



Summary of Quarterly Financial Results Press Conference for the Six Months Ended September 30, 2020



2020/11/6
CRESCO LTD.



1 Results main points



- In the 2nd quarter, although business confidence has slightly picked up, it has not reached the previous level.
- Limitations on face-to-face sales due to the scourge of COVID-19 and a decline in orders received from major customers (especially from customers in the public service sector) have had an impact on the financial results.
- The Company secured a double-digit increase in profit due to an increase in gain on sales of investment securities and other extraordinary income.
- Unprofitable projects also weighed on financial results.
- Operating profit on net sales is on a recovery trend. (1st quarter: 4.5% → 2nd quarter: 7.1%)

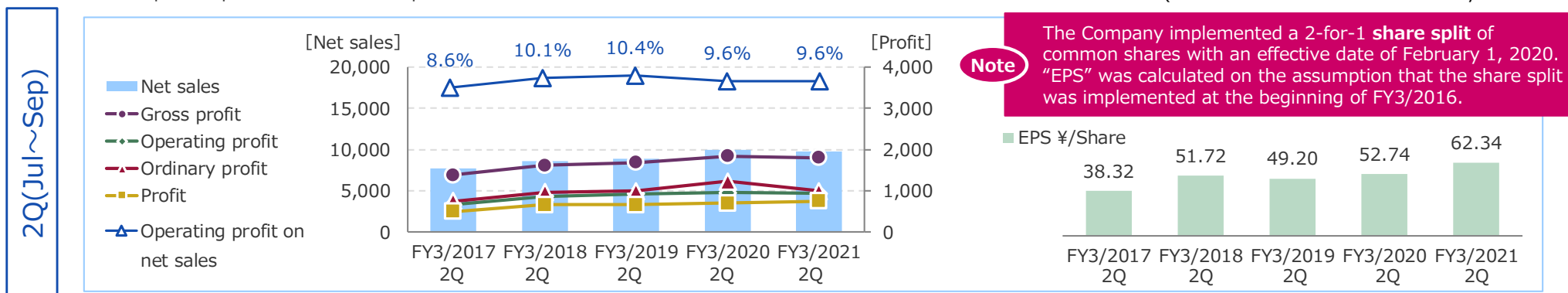
■ **Net sales:** Decreased 15 million yen (down 0.1% year on year).
■ **Ordinary profit:** Decreased 52 million yen (down 2.7% year on year).

■ **Operating profit:** Decreased 360 million yen (down 20.8% year on year).
■ **Profit:** Increased 169 million yen (up 14.9% year on year).

2Q (cumulative)	FY3/2019	FY3/2020	FY3/2021	YoY	Half-year progress	FY3/2021 Forecast <Announced on May 8, 2020>	YoY
	Net sales	17,041	19,218	19,203	99.9%	101.1%	19,000
Gross profit	3,067 (18.0%)	3,586 (18.7%)	3,255 (17.0%)	90.8%			
Operating profit	1,405 (8.2%)	1,726 (9.0%)	1,366 (7.1%)	79.2%	94.3%	1,450 (7.6%)	84.0%
Ordinary profit	1,720 (10.1%)	1,896 (9.9%)	1,844 (9.6%)	97.3%	119.0%	1,550 (8.2%)	81.7%
Profit	1,076 (6.3%)	1,139 (5.9%)	1,308 (6.8%)	114.9%	125.8%	1,040 (5.5%)	91.3%
Note EPS ¥/Share	49.20	52.74	62.34			49.55	Note

Note: Respective profit ratios shown in parentheses.

(Unit: Amounts less than 1 million yen omitted)

