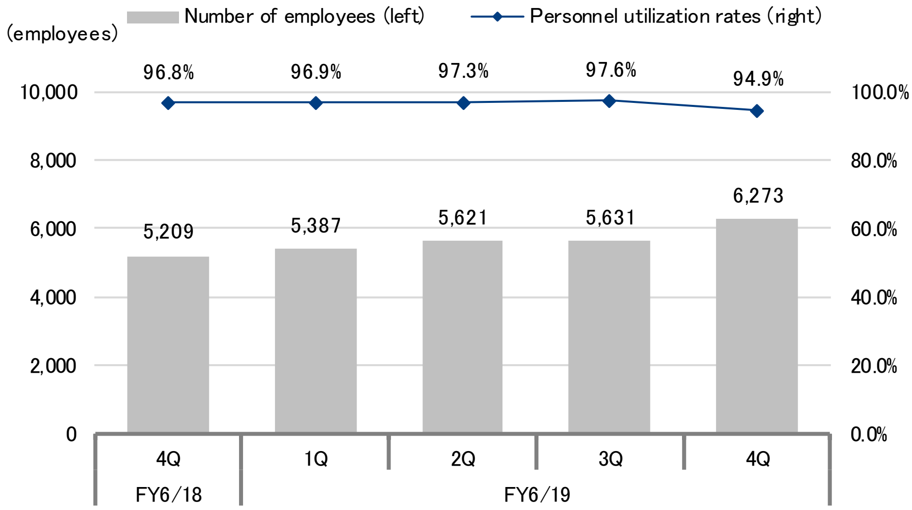
Compared to the initial forecasts, net sales were 1.9% and EBITDA 6.2% below their respective forecasts. The main reasons why the initial forecasts were not achieved were that the staffing of engineers for the semiconductor-related industry was less than expected due to the intensification of trade friction between the US and China, and that the number of engineers utilized did not reach the initial forecast. These changes in demand were only seen in some areas such as in the semiconductor industry, and results for other industries trended steadily as a whole.

Reflecting the strong demand in such actual results aspects, the contract unit price continues to steadily trend upward. Also, the number of engineers employed had reached 6,273 by the end of FY6/19 due to the recruitment of mid-career hires, and also the acceleration of the recruitment of new graduates. The utilization rate had continued to be around 97%, which in actual terms is full utilization, although it decreased to 94.9% in Q4. But this is a temporary decline due to the recruitment of a large number of new graduates, and it does not suggest any changes to the demand-supply balance for engineers.



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

Trends in the number of employees and utilization rates



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

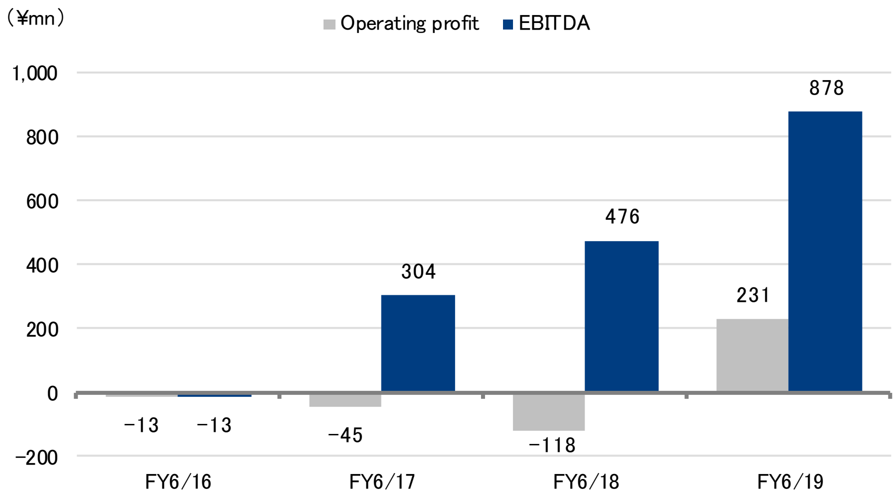
(2) Manufacturing field

In the manufacturing field, net sales were ¥9,989mn (up 0.9% YoY) and EBITDA was ¥561mn (up 4.8%). In this field, the Company has prioritized the profit margin since the past, and the priority management target is to maintain a 5% operating profit margin (in the manufacturing field, around the same as the EBITDA margin). In FY6/19 also, it worked to acquire orders for high unit-price projects from its basic strategy of conducting locally-oriented sales activities. However, because the number of recruits was less than expected, net sales were unchanged YoY and 9.2% below the initial forecast. However, profits increased 4.8% YoY and were basically in line with the initial forecast, through the thorough implementation of policies prioritizing profits.

(3) Overseas field

Sales and profits increased significantly, with net sales of ¥31,308mn (up 42.5% YoY) and EBITDA of ¥878mn (up 84.4%). Sales increased greatly because Gap Personnel, which was acquired in December 2017, contributed over the full fiscal year, and also from the addition of the results of Quattro, which was made a subsidiary in August 2018. In profits, the same as for sales, in addition to the effects of the consolidation of both Gap Personnel and Quattro, MTrec's earnings declined in the 1H and then bottomed-out and improved in the 2H, and not only did profits increase YoY, they also greatly exceeded the initial forecasts. At FISCO, we think that the point to focus on in FY6/19 is the return to profitability of operating profit. In the past, the amortization of goodwill has been a heavy burden and the operating loss had continued. The progress made in amortization is one reason for the former operating loss recovering to being operating profit. But more than this, at FISCO we think that the steady improvement in profitability at the three UK subsidiaries tells a bigger story.

Trend in operating profit and EBITDA in the overseas field segment



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

Medium- to long-term growth strategy and progress made

Announced the new three-year Mid-term Plan. Targeting EBITDA in excess of ¥10bn for FY6/22

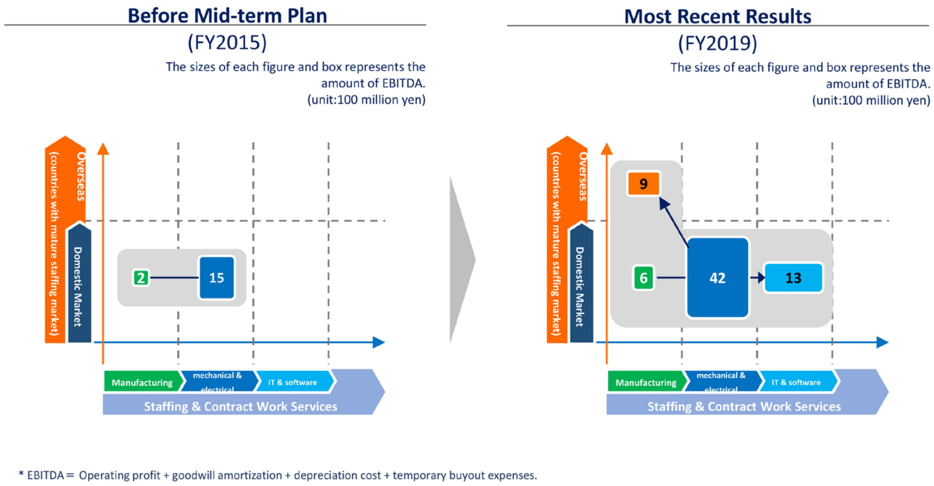
1. Overview of new Mid-term Plan

Up to the present time, the Company has formulated and implemented a rolling-type Mid-term Plan, aiming for growth in the medium- to long-term (it was first announced in August 2015). Based on the fact that it achieved the medium-term EBITDA target* two years' ahead of schedule in FY6/19, it has formulated a new three-year Mid-term Plan.

> * Based on the two polices in the Mid-term Plan, of "maintain a growth speed of an annual rate of more than 20%" and "achieve a consolidated operating profit margin of more than 10%," the Company targets an annual profit growth rate of approximately 25%. Alongside this, in FY6/21, an EBITDA target value of ¥6,217mn was calculated, and it is said the FY6/19 EBITDA exceeded this at ¥6,843mn.

Also, in the previous Mid-term Plan, the aim was to break away from a business structure that was concentrated on the so called mechanical- and electric-related fields, of machinery and transportation equipment and electric equipment, to grow earnings from "IT and software " and "overseas," and to shift from "single-business management" to "portfolio management." It has achieved results on this point, and at the same time as thickening the business trunk for the core machinery- and electric-related fields, it has realized growth with a sense of scale for profits from the IT and software field and the overseas business.

Changes to the earnings structure by field and region

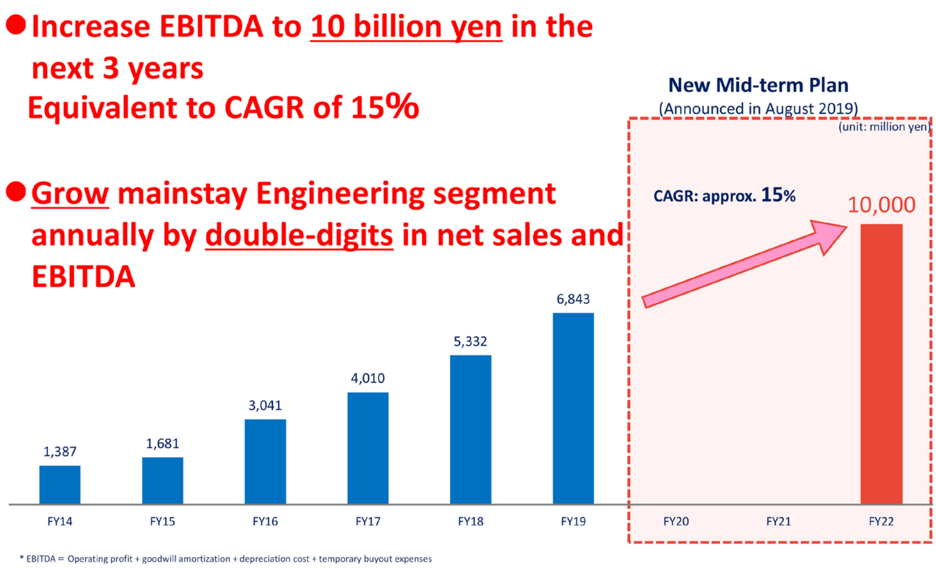


Source: The Company's Mid-term Plan briefing materials

The new Mid-term Plan is greatly different to the previous Mid-term Plan, in which the approach was to prioritize the growth rate, and it focuses on realizing sustainable growth based on the current business portfolio. On writing this, it is absolutely not the case that there is the impression that the Company may have changed to become a low-growth company. What it is aiming for is "stable and high growth," and for the engineering field, which it has positioned as a core business, during the period of the new Mid-term Plan it is targeting double-digit growth in each year for both net sales and EBITDA.

As a result, in the results target for FY6/22, the aim is to achieving EBITDA of more than ¥10bn. With FY6/19 as the starting point, this will be a three-year, compound annual growth rate (CAGR) up to FY6/22 of approximately 15%. Toward realizing this, as described above, the engineering field is expected to play a role in terms of being the driving force behind realizing a double-digit annual rate of growth.

FY6/20 to FY6/22 three-year Mid-term Plan results forecasts



Source: The Company's Mid-term Plan briefing materials

The keywords are "IT" for the engineering field, "profit margin" for the manufacturing field, and "strengthening the foundation" for the overseas field

2. Strategies and policies by business segment

The list of strategies and policies by business segment are shown below.

Strategies and policies by business segment

		Staffing market size	Market growth rate	Our Opportunity (O) and Threat (×)	Strategies and Policies under Mid-term Plan
Engineering Segment		Approx. 0.9 trillion yen	8 to 10% per annum	○ Active R&D investment Shortened technological cycles Changes in laws and regulations Foreign engineers × Decrease in workers with science and engineering background Shortage of workers in IT field	■ **Seek both sales growth and operational efficiency by investing management resources (M&A, tie-ups, ads, etc.) and sophisticating business models (enhancement of systems and shared services).** • We have abundant growth potential due to increased staffing demand (esp. IT and software related) and diversified supply. • Move business sophistication/differentiation initiatives (sophistication of business models) to an execution phase. • Enhance synergy effects of integration and concentration of IT operating company
Manufacturing Segment		Approx. 2.5 trillion yen	5% or so per annum	○ Production return to Japan Shift to manufacturing staffing × Shortage of workers	■ **Maintain high profitable scheme* and continue steady business expansion.** • Focus on high priced projects and limited area models. * Operating profit of 5% (Among the highest in the industry)
Overseas Segment	UK Industrial sector*	Approx. 0.7 trillion yen	0 to 3% per annum	○ Stable market Shortage of workers × Brexit impact FX risk	■ **Aim to sustain "highly profitable" growth of the business worth 30 billion yen in sales** • As MA initial one-off cost is completed, and local management and support system are in place, the business is on a cruise mode. • Seek investment opportunity in IT/engineer fields in the mid to long term.
	China**	Approx. 1.7 trillion yen**	China:10 to 15% per annum	○ High economic growth Emerging staffing market × Inadequate labor laws Business customs	■ **Transfer from Seeding to Sprouting stages** • In China, annual sales of our JV staffing agency (Shandong Province) has grown to a 1 billion yen during its second year. Expected to grow further at high rate. • Acquire a 44% stake in a largest staffing company in Vietnam (annual sales of 4 billion yen) in Jan. 2019, to make it a subsidiary in the future
	Vietnam	Approx. 0.4 trillion yen	Vietnam: 20% per annum		

*UK industrial sector: Staffing market catering for manufacturing and logistics (light work at warehouses) in such industries as machinery, transport equipment and consumer products. The sector accounts for 17% of the total staffing market in UK (Approx. 4 trillion yen) .
**Market size in China: Estimated market size of Japanese-style staffing with which a staffing company employs dispatched workers as its own employee.

Source: The Company's mid-term plan briefing materials

(1) Engineering field

As described above, the engineering field is expected to play a role as the main engine driving earnings growth. In this field, the market growth rate is expected to be 8% to 10% a year, and there are some advantageous factors in the business environment, such as the continued abundance of R&D investment, the shortening of the technology cycle, and the utilization of foreign engineers. But on the other hand, the Company is aware of the concerns about an increase in costs due to the shortage of science-related and IT human resources and the resulting competition for them. In this situation, it seems that the Company is aiming to outperform the market average and achieve growth of around 15% a year. Toward realizing this, it intends to actively invest its management resources (M&A, alliances, advertising expenses, etc.) and increase the sophistication of its business model (strengthening systems, shared services, etc.). During the period of the current Mid-term Plan, the keyword (or the offensive approach) in the engineering field segment is "IT." It was also a priority theme during the period of the previous Mid-term Plan, but its importance has increased even more in the current Mid-term Plan and it has become the core of the growth strategy (please refer to the next section for more details).

(2) Manufacturing field

In the manufacturing field, the growth rate of the market as a whole is expected to be around 5%, and in terms of the awareness of the priority items in the business environment, the positive aspects are the recovery of production domestically and the shift to staffing in manufacturing, while the negative aspect is the shortage of labor. In this situation, for the manufacturing field the Company has set the policy of "Continue to steadily expand while firmly achieving a high earnings structure as the top priority." What it means by a high earnings structure is to clear an operating profit margin of 5% (in the manufacturing field, the situation is that the EBITDA margin and the operating profit margin are basically the same). This will be the highest level in the industry and is recognized to be the upper limit of a realistic target zone in the current business structure for staffing for the manufacturing industry.

The Company's operations in the manufacturing field are undertaken by the subsidiary TTM. But compared to before and after it became the Company's subsidiary, TTM's business strategy and management targets have changed greatly. After it was made a subsidiary, what the Company realized was a high operating profit margin following the promotion of highly efficient management through locally-oriented sales activities. From among its customers from before it was made a subsidiary, there remain some that are not in line with the Company's sales strategy, and its policy is to further advance improvements on this point during the period of the current Mid-term Plan. Therefore, at FISCO we think it is possible that there may be years in which the growth of net sales is below the above-described market average. But even so, we think that this approach is absolutely essential in order to strengthen the earnings structure in the manufacturing field.

(3) Overseas field

In the overseas field, it necessary to consider the UK and the Asia region separately. From the viewpoint of the contribution to earnings in the current Mid-term Plan, the UK is overwhelmingly more important. For Asia, it can be said that the current level is one of watching trends while expecting a major leap forward during the period of the next Mid-term Plan.

In the UK, three companies were made subsidiaries during the period of the previous Mid-term Plan, and the annual sales scale has grown to more than ¥30bn. As mentioned above, in profits, the previous operating loss has become an operating profit after the amortization of goodwill, and on a EBITDA basis, the Company has a scale of ¥1bn in its sights. But it is taking a cautious viewpoint for this market, that it will remain unchanged YoY to growth of around 3% a year. In the background to this is that while there is the positive aspect of the underlying strength of staffing demand based on the labor shortage in a stable market, it is unclear what the effects of Brexit, and also the risk of exchange rate fluctuations resulting from this, will be on demand for staffing in the UK. Therefore, during the period of the current Mid-term Plan, it intends to establish the business foundations of net sales of ¥30bn from the three existing companies, and to aim for growth by prioritizing profits which is the same approach as in the manufacturing field in Japan. Although it does not particularly mention M&A, it seems that should an attractive project appear, it will would judge its pros and cons. However, when considering the risk factors, such as Brexit in the UK and exchange rate fluctuations, at FISCO we think that the criteria for such a judgment will be stricter than ever.

In the Asia region, as stated above the Company has a total of three equity method affiliates that are conducting the staffing business, the two venture companies in China and the company in Vietnam. The two Chinese companies have become profitable and the management of the Vietnamese company was already on track even before the Company invested in it. Therefore, it is expected that the Company will acquire equity method investment income from these three companies, although the total amount of this will be at a level of less than ¥0.1bn. The growth potential of these markets is high, at 10% to 15% a year for China and 20% a year for Vietnam, and if growth is steady, profits on a scale with a sense of presence are expected during the period of the next Mid-term Plan. Depending on this speed of growth, it is possible that the Company will increase its investment ratio in the Vietnamese company and make it a subsidiary, so this can be said to also be a point to pay attention to.

Based on the performance in the previous Mid-term Plan, of the rapid growth in business scale of the IT and software field, the aim in the current Mid-term Plan is to further expand scale through actively recruiting human resources.

3. The growth strategy for the engineering field is to expand the IT field

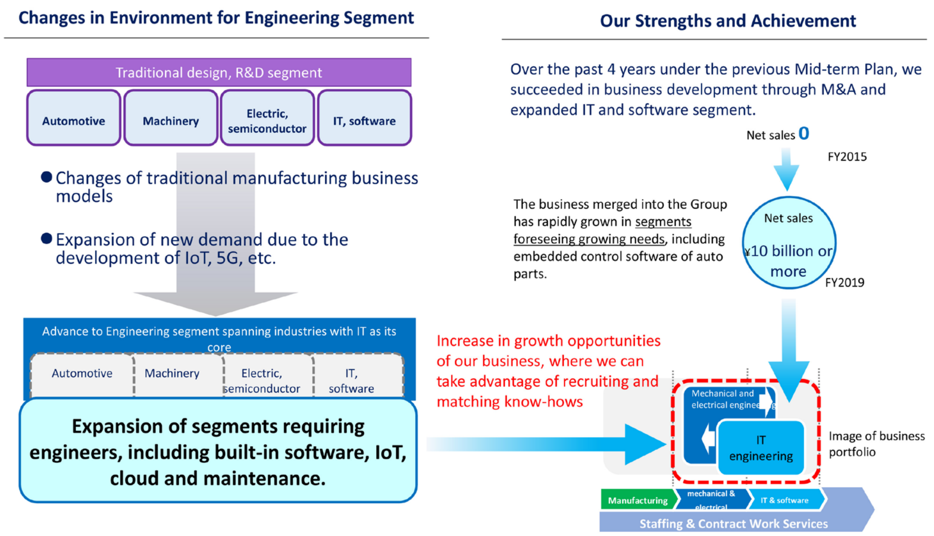
The core of the growth strategy for the engineering field is, as previously stated, the shift to IT. Below, we will organize the information on the background to this and the Company's strengths in the IT field.

The content of the work in the engineering field was previously centered on design and development. Therefore, the Company's strategy was also centered on an approach of analyzing the perception of the economic conditions in each industry to which it dispatched staff and the demand and supply conditions for engineers. But currently, the manufacturing industry's business model is changing, and new demand is being created alongside the development of technologies such as IoT and 5G, so the kind of work carried out at the dispatched sites has become more important. The work content that is growing remarkably is precisely the field of IT and software development.

As explained above, the Company has been focusing on capturing demand in the IT and software development field since the period of the previous Mid-term Plan, and in the short time of just four years, it has grown net sales in the IT and software field from zero to a scale of more than ¥10bn. In the current Mid-term Plan, based on the expansion of work in the IT and software fields in industries as a whole, regardless of the specific industry, it is aiming to grow the engineering field through a two-level structure, of an expansion centered on the previous industries, and an expansion centered on the work content of IT and software development work.

In terms of the specific results target, the target is to grow the EBITDA from the engineering field to around ¥8bn to ¥9bn, which will provide the majority of the EBITDA target of ¥10bn for FY6/22 on a Company-wide basis. At the current point in time, the EBITDA margin seems to be from 13% to 14%, the same level as the FY6/19 result (when back-calculating from this, it can be read that it is assumed that the EBITDA average annual growth rate, and net sales based on this, will both be around 15%).

Changes in environment and the Company's strengths and performance in the engineering field



Source: The Company's Mid-term Plan briefing materials

In order to realize a high growth rate as previously stated, the recruitment of engineer human resources is essential in order to continue the policies in the previous Mid-term Plan. In the previous Mid-term Plan, the target was to increase the number of engineers working in the engineering field to 10,000, and at the current time, the Company continues to steadily recruit them. In FY6/19, it recruited more than 700 new graduates in the engineering field, and it continues to recruit mid-career hires at a pace of 100 people a month, the same as previously. As a result of these activities, the number of engineers in the engineering field at the end of June 2019 was 6,273. From FY6/20 onwards also, it plans to continue to recruit at a rate of a net increase of 1,500 engineers a year, and by the end of FY6/22 , it plans to have secured engineers greatly exceeding 10,000. It also intends to actively recruit overseas engineers in order to achieve the recruitment target.

Plans to change the company name to BeNEXT Group to express its conviction inside and outside of the Group that engineers are the Company's asset constituting its foundation

4. Transition to a holding company structure and change of company name

The Company has announced that in January 2020, it will transition to become a holding company and to change its company name to BeNEXT Group Inc.

The aim of transitioning to a holding company structure is to increase management efficiency and the sense of speed, based on the situation that it has several operating companies in Japan and overseas in the three business fields, including the engineering field. The Company has positioned M&A as an important piece of its growth strategy, and going forward also, it is highly possible that the number of subsidiaries and Group companies will increase. The transition to a holding company structure is expected to be an effective measure toward smoothly implementing this and realizing corporate integration.

On the other hand, the change of company name is not just a makeover, but it is also "branding" to realize growth. It is thought that even currently, "Trust Tech" has sufficiently high levels of name awareness and recognition. But from a medium- to long-term viewpoint, the Company selected the new company name in order to conduct recruitment that fully incorporates this "concept," as well as once again demonstrating its presence in the job-change market and the staffing industry.

Under this concept, the Company highly values engineers, who are the greatest asset for the Company, as well as expresses its strong intention to energize and support each and every engineer to encourage them to take on the challenges of new technologies and improve corporate value. In the English-language name BeNEXT, the NEXT part expresses the challenge of the above-described new technologies, and also the concept of conducting initiatives to improve the value of itself.

The attitude of prioritizing employees, which is symbolized by the current change of company name, is also worthy of attention on the point of being an important element for the Company to realize sustainable growth. Based on the change of company name that pushes to the forefront the idea of "employees first," we will be paying attention to the progress made by the Company in the future for growth.

Business outlook

Even when incorporating the declines in sales and profits in the overseas field due to the effects of exchange rates, the Company is aiming to continue to achieve record high results from the growth of the engineering field, centered on IT

● Overview of the FY6/20 outlook

Trust Tech projects increased sales and profits, with net sales at ¥87,000mn (up 6.6% YoY), operating profit at ¥6,500mn (up 13.6%), ordinary profit at ¥6,350mn (up 13.3%), profit attributable to owners of parent at ¥3,840mn (up 3.6%), and EBITDA at ¥7,533 mn (up 10.1%) in FY6/19.

Overview of the FY6/20 outlook

(¥mn)

	FY6/19			FY6/20					
	1H	2H	Full year	1H forecast	YoY	2H forecast	YoY	Full-year forecast	YoY
Net sales	40,246	41,350	81,596	41,810	3.9%	45,190	9.3%	87,000	6.6%
Operating profit	3,112	2,607	5,719	2,731	-12.2%	3,769	44.6%	6,500	13.6%
(Operating profit margin)	7.7%	6.3%	7.0%	6.5%	-	8.3%	-	7.5%	-
Ordinary profit	3,079	2,527	5,606	2,636	-14.4%	3,714	47.0%	6,350	13.3%
Profit attributable to owners of parent	2,000	1,706	3,706	1,560	-22.0%	2,280	33.6%	3,840	3.6%
EBITDA	3,673	3,170	6,843	-	-	-	-	7,533	10.1%

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

In the manufacturing field, the forecasts are for net sales of ¥10,300mn (up 3.1% YoY) and EBITDA of ¥530mn (down 5.6%). The top priority in the manufacturing field is maintaining an operating profit margin of 5% (in the manufacturing field, this is basically the same as the EBITDA margin). The situation for demand itself in the manufacturing field continues to be tight against the backdrop of the labor shortage. But as the Company has adopted a stance of prioritizing profitability, the net sales growth rate is forecast to be lower than 5%, which is the growth rate of the market as a whole. EBITDA is expected to decline on considering factors such as the reforms to the internal constitution toward strengthening the high earnings structure based on the thorough implementation of locally-oriented sales activities.

Sales and profits are forecast to decline in the overseas field, with net sales of ¥29,992mn (down 4.2% YoY) and EBITDA of ¥864mn (down 1.7%). On a local-currencies basis, net sales are expected to increase 4.3% YoY. However, it is anticipated that the UK pound will fall against the yen (from ¥145.7 in the previous fiscal period to ¥132.0 in FY6/20), so the forecast is for sales to decline 4.2% on a yen basis due to exchange-rate effects. For the same reason, EBITDA is forecast to decline.

FY6/20 results forecast by business segment

(¥mn)

		FY6/19	FY6/20	
		Full year	Full-year forecast	YoY
Net sales	Engineering field	40,439	46,735	15.6%
	Manufacturing field	9,989	10,300	3.1%
	Overseas field	31,308	29,992	-4.2%
	Other	105	188	79.0%
	Net sales prior to adjustment (total)	81,842	87,215	6.6%
	Adjustment	-245	-215	-
	Net sales (total)	81,596	87,000	6.6%
EBITDA	Engineering field	5,506	6,412	16.5%
	Manufacturing field	561	530	-5.6%
	Overseas field	878	864	-1.7%
	Other	-182	-292	-
	EBITDA prior to adjustment (total)	6,765	7,515	11.1%
	Adjustment	78	18	-76.4%
	EBITDA (total)	6,843	7,533	10.1%
Margin	Engineering field	13.6%	13.7%	-
	Manufacturing field	5.6%	5.1%	-
	Overseas field	2.8%	2.9%	-
	Company-wide	8.4%	8.7%	-

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

Simplified income statement and key indicators

(¥mn)

	FY6/16	FY6/17	FY6/18	FY6/19	FY6/20	
					1H forecast	Full-year forecast
Net sales	30,143	43,035	65,363	81,596	41,810	87,000
YoY	44.8%	42.8%	51.9%	24.8%	3.9%	6.6%
Gross profit	7,192	9,344	13,302	16,891	-	-
Gross profit margin	23.9%	21.7%	20.4%	20.7%	-	-
SG&A expenses	4,643	6,124	9,005	11,171	-	-
SG&A expenses ratio	15.4%	14.2%	13.8%	13.7%	-	-
Operating profit	2,549	3,220	4,297	5,719	2,731	6,500
YoY	59.6%	26.3%	33.4%	33.1%	-12.2%	13.6%
Operating profit margin	8.5%	7.5%	6.6%	7.0%	6.5%	7.5%
Ordinary profit	2,528	3,185	4,228	5,606	2,636	6,350
YoY	55.8%	26.0%	32.7%	32.6%	-14.4%	13.3%
Profit attributable to owners of parent	1,523	1,923	2,569	3,706	1,560	3,840
YoY	48.7%	26.3%	33.5%	44.3%	-22.0%	3.6%
EPS after the stock split (¥)	39.45	49.58	64.31	87.47	36.81	90.60
Dividend after the stock split (¥)	20.00	22.50	27.50	35.00	15.00	40.00
BPS after the stock split (¥)	137.40	169.68	320.65	364.26	-	-

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

Simplified balance sheet

(¥mn)

	As of June 30, 2015	As of June 30, 2016	As of June 30, 2017	As of June 30, 2018	As of June 30, 2019
Current assets	6,551	8,984	11,999	20,190	22,199
Cash and deposits	3,038	3,930	4,581	9,410	10,257
Notes and accounts receivable - trade	2,954	4,060	6,245	10,045	10,905
Non-current assets	1,174	2,929	4,805	7,936	9,008
Property, plant and equipment	221	256	427	595	647
Intangible assets	130	2,202	3,845	5,960	6,199
Investment and other assets	821	471	532	1,380	2,161
Total assets	7,725	11,914	16,805	28,127	31,207
Current liabilities	3,287	6,531	7,641	12,405	13,886
Accrued expenses	1,754	2,394	3,031	4,208	5,044
Short-term loans payable	-	1,900	1,571	2,641	2,395
Non-current liabilities	31	60	2,466	2,005	1,518
Long-term loans payable	-	-	2,306	1,810	714
Shareholders' equity	4,409	5,323	6,520	13,385	15,369
Capital stock	1,529	1,538	1,562	4,199	4,216
Capital surplus	687	696	720	3,356	3,321
Retained earnings	2,193	3,089	4,238	5,830	7,833
Accumulated other comprehensive income	-3	-5	74	196	70
Net assets	4,406	5,322	6,697	13,715	15,802
Total liabilities and net assets	7,725	11,914	16,805	28,127	31,207

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

Cash flow statement

(¥mn)

	FY6/15	FY6/16	FY6/17	FY6/18	FY6/19
Cash flows from operating activities	1,209	1,418	2,274	5,144	5,028
Cash flows from investing activities	-147	-1,807	-2,395	-2,720	-1,430
Cash flows from financing activities	-459	1,287	764	2,415	-2,748
Effect of exchange rate change on cash and cash equivalents	6	-6	8	-12	-2
Net increase (decrease) in cash and cash equivalents	609	892	651	4,828	847
Cash and cash equivalents at beginning of period	2,429	3,038	3,930	4,581	9,410
Cash and cash equivalents at end of period	3,038	3,930	4,581	9,410	10,257

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

Shareholder returns

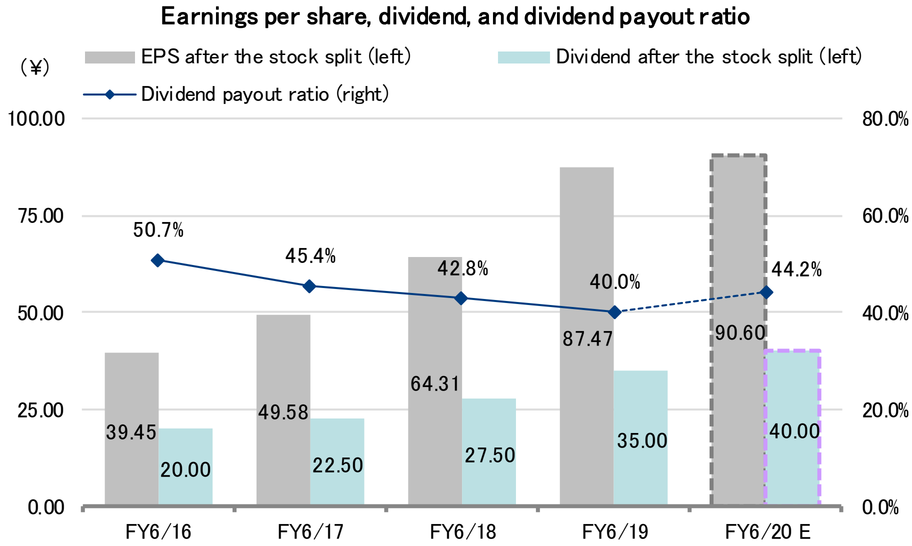
The dividend forecast for FY6/20 is ¥40, which in actual terms will be an increase of ¥5 YoY. Policy is also to "acquire treasury shares" as a shareholder-returns method

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.

For FY6/19, as was initially forecast the Company paid a dividend of ¥70 (interim dividend of ¥30, period-end dividend of ¥40), which was an increase of ¥15 YoY. The dividend payout ratio was 40.0%.

For FY6/20, it has announced a dividend forecast of ¥40 (interim ¥15, period-end ¥25). The Company conducted a 2 for 1 share split on July 1, 2019. After adjusting for this, the FY6/19 dividend was ¥35 and the FY6/20 dividend will be ¥40, so in actual terms, it will be an increase of ¥5. Based on the forecast earnings per share of ¥90.60, the dividend payout ratio will be 44.2%.

In the new Mid-term Plan, the Company clarifies its policy of incorporating "the acquisition of treasury shares" according to the situation as part of its measures to strengthen shareholder returns. It has not specified the implementation conditions and other details, but it is considered that the addition of buybacks of treasury shares will be received positively as a measure for shareholder returns.



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

FISCO

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