

Trust Tech Inc.

2154

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■ Summary

Growth accelerating with healthy organic expansion of domestic business and overseas M&A

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. Posting sharply higher sales and profits on M&A additions and organic growth in domestic business

Trust Tech posted sharply higher sales and profits in 1H FY6/18 with ¥29,676mn in net sales (up 45.0% year on year (YoY)) and ¥2,210mn in operating profit (up 69.2%). While the acquisition of a UK-based staffing company (December 2017) provided a large sales boost, the mainstay engineering field segment also achieved healthy sales growth at a 30% YoY increase. Earnings moved significantly upward on improved profitability from higher sales and better spending efficiency in engineering and manufacturing segments.

2. Targeting growth through maximizing market value of engineers in the engineering field and localization in the manufacturing field

In the engineering field, Trust Tech has strengthened talent management and moved forward with reassignments to suitable workplaces according to engineer skills and market values amid vibrant demand for engineer dispatches. These measures resulted in a roughly 4% YoY rise in the average price in 1H. In the manufacturing field, Trust Tech has focused on local hiring and sales activities as part of efforts to lower moving expenses, transfer expenses, and other expenses in upbeat business conditions. This activity lifted segment operating margin to 5.1% in 1H and 6.2% in 2Q, exceeding the 5% goal. Trust Tech plans to continue 1H initiatives during 2H and beyond as an important part of the respective growth strategies.

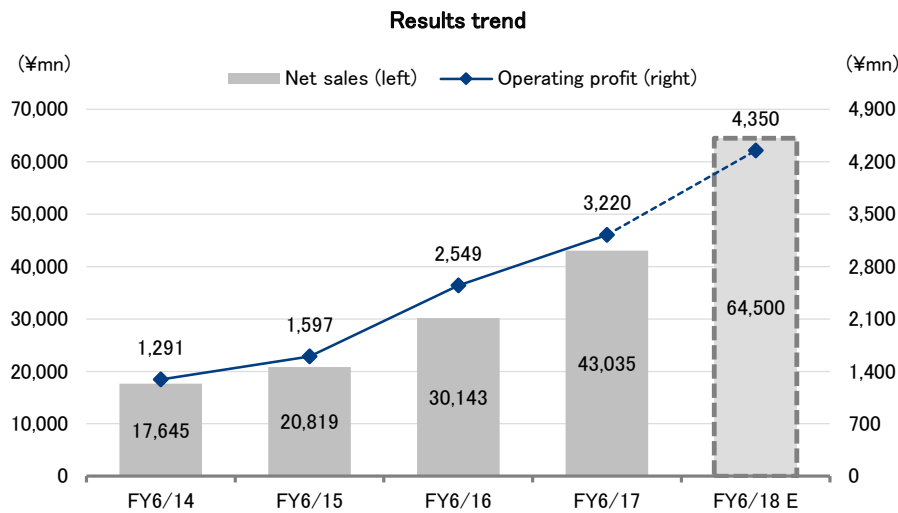
3. Major acquisition in the UK, intends to expand overseas business further with emphasis on mainland Europe and North America

Trust Tech positions M&A as an important component of its growth strategy. In December 2017, it purchased a 75% stake in UK-based staffing firm GAP Personnel Holdings Limited (below, GAP; Trust Tech’s acquisition actually involved holding company 1998 Holdings Limited), making it a subsidiary. GAP is roughly three times larger than MTrec Limited, which was acquired in August 2016, in terms of sales, and these two companies do not overlap in business coverage and expertise. Combined sales from these companies amount to about ¥27bn on a full-year basis. We expect Trust Tech to continue overseas business with organic growth, entry into mainland European countries through these British subsidiaries, and pursuit of new M&A opportunities in mainland Europe and North America.

Key Points

- Ramped-up hiring, expansion in IT and software, and strengthened talent management in the engineering field segment
- Pursuit of high-level balance in sustaining profitability and accelerating growth with a “localization” theme in the manufacturing field segment
- Plans to enter the European market through the two British subsidiaries and continue an aggressive posture in M&A

Summary



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

Company profile

Steady growth through M&A deals in Japan and overseas

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 HKT 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, and then purchased UK-based GAP as a subsidiary in December 2017. It also acquired FUSION Co., Ltd. as a subsidiary in March 2017 (renamed as Trust iPowers Inc. in January 2018) as part of broadening business scope to IT and software.

Company profile

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., Freedom Inc. (and its subsidiaries), and Trust iPowers Inc. in Japan. As business fields, Trust Tech and other group companies 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. The two British subsidiaries (MTrec and GAP) account for almost all of Trust Tech’s overseas income at this point.

Overview of its group companies

Business segment	Company name	Business content
Engineering field	Trust Tech Inc.	Dispatch of engineers, subcontracting, and outsourcing business
	Freedom Inc.	Control-related software development and design assistance
	Trust iPowers Inc.	SI and software development, system maintenance and operations, etc.
Manufacturing field	TTM Inc.	Manufacturing subcontracting, outsourcing, and dispatch business
Other	Trust Tech With Inc.	Job placement for disabled persons
	HKTT Limited	Engineer recruitment
	MTrec Limited	Dispatching and introduction personnel for engineering and manufacturing
Overseas field	PT.TRUST TECH ENGINEERING SERVICE INDONESIA	Personnel placement
	Shan Dong Trust Bridge Human Resources Inc.	Dispatching, subcontracting and personnel placement
	Trust Tech Human Business Consulting Shanghai Inc.	Personnel placement
	Gap Personnel Holdings Limited	Dispatching and introduction personnel for engineering and manufacturing

Source: Prepared by FISCO from securities reports and Company releases

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, with about 75% dispatch of engineers and 25% is subcontracting. The subcontracting business mainly involves work conducted by the Company's engineers at customer facilities.

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. However, it has been hiring new graduates more aggressively in the past few years and more than 500 graduates are planned to be hired for April 2018.

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 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 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 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.

Company profile

Trust Tech is focusing on regional 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 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 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.

Overseas business mainly consists of dispatching manufacturing staff in the UK. Joint venture 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 and GAP businesses correspond to the manufacturing field in Japan. 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 has launched a Japan-style personnel dispatching business. It has already grown to have a prospect for attaining profitability and we will be closely watching whether these developments expand in other parts of Asia too.

■ Business performance

Posting steep sales and profit gains with healthy organic growth in Japan and overseas M&A additions

1. Overview of 1H FY6/18 results

Trust Tech reported sharp sales and profit growth in 1H FY6/18 with net sales at ¥29,676mn (up 45.0% YoY), ¥2,210mn in operating profit (up 69.2%), ¥2,201mn in ordinary profit (up 71.5%), and ¥1,312mn in profit attributable to owners of parent (up 80.7%).

Trust Tech raised 1H and FY6/18 forecasts along with its announcement of the acquisition of a UK-based staffing company as a subsidiary on November 15, 2017. Actual 1H results exceeded the upward revised forecast in net sales and profits.

Business performance

Overview of 1H FY6/18 results

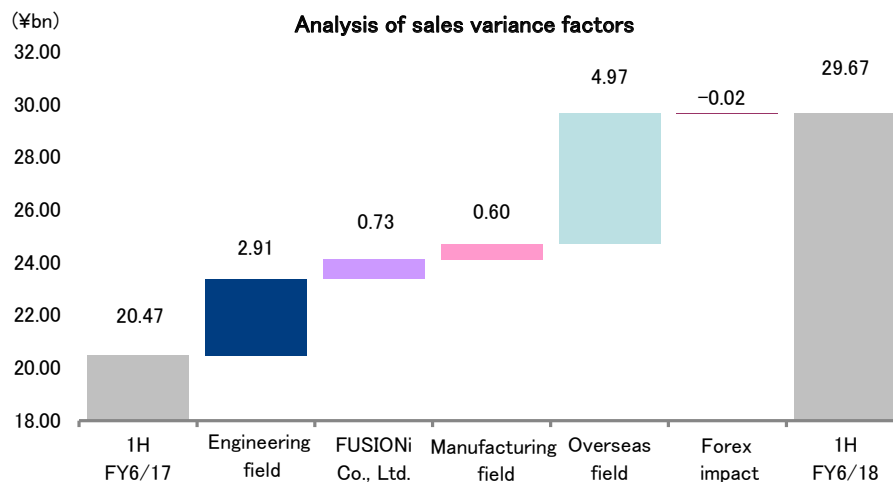
	FY6/17		1H FY6/18				(¥mn)
	1H	full year	Initial forecast	Revised forecast	Results	YoY	Change from the previous outlook
Net sales	20,471	43,035	24,620	29,500	29,676	45.0%	0.6%
Operating profit	1,306	3,220	2,065	2,150	2,210	69.2%	2.8%
Ordinary profit	1,283	3,185	2,062	2,130	2,201	71.5%	3.3%
Profit attributable to owners of parent	726	1,923	1,273	1,300	1,312	80.7%	1.0%

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

Net sales climbed ¥9,204mn YoY with a breakdown of ¥3,651mn in the engineering field, ¥609mn in the manufacturing field, and ¥4,955mn in the overseas business field (including forex impact).

Further analysis of the engineering increase shows ¥2,910mn in organic growth and ¥730mn from FUSIONi, which was added as a subsidiary in March 2017.

The steep rise in overseas net sales comes almost entirely from results at GAP, which was acquired as a subsidiary on December 1, 2017. Trust Tech added GAP's Jul-Sep results to its 1H results.

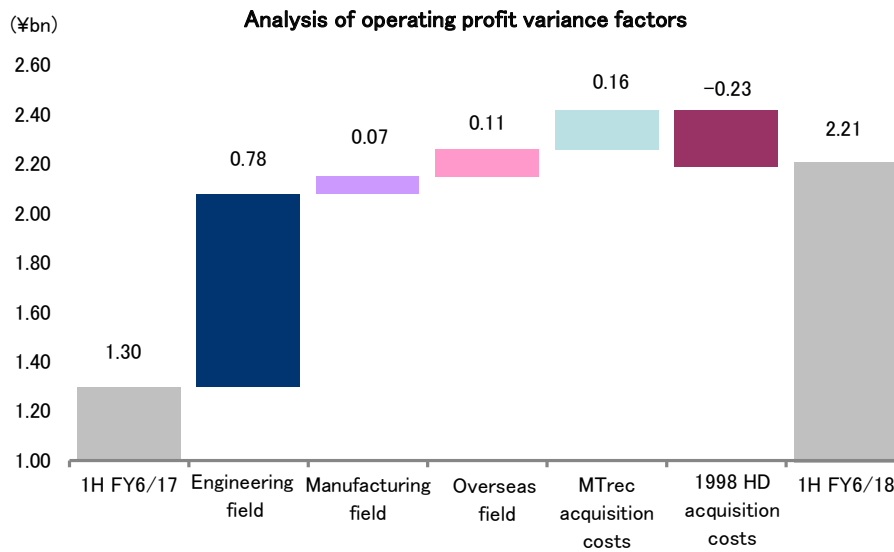


Source: Prepared by FISCO from the Company's financial results briefing materials

Business performance

Operating profit increased by ¥903mn YoY with a breakdown of ¥782mn from the engineering field, ¥77mn from the manufacturing field, and ¥49mn from overseas field business and others.

Profit gains in engineering field and manufacturing field segments came on higher sales and improved spending efficiency. Operating margins moved upward (YoY) in both segments as a result. Overseas field business realized a profit increase of ¥49mn as the net result of ¥110mn from higher profits at MTrec and GAP and absence of ¥160mn in one-time costs related to the MTrec acquisition offset partially by ¥230mn in one-time costs for the GAP purchase as a subsidiary.



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

In net sales, engineering and overseas segments delivered large sales growth rates, as explained above. Segment EBITDA (operating profit + goodwill amortization costs + depreciation and amortization costs + acquisition one-time costs; same below) climbed by robust roughly 50% YoY in the two domestic segments. We think healthy main businesses led profit increases because these segments have similar EBITDA and operating profit values. Overseas EBITDA growth, meanwhile, reflected the contribution from the new acquisition of GAP as a subsidiary, similar to net sales.

Business performance

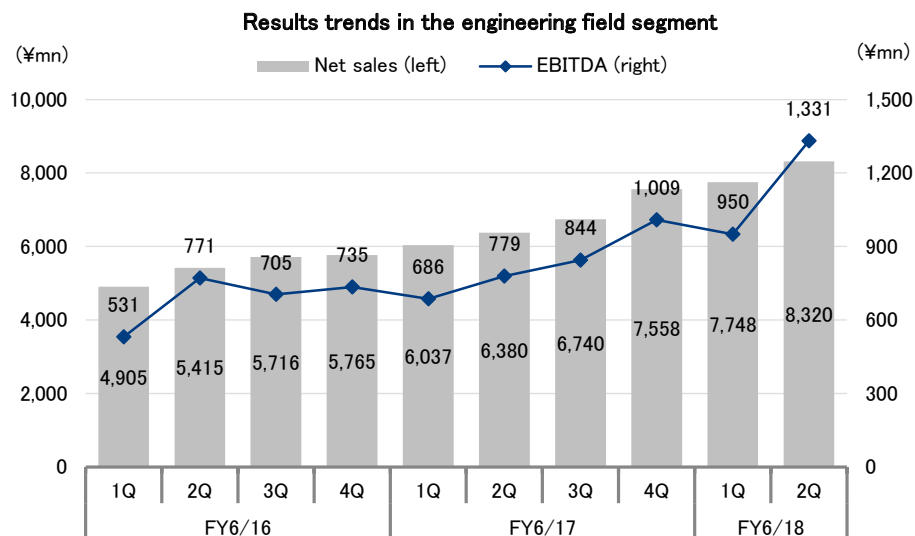
Breakdown by business segments

		FY6/17		FY6/18		
		1H	Full year	1H	YoY growth rate	YoY change
Net sales	Engineering field	12,418	26,717	16,069	29.4%	3,651
	Manufacturing field	4,308	8,957	4,918	14.1%	609
	Overseas field	3,756	7,399	8,711	131.9%	4,955
	Others	30	57	30	-1.3%	-0
	Net sales prior to adjustments (total)	20,513	43,131	29,729	44.9%	9,216
	Adjustment	-42	-95	-53	-	-11
Net sales (total)		20,471	43,035	29,676	45.0%	9,205
EBITDA	Engineering field	1,465	3,319	2,281	55.7%	816
	Manufacturing field	175	432	254	44.9%	78
	Overseas field	135	304	311	129.1%	175
	Others	-35	-84	-57	-	-22
	Operating profit prior to adjustments (total)	1,742	3,971	2,790	60.2%	1,048
	Adjustment	19	39	13	-30.3%	-6
Operating profit (total)		1,761	4,010	2,803	59.1%	1,042

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

Pursuing best matches between engineer skills/market value and customers and lifting the average price

2. Trends in the engineering field segment

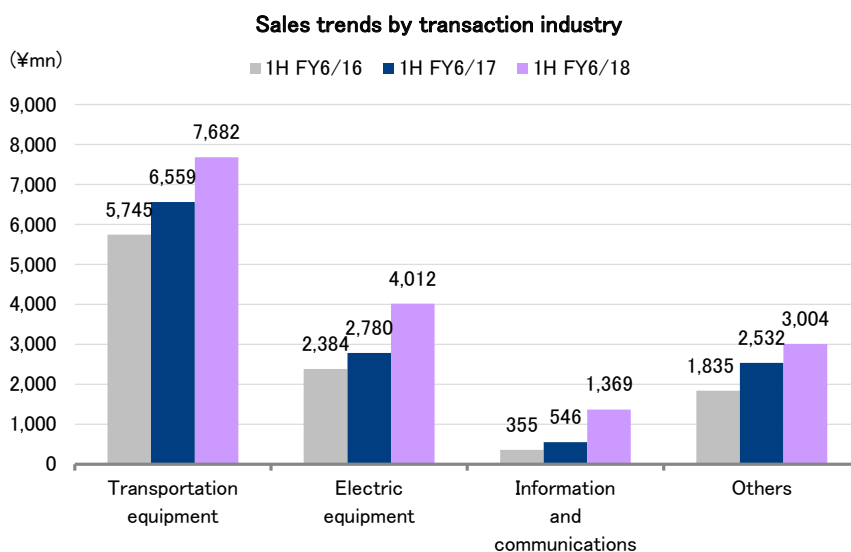


Source: Prepared by FISCO from the Company's financial results briefing materials

Business performance

Engineering field recorded sharply higher sales and profits in 1H at ¥16,069mn in net sales (up 29.4% YoY) and ¥2,281mn in segment EBITDA (up 55.7%).

Sales from transportation equipment and electric equipment industries, the two main demand sources, expanded at healthy paces of 17.1% and 44.3% YoY respectively in 1H. Information and communications (IT industry) sales rose by an even stronger 150.7% in 1H amid Trust Tech’s focus on this field. Sharp advance in IT industry business reflected the successful strategy of strengthening capacity in the IT field with the acquisition of FUSIONi as a subsidiary in March 2017 in an environment of robust demand.

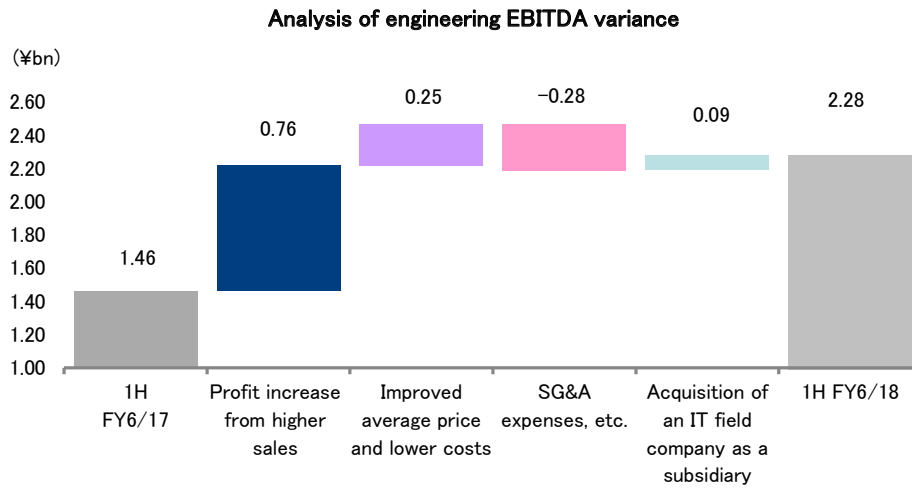


Source: Prepared by FISCO from the Company’s financial results briefing materials

Increase in gross profit from stronger sales was the direct primary source of EBITDA improvement. Progress raising the average dispatching price was most effective. Trust Tech promoted suitable matching of skills and market value of dispatched personnel and needs at dispatching customers as part of talent management amid vibrant demand for engineer dispatches. It thus dispatched engineers with better skills to businesses paying higher prices. This activity was successful in increasing the average price by about 4%.

Trust Tech promoted “local hiring and local dispatches” to help lower costs. It aims to reduce various costs involved in dispatching (such as moving costs and living costs at the site). The “local hiring and local dispatches” strategy has been making steady advances, thanks to growing interest from dispatched engineers in local sites, and thereby reducing service costs and SG&A expenses.

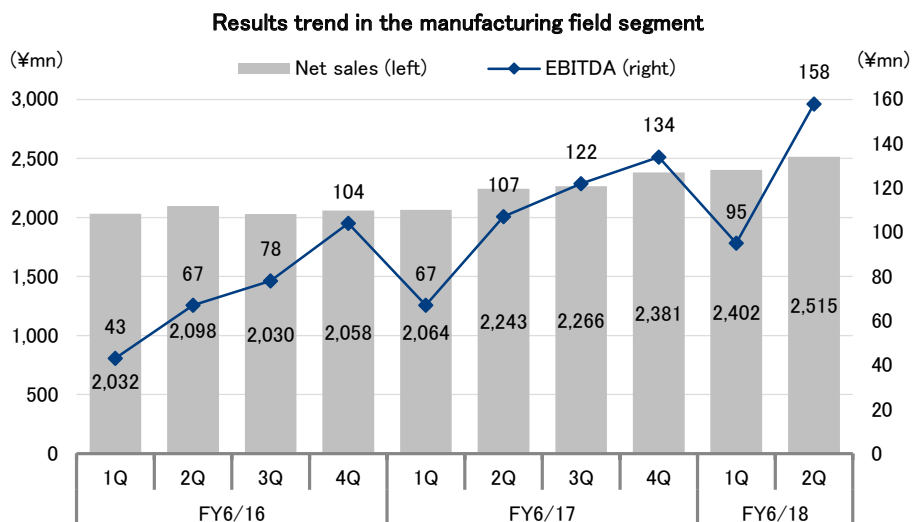
Business performance



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

Profit margin continues to improve with rigorous application of local hiring and sales

3. Trends in the manufacturing field segment



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

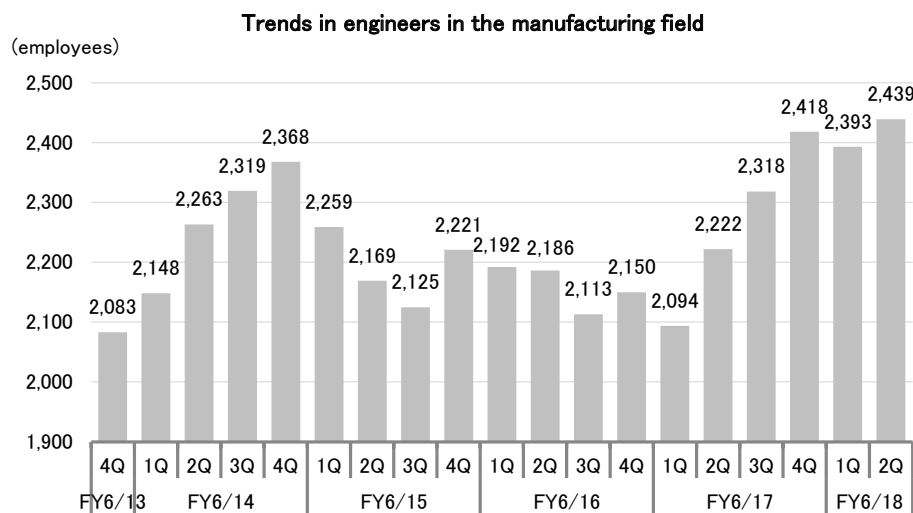
Manufacturing field business recorded higher sales and profits in 1H with ¥4,918mn in net sales (up 14.1% YoY) and ¥254mn in segment EBITDA (up 44.9%).

Business performance

Dispatching demand remains vibrant in the manufacturing field, similar to the engineering field. With these conditions, Trust Tech has been pursuing enhanced profitability by strengthening localized hiring and sales and expanding orders of high-margin projects.

In hiring activities, Trust Tech launched the Job Park site for job openings and is rolling out the Job Park brand in real-world offices with an aim of improved hiring efficiency. It had Job Park shops in four locations (Okinawa, Yamagata, Kitakyushu, and Hokkaido) as of end-1H.

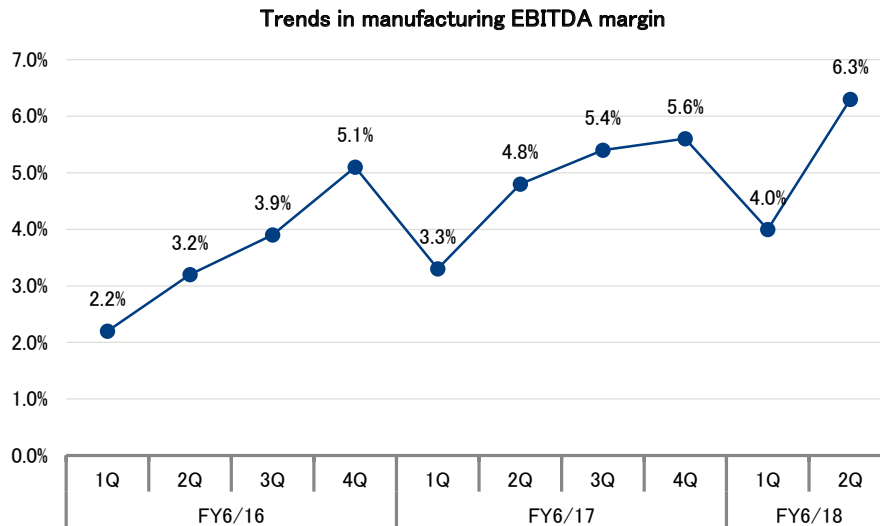
Engineer volume totaled 2,439 people at the end of December 2017, reflecting strong demand in the manufacturing field and healthy progress in hiring personnel. This works out to increases of 21 people from the end of FY6/17 and 217 people from a year ago (end-December 2016). Personnel with fixed-term employment contracts are a large majority in the manufacturing field, and the utilization rate is holding at effectively 100%.



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

Profitability in the manufacturing field has been steadily rising with support from increased sales and lower costs related to localized hiring and sales. EBITDA margin (ratio of EBITDA to net sales) was 5.2% in 1H, holding above the 5% goal, and climbed to 6.3% in 2Q alone. While the latter is likely to be a temporary peak, we see significance as an indicator of potential in the manufacturing field.

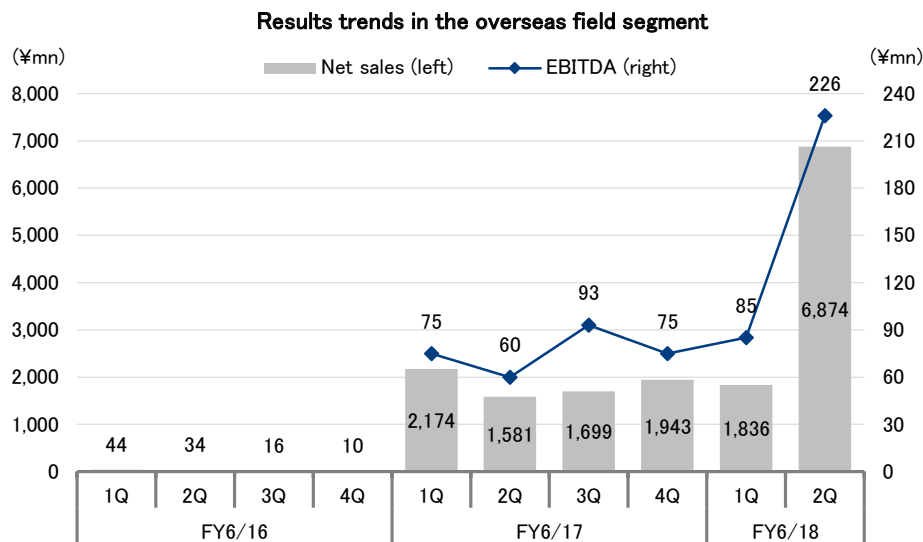
Business performance



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

Acquired UK-based staffing firm GAP as a subsidiary, expanding overseas business scope and setting its sights on Europe

4. Trends in the overseas field segment



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

Overseas field business realized sharply higher sales and profits in 1H with ¥8,711mn in net sales (up 131.9% YoY) and ¥311mn in segment EBITDA (up 129.1%).

Business performance

GAP, which was added a subsidiary as explained above, provided a large contribution to steep gains in overseas business. It has headquarters in Wrexham, which is about 30km south of Liverpool in the Britain's Midwest, and dispatches about 7,000 manufacturing staff and engineers to logistics and warehousing firms, food manufacturers, machinery and electric equipment manufacturers, and other industries. It covers southern Britain, including the London area, and does not overlap with the region covered by MTrec, which is based on Britain's northeast.

GAP reported about ¥17.9bn in net sales and ¥270mn in operating profit in FY3/17 and expects around ¥20bn in FY3/18 sales. Trust Tech's 1H FY3/18 results include three months of income from GAP for its 2Q (Jul-Sep 2017). This was the ¥4.9bn increase in overseas sales.

While MTrec's operating activity appears to be moving forward as planned, seasonal and other factors kept sales at a flat level (YoY) in 1H.

Acquisition of GAP as a subsidiary was also the primary source of higher EBITDA. The EBITDA value covers gross profit generated by GAP because it adds back goodwill amortization costs and acquisition one-time expenses. EBITDA increased substantially in 1H, including a gain at MTrec.

Overview of Gap Personnel Holdings Limited

Name	Gap Personnel Holdings Limited
Founded	June 1998
Location	Wrexham, United Kingdom
Business performance (FY3/17)	Net sales: £123.8mn (approx. ¥17.9bn) Profit before tax: £1.88mn (approx. ¥270mn)
Number of employees	231
Dispatched staff volume	7,003

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

■ Medium to long-term growth strategy and its progress

Pursuing growth with a four-pronged approach of “organic growth and M&A” and “regions and fields”

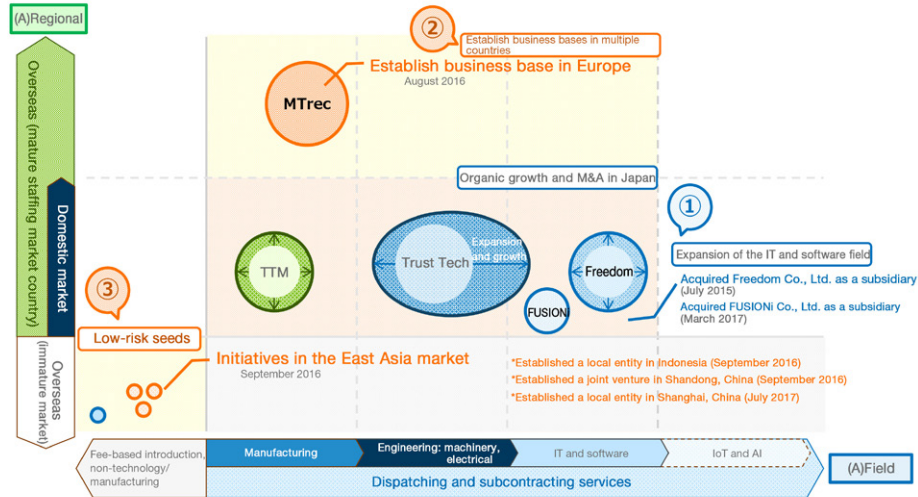
1. Overall image of longer-term growth strategy

Trust Tech is currently implementing the three-year medium-term business plan that covers FY6/16 to FY6/18. Steady implementation of this plan is the growth strategy.

The Company's medium- to long-term growth strategies consist of 1) combining organic growth and M&A and 2) broadening scope by regions and fields.

Medium to long-term growth strategy and its progress

Conceptual diagram of the growth strategy



Source: The Company's results briefing materials

Results have been larger than expected through the completion of two and a half years in the three-year plan. For 1), Trust Tech is making steady organic progress in the two domestic businesses and realized two major acquisitions in the overseas field during the medium-term plan period. For 2), it might significantly advance in overseas business and has been steadily growing business in Japan from a regional standpoint and is cultivating the IT and software field as a third pillar from a business field perspective.

Income results are well ahead of initial targets in light of these conditions. Trust Tech started FY6/18, the final year of the plan, with an initial target of ¥51.5bn in net sales that was already well above the ¥41bn plan target and raised the target to ¥64.5bn to reflect the GAP acquisition as a subsidiary.

Healthy advances in ramped-up hiring, expansion in IT and software, and strengthened talent management in the engineering segment

2. Growth strategy of the engineering field segment

(1) Initiatives in the IT and software field

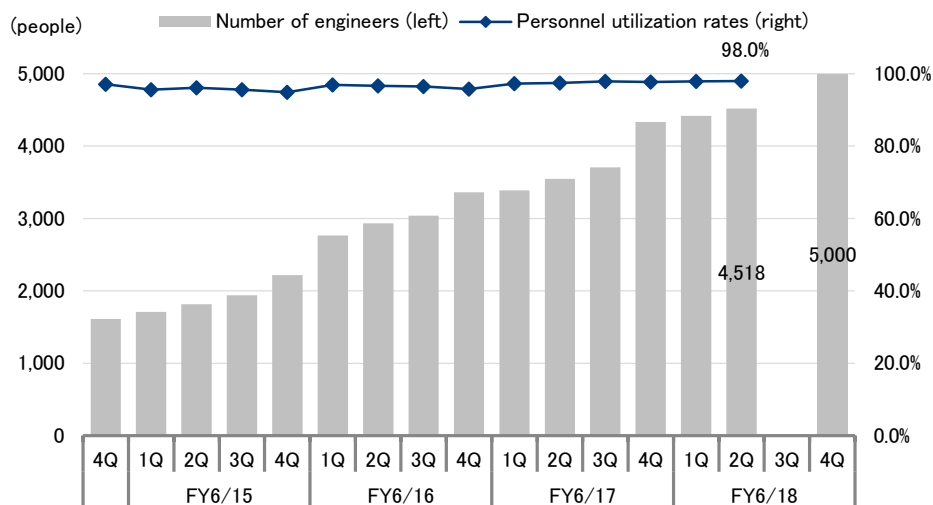
Reinforcement of IT and software business is a good example of progress in the engineering field. Trust Tech acquired FUSIONi, which has strength in the IT and software area, as a subsidiary in March 2017. Furthermore, it moved IT and software dispatching and outsourcing business from the Trust Tech group to FUSIONi and renamed the company as Trust iPowers in January 2018. Management aims to accelerate expansion of business scope in the IT and software area via Trust iPowers.

Medium to long-term growth strategy and its progress

(2) Initiatives in recruiting sufficient engineers

The most important initiative for driving growth is recruiting personnel. Trust Tech has been bolstering new university graduate and mid-career hires to address this challenge. It plans to add more than 500 new university graduates in April 2018. This is more than twice as many as two years ago and symbolizes the robust pace of Trust Tech's growth. Domestic engineer volume is moving within reach of 5,000 people with expansion of new university graduate hires as the main engine. Mid-career hires continue to take place through campaigns as needed, Trust Tech is putting even more effort into local hiring and local dispatches than previously.

Trends in domestic engineer volume



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

(3) Initiatives toward raising the average price

Another growth driver is raising the average price. While it is difficult to increase pricing when a certain engineer is working at the same location, Trust Tech has room to improve the average price by matching engineer skills and market value with customers paying a suitable price. Progress in this area surfaced in 1H with a 4% rise in the average price, as explained above. Trust Tech plans to continue its determination and assessment of individual engineer skills and market value and pursuit of best matching with customer needs and pricing.

Trust Tech also intends to reflect price increases in improved compensation for employees. Robust demand is likely to continue in Trust Tech's strong areas, such as transportation equipment, electric equipment, and IT and software, with automotive business as a leading driver. Key issues are new hires and retention of existing employees. Trust Tech wants to utilize higher pricing to not only raise its own earnings, but also to improve compensation.

Medium to long-term growth strategy and its progress

Trust Tech hopes to accelerate growth while maintaining profitability with a “localization” theme in the context of robust business conditions.

3. Growth strategy of the manufacturing field segment

Manufacturing business is receiving strong tailwind, similar to engineering business, and this favorable environment is likely to continue. Trust Tech’s policy calls for further acceleration of sales growth through increases in employee volume and expansion of dispatching sites. Nevertheless, it is still focusing on profitability in manufacturing business as a top-priority issue. We think Trust Tech aims to expand business scope while also maintaining profitability.

“Reinforcement of localized hiring and sales” should continue as the main strategy, just as previously. This is because lower dispatching prices in the manufacturing field, versus the engineering field, dictate more sensitivity to reduction of dispatching-related costs than in engineering field business.

Trust Tech is likely to continue increases in sales and hiring sites as specific action toward “reinforcing localized hiring and sales.” It prefers an approach of adding sites near existing locations based on their capacity, rather than suddenly launching sites in enclave locations. This is a smart strategy from the standpoint of pursuing efficiency.

Targeting Europe from footholds with two British subsidiaries and gradually ramping up Asian business, retains an aggressive posture toward M&A

4. Growth strategy of the overseas field segment

M&A is a core growth strategy in overseas field business. Trust Tech realized acquisitions of MTrec and GAP during the current medium-term plan period and retains an aggressive posture toward M&A depending on opportunities. It plans to seek new business in North America and mainland Europe from a regional perspective and manufacturing dispatch service in business terms.

We think attention should be given to “region-driven growth” in the overseas field. One area is entry into the mainland European market. GAP already appears to be starting business initiatives in mainland Europe. Trust Tech is likely to support this effort because it fits into the overall strategy.

Trust Tech has also been steadily solidifying its base in Asia with launches of a local entity in Indonesia (September 2016), a joint venture in Shandong, China (September 2016), and a local entity in Shanghai, China (July 2017). It plans to establish a joint-venture staffing company in Guangdong, China in March 2018. While these are almost entirely recruitment businesses, the Shandong joint venture is engaged in a Japan-style manufacturing dispatch business. We will be closely monitoring how this activity spreads to other regions.

Business outlook

Likely to fulfill FY6/18 forecast without trouble

● Overview of the FY6/18 outlook

Trust Tech kept its revised forecast announced in November 15, 2017 unchanged projecting significantly increased earnings and profits, with net sales at ¥64,500mn (up 49.9% YoY), operating profit at ¥4,350mn (up 35.1%), ordinary profit at ¥4,350mn (up 36.5%), and profit attributable to owners of parent at ¥2,690mn (up 39.8%) in FY6/18.

Overview of the FY6/18 outlook

	FY6/17			FY6/18				
	1H result	2H result	Full year result	1H result	2H		Full year	
					Forecast	YoY	Forecast	YoY
Net sales	20,471	22,564	43,035	29,676	34,823	54.3%	64,500	49.9%
Operating profit	1,306	1,913	3,220	2,210	2,139	11.8%	4,350	35.1%
Ordinary profit	1,283	1,901	3,185	2,201	2,148	13.0%	4,350	36.5%
Profit attributable to owners of parent	726	1,197	1,923	1,312	1,377	15.0%	2,690	39.8%

(¥mn)

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

We expect Trust Tech to fulfill FY6/18 forecast without trouble. Inclusion of nine months in GAP sales (July 2017 to March 2018) could add about ¥15bn in sales, and organic growth in engineering and manufacturing field businesses is likely to provide ¥8.5-9bn. We thus project a ¥23-24bn overall sales increase.

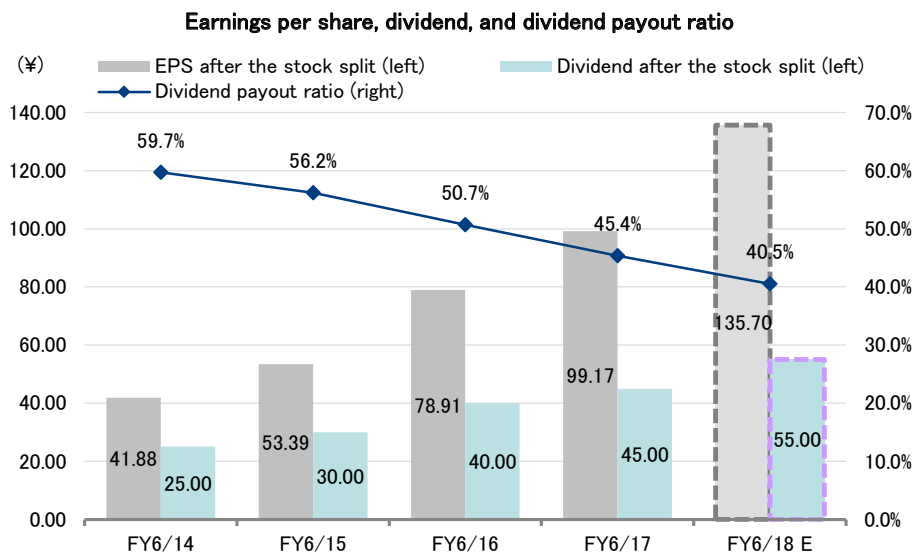
Stronger profit in domestic business, mainly from the engineering field, should boost Trust Tech's total earnings. Additions from higher average pricing in engineering field business cost savings in manufacturing field business seen in 1H are likely to continue in 2H too. We also expect an HoH rise in overseas profits due to absence of acquisition-related one-time costs in 2H. Given these conditions, we think full-year operating profit should be more than twice the 1H level.

Shareholder returns

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.

For FY6/18, the Company has left its initial forecast unchanged for dividends despite the upward revision made for the full year results forecast. It disclosed a dividend target of ¥55 (¥20 interim and ¥35 period-end), an increase of ¥10 YoY. The dividend payout ratio comes to 40.5% based on the ¥135.70 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.



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



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