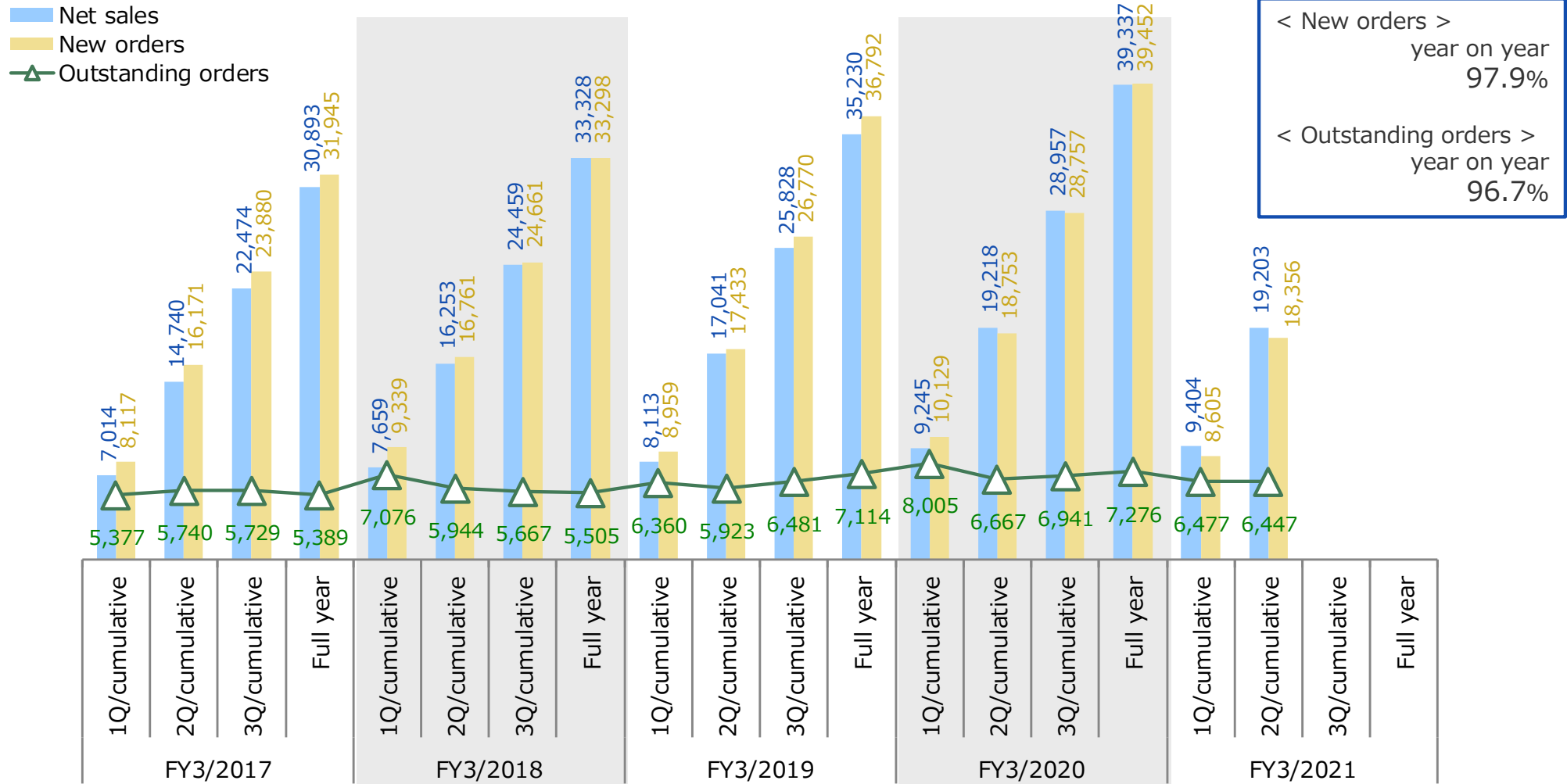


1.2. Consolidated quarterly net sales, new orders and outstanding orders



■ In the 2nd quarter, although orders received are on a recovery trend, they have not reached the usual level.

- ▣ **Software development:** It is especially difficult to receive orders related to travel, air transportation and real estate.
- ▣ **Embedded software development:** Although there are variations by customer (mainly in the manufacturing industry), overall the orders received are heading toward the same level as in the previous year.



Software development

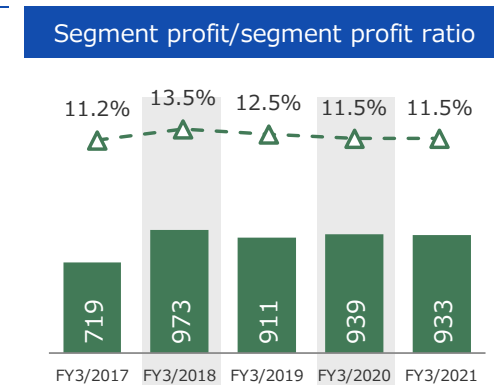
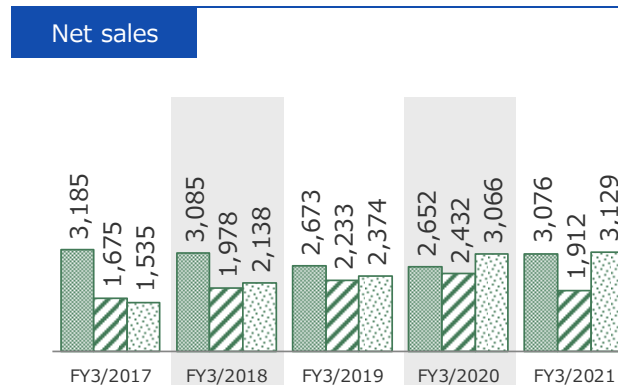
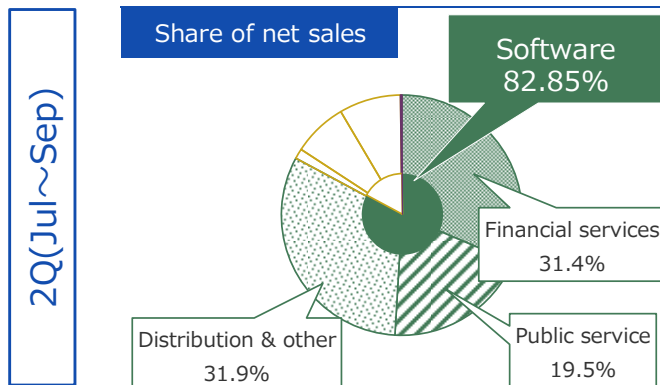
- Sales increased by 1.0% as increases in financial services and distribution & other (including a newly consolidated subsidiary) covered the slump in public service.
- Segment profit decreased by 17.1% due to increase in personnel expenses, subcontracting expenses and material costs and unprofitable projects, etc.

- ▣ **Financial services:** Sales increased by 13.7% due to increase in system development and maintenance projects of banking and life insurance. (sales increased 715 million yen year on year)
- ▣ **Public service:** Sales decreased by 16.4% due to sharp drop in tourism demand and the loss of large projects related to human resources. (sales decreased 758 million yen year on year)
- ▣ **Distribution & other:** Sales increased by 3.5% due to the effects of the newly consolidated Enisias Co., Ltd. (sales increased 204 million yen year on year)

2Q (cumulative)				FY3/2019	FY3/2020	FY3/2021	YoY
		Software	Net sales				
		Financial services		5,224	5,235	5,950	113.7%
		Public service		4,211	4,613	3,854	83.6%
		Distribution & other		4,501	5,907	6,112	103.5%
				13,937	15,756	15,918	101.0%
		Segment profit		1,419 (10.2%)	1,734 (11.0%)	1,438 (9.0%)	82.9%

Note: Respective profit ratios shown in parentheses.

(Unit: Amounts less than 1 million yen omitted)



Embedded software development

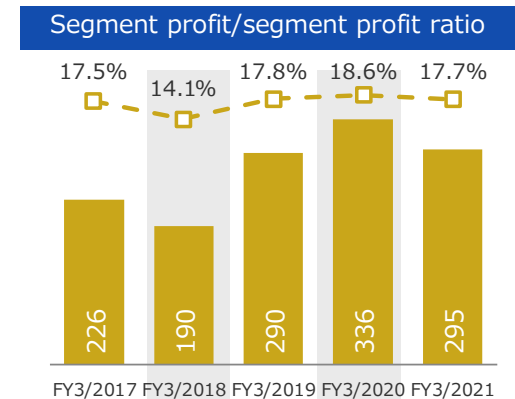
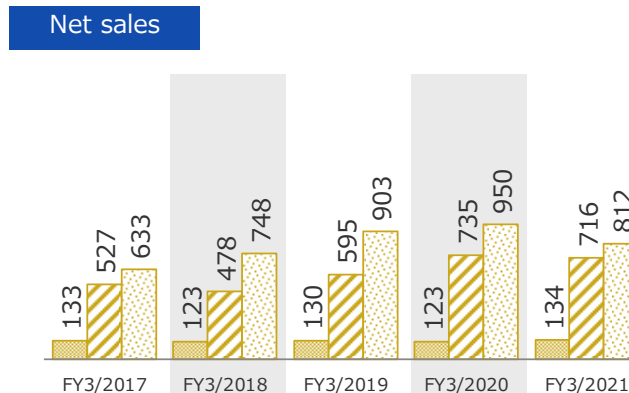
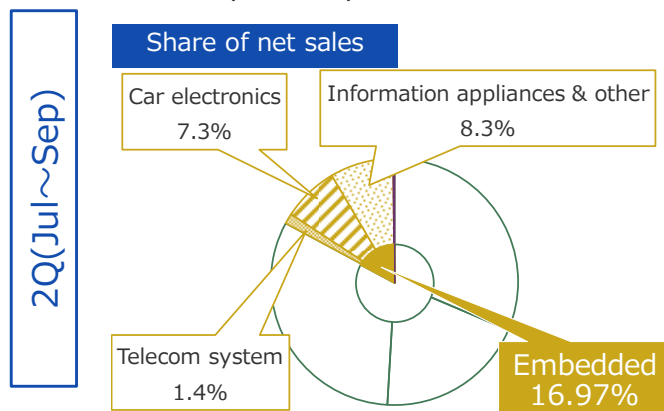
- Sales decreased by 5.1% due to the impact of the decrease in control-system development projects, revisions of product planning and other factors, despite the recovery trend in orders received.
- Segment profit decreased 18.6% mainly due to a decline in personnel expenses, subcontracting expenses and unit price.

- ▢ **Telecom system:** Smartphone-related sales increased by 9.0%. (sales increased 23 million yen year on year)
- ▢ **Car electronics:** Sales in development in the areas of infotainment and sensors increased by 5.2%. (sales increased 75 million yen year on year)
- ▢ **Information appliances & other:** Sales decreased by 15.8%, mainly due to cancellations and postponements of projects by manufacturers. (sales decreased 274 million yen year on year)

		FY3/2019	FY3/2020	FY3/2021	YoY	
2Q (cumulative)	Embedded software	Telecom system	251	256	279	109.0%
		Car electronics	1,188	1,451	1,526	105.2%
		Information appliances & other	1,637	1,736	1,462	84.2%
	Net sales		3,077	3,443	3,267	94.9%
	Segment profit		556 (18.1%)	645 (18.7%)	525 (16.1%)	81.4%

Note: Respective profit ratios shown in parentheses.

(Unit: Amounts less than 1 million yen omitted)





2 Future outlook



The revisions of customers' IT investment plans have ended, and there has been increased activity in response to the changes in the environment.

The "aggressive IT strategy" based on the "new normal" will stimulate demand.

- In light of the status of recovery of the actual economy, **orders will be received at a gradual pace in the second half.**
- Communication that includes online methods has become established, **and hindrances in order activities are decreasing.**
- The trend of increasing activity in "promoting digital transformation (DX)" and "revising business strategies" by top management is **creating new business opportunities.**

<Reference> Survey on the economic assessment

IDC Japan domestic ICT market forecast for FY2020 [announced on September 9, 2020]

Although the market in FY2020 is forecast to decrease 4.3% year on year on a spending basis due to the impact of COVID-19, it is forecast in FY2021 to increase 1.2% year on year and recover to 28,260.5 billion yen.

* This forecast is based on the assumptions that after economic activities normalize once infections are brought under control in the first half of 2020 both in Japan and overseas, despite a resurgence of infections regionally that impedes recovery, investment in digital transformation (DX) will be revitalized, mainly in some leading companies, and the Japanese government will invest selectively in ICT as part of economic measures.

The BOJ Tankan, September 2020 [announced on October 1, 2020]

The diffusion index (DI), which indicates the business confidence of large companies and the manufacturing industry, stood at negative 27, which was an improvement of 7 points from the previous survey in June when COVID-19 had a significant impact. However, DI remains at a low level due to uncertainty about the future and other factors, and companies continue to take a cautious approach.

Monthly Economic Report for October by the Government [announced on October 23, 2020]

The report judges that, "The economy is in a severe situation due to the impact of COVID-19, but it is showing signs of picking up."

1. CRESCO Group's Measures Against COVID-19

- On February 27, we announced “The Company's Measures Against COVID-19.”

[Basic Measures Policy]

- (1) Ensure the safety and health of the lives of employees and their families.
- (2) Minimize damage to the business.
- (3) Avoid adverse impact on customers, business partners, shareholders, etc.
- (4) Contribute to the early stabilization of the regional economy.
- (5) Always consider humanitarian aspects when dealing with various matters.

- On April 6, we established the “Corona Emergency Response Headquarters” at the CRESCO Main Office. **Regular meetings are held on a weekly basis.**
- By utilizing digital tools, **the Company strengthened the teleworking system starting from October 1.**
- **Appropriate updates** of measures in line with government and local government requests, and **thorough implementation within the Company.**

- As a general rule, we instruct a wide-range of related parties, which includes employees and business partners, to work from home.
- Effective use of teleworking and staggered commuting and working environment to avoid the “three Cs” (Closed spaces, Crowded places and Close-contact settings).
- Group events organized by the Company are canceled, postponed, or held online.
- As a general rule, meetings are held online.
- As part of restricting out-of-office business, as a general rule, overseas travels are prohibited.
- Thorough implementation of wearing masks, cough etiquette, washing hand and gargling, and use of alcohol disinfectant. Distribution of masks to applicants.
- If an employee has a fever higher than the normal body temperature, he or she will stop coming to the office. If an employee has had close contact with an infected person, he or she will be prohibited from working for 14 days.
- If his or her cohabitant is suspected of being infected, he or she will stop coming to the office.

2. Awareness of business risks and threats (negative side) during the scourge of COVID-19

- In light of the status of infections of COVID-19 and the experts' outlook for the infections settling down, **from the 3rd quarter onward, multiple business risks may occur at the same time or with a time lag**, which may have a significant impact on the CRESCO Group's business performance, etc.

- Risks related to changes in the business environment
- Risks related to the reliance on certain customers
- Risks related to alliances with business partners
- Risks related to work and health
- Risks related to infectious diseases etc.

- Impact related to the characteristics of the Group's business
 - Due to the nature of the CRESCO Group's business that is based on ongoing commercial relationship with its customers, the Group's sales tend to concentrate on a limited number of customers.
 - In the industries of major customers, which include companies in the travel, air transportation, real estate and automotive fields that are significantly impacted by COVID-19, there is a strong possibility that the severe conditions in securing new orders will continue throughout the year, considering the delayed effect of IT investment on the economy.
- In the 2nd quarter, economic activities in Japan and overseas gradually resumed and the economy appears to have bottomed out in line with "new lifestyles" and the "new normal" even as the number of new infections remained unchanged. However, the future remains unpredictable as the scourge of COVID-19 is still not over and the business environment may deteriorate again depending on the spread of infections going forward.
- Limitations on face-to-face sales, and project cancellations, suspensions, postponements, etc. due to revisions of IT investment will affect business performance, etc.
- Temporary closures of business offices due to employees being on standby or becoming infected will affect the operation rate, productivity, etc.

3. Awareness of business opportunities (positive side)

- The Group set its five-year vision “CRESCO Ambition 2020,” which advocates for “leading digital transformation,” in April 2016, in a bid to ensure capturing business opportunities and achieve a further leap, and is striving to achieve business performance targets, implement focus measures, and enhance the corporate value.

<Corporate Slogan> Lead the Digital Transformation

- Active business development in **FY2020** is extremely difficult, but the Group **recognizes the importance of putting “aggressive measures” into practice**, such as utilizing a system for telework and optimizing space efficiency tailored to the “new normal,” as well as promoting offshore and nearshore.
- Business risks are made up two perspectives, which are the negative side (uncertainties) and the positive side (opportunities).
During the scourge of COVID-19, the Group will take avoidance and response measures for the negative side, and on the positive side, practice active risk taking, which will lead to sustainable growth and increased corporate value.
- With the scourge of COVID-19, customer demands are on an increasing trend, such as BCP (Business Continuity Plan) measures, as well as newly reviewed cloud environments, introducing telework/working from home systems, saving labor and automation utilizing AI and RPA, and we believe that this will be **a new business opportunity** for the CRESCO Group, which has a wide range of business fields including advanced technology.
- It is estimated that from a medium- to long-term perspective, the scourge of COVID-19 is temporary, and “digital transformation” will steadily expand.
We positively consider it to be “the opportunity that lies in the middle of difficulty.”
- Based on the “with corona” and “post-corona” periods, we will strive to optimize our business portfolio and flexibly manage our organization, **maintain technological capabilities that can respond to market needs in a timely and appropriate manner, and work to create new innovative businesses.**

4. Forecast of consolidated financial results for the fiscal year ending March 31, 2021

- The impact of the scourge of COVID-19 on the Group's results is **“difficult to grasp precisely”**
- **Based on judgments from information presently available that is considered reasonable, the Company revised some of the information related to the assumptions and understanding of the current circumstances.**
 - ① Despite improvements in the situation regarding the scourge of COVID-19, it is unlikely to be contained within this year and its impact will continue throughout the fiscal year.
[Reason for revision]
Originally, it was assumed that “the scourge of COVID-19 will start to cease in the 2nd quarter, and orders received will gradually increase toward the latter half of the fiscal year.” However, the number of new infections remained unchanged even in the 2nd quarter, and it is expected to be difficult to contain the pandemic even in the second half. In the 2nd quarter onward, although customer inquiries are on a recovery trend, it has been difficult to generate new sales opportunities due to limitations on face-to-face sales associated with teleworking, and we believe that the impact on the Group will be felt throughout the fiscal year.
 - ② Business confidence of major customers remains unchanged without recovering, and the severe conditions for securing orders will continue in the second half.
[Reason for revision]
Originally, it was assumed that “in the first half of the fiscal year, a significantly adverse impact on major customers occurs, and orders received will decrease due to revisions of their plans.” However, because the business environment did not improve as anticipated even in the 2nd quarter and the impact on major customers (especially customers in the travel, air transportation, real estate and automotive fields) is continuing in the second half, we believe that there will not be a rapid recovery in orders.
 - ③ The Company made “Enisias Co., Ltd.” a consolidated subsidiary as of April 1, 2020, which is expected to contribute to improving the baseline performance of the Group.
 - Enisias is using its strengths as a “Google Cloud” and “Salesforce” partner in the cloud business, and acquired profit opportunities by demonstrating these strengths in the telework environment, which was caused by the spread of COVID-19.
 - ④ By focusing on productivity improvements, cost reductions and minimizing unprofitable projects, the Company forecasts that the full year result will end up on par with the previous fiscal year.
[Reason for revision]
Originally, it was assumed that “the recovery trend in the latter half of the fiscal year will not be sufficient to compensate for a slump in the first half, and the full year result will end up on par with the result for the previous fiscal year.” However, because the business environment did not improve as anticipated even in the 2nd quarter onward and the economy is expected to recover at a gradual pace, we believe that improving productivity through the implementation of innovation and improving profitability through cost reductions with no areas off-limits are essential.

- There are **no changes to the forecast of consolidated financial results** announced on May 8, 2020.
- There are no revisions to assumptions, which include the status of the scourge of COVID-19 from the 3rd quarter onward, when it will settle down as well as other factors, and the Company will continue to closely monitor trends.
- If any event that should be disclosed occurs due to any error in these assumptions, the Company will promptly announce it.

Full Year	FY3/2020				FY3/2021	
	Forecast	YoY	Actual	YoY	Forecast	YoY
	<Announced on May 9, 2019>				<Announced on May 8, 2020>	
Net sales	37,880	107.5%	39,337	111.7%	40,000	101.7%
Gross profit			7,246 (18.4%)	108.6%		
Operating profit	3,400 (9.0%)	106.0%	3,556 (9.0%)	110.9%	3,400 (8.5%)	95.6%
Ordinary profit	3,813 (10.1%)	104.2%	3,712 (9.4%)	101.5%	3,600 (9.0%)	97.0%
Profit	2,416 (6.4%)	105.7%	2,421 (6.2%)	105.9%	2,450 (6.1%)	101.2%
Note EPS ¥/share	114.28		114.30		116.72	

Note: Respective profit ratios shown in parentheses.

Note The Company implemented a 2-for-1 **share split** of common shares with an effective date of February 1, 2020.

- There are **no changes to the forecast of dividends** announced on May 8, 2020.

	FY3/2019	FY3/2020	FY3/2021 Forecast		
	Actual	Actual	Actual	<Announced on May 8, 2020>	Change
Interim	32 yen	36 yen	18 yen	18 yen	-
Year-end	* 34 yen	18 yen	-	18 yen	-
Full year	66 yen	-	-	36 yen	-
Dividend payout ratio	31.6%	31.5%	-	30.8%	-0.7%
Dividend yield	2.0%	2.5%	-	-	-
DOE	4.6%	4.8%	-	-	-
Total dividend payments	722 Millions of yen	750 Millions of yen	-	-	-

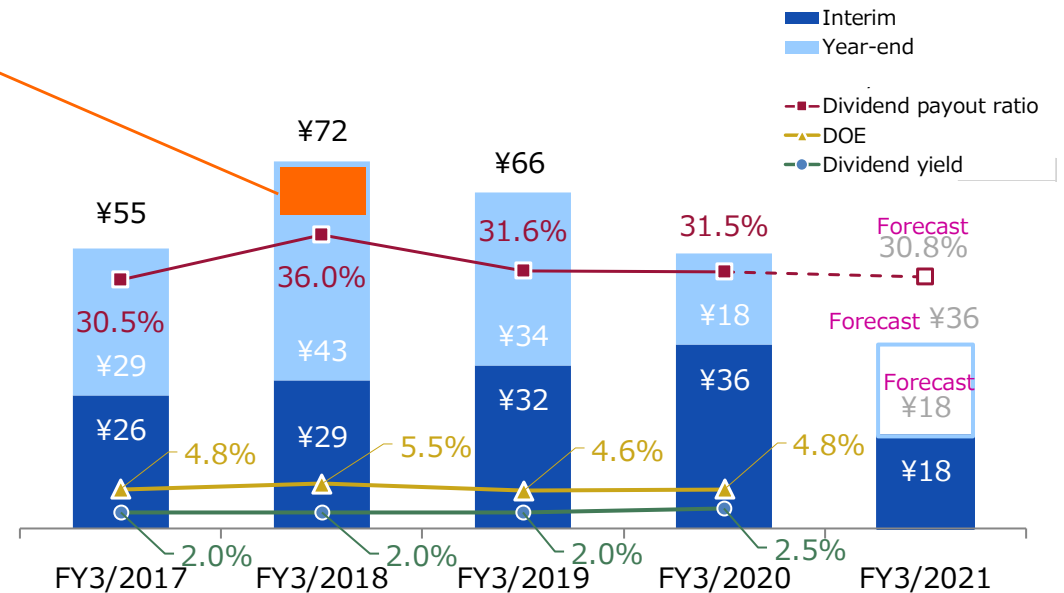
Shareholder return policy

- CRESCO regards the matter of returning profits to shareholders as a key management issue, and has established a basic policy of enhancing shareholders' equity, maintaining consistent profitability over the long term, while **appropriately continuing to distribute profits backed by business.**
- As for dividends, in principle the Company aims to continually pay out about 30% of profit attributable to owners of parent for each fiscal year, which is calculated from consolidated ordinary profit and assuming extraordinary income and losses are zero.

* The year-end dividend for the fiscal year ended March 31, 2018 includes a special dividend to commemorate the 30th anniversary of our founding.

Note The Company implemented a 2-for-1 share split of common shares with an effective date of February 1, 2020.

- The actual amounts of dividends before the share split are shown for the FY3/2017 interim dividend until the FY3/2020 interim dividend.
- The total forecast for FY3/2020 is not shown in the table above because the implementation of the share split makes it impossible to perform a simple calculation.



Management policies

- Management in accordance with “CRESCO Ambition 2020”
- **Securing orders** by acquiring new customers and optimizing the business portfolio
- **Expanding profits** through the creation of high value-added businesses that utilize advanced technology
- **Improving productivity and employee satisfaction** by continuously taking on the challenge of work style reform
- **Accelerating growth potential** by promoting alliances

Five-year vision started in April 2016

CRESCO Ambition 2020

~ Lead the Digital Transformation ~

Issues to be addressed

1. Generating new businesses and conducting research and development of new technologies
2. Acquiring new customers and strengthening relationships with customers
3. Providing ironclad quality
4. Pursuit of productivity
5. Securing human resources engaged in development
6. Hiring and development of human resources
7. Promotion of work style reform
8. Promotion of health management
9. Initiatives to promote diversity
10. Promotion of M&A and alliance and reinforcement of Group companies management
11. Strengthening corporate governance
12. Business portfolio optimization and flexible organizational management



Overview of CRESCO LTD.



Profile

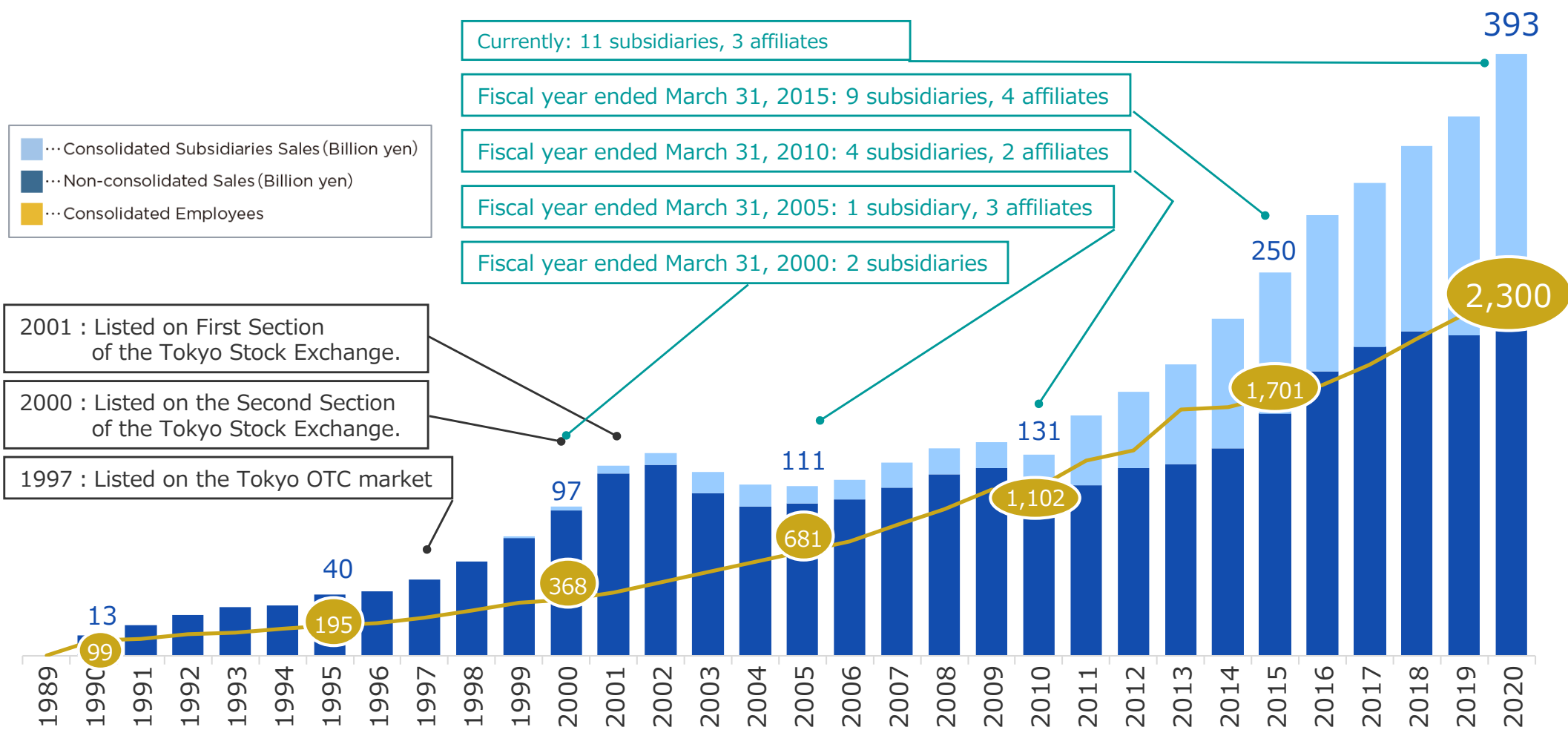
Established	April 1, 1988
Representative	Chairman : Toshio Iwasaki President : Hiroyuki Nemoto
Consolidated Number of employees [as of April 1, 2020]	2,300 Male : 1,802 Female : 498 Proportion of female employees : 21.7%
Traded on	Tokyo Stock Exchange (TSE) First Section
Securities code	4674
Listing date	Second Section of TSE : September 2000 First Section of TSE : September 2001
Business sector	Information & Communication
Market capitalization [as of April 1, 2020]	¥29,051 million



CRESCO was founded in 1988 through the merger of an IT infrastructure system construction company and a microcomputer system development company.

CRESCO is steadily growing, living up to its company name, which means to “grow” in Latin.

Especially in recent years, while working to eradicate unprofitable projects and improve profitability, we are actively conducting M&A for growth and we are expanding our business, becoming a customer-focused (BtoB) independent IT solution vendor in various regions of Japan.

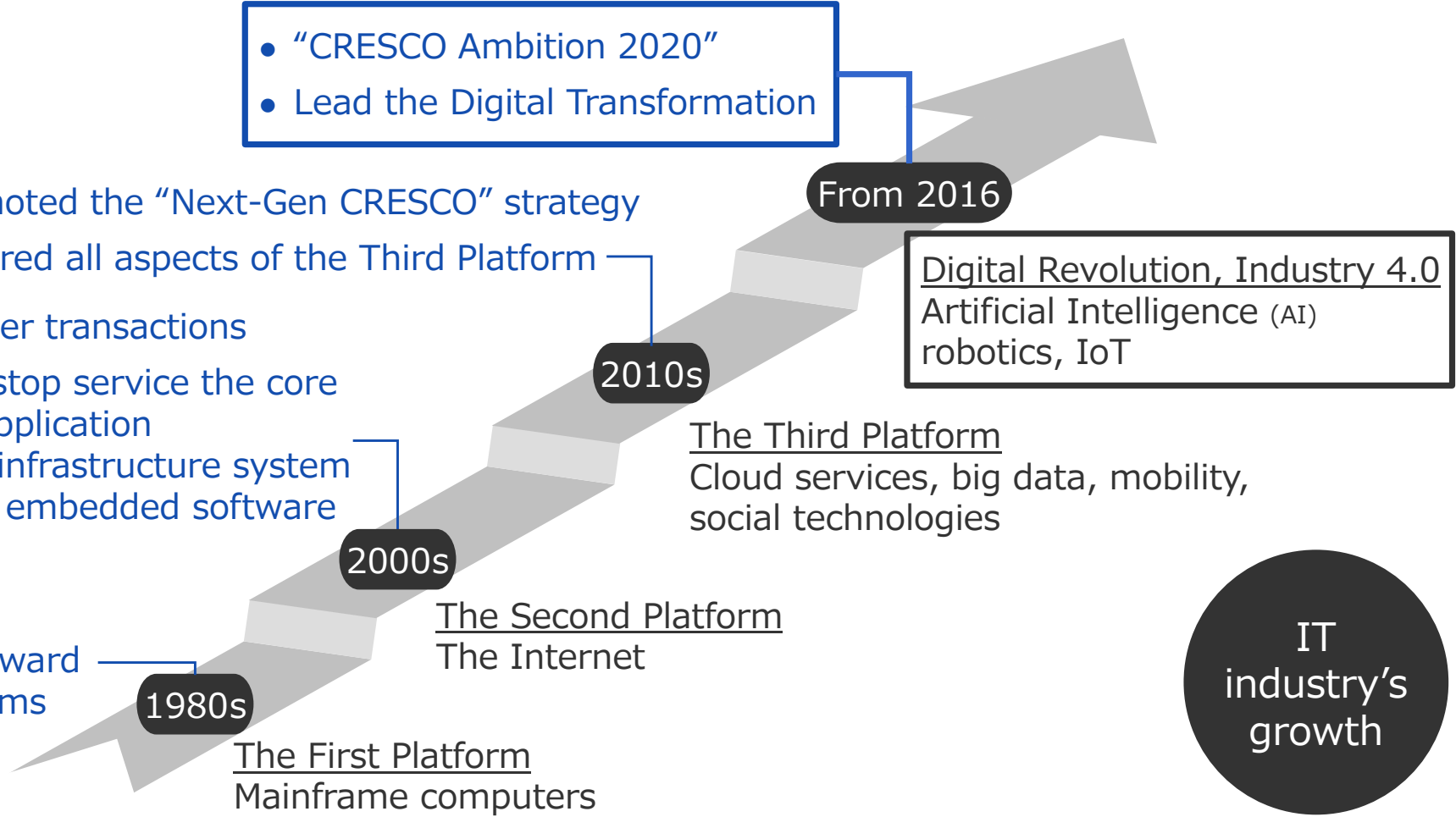


- We are proposing services suited to the changes in IT platforms.
- Technology Laboratory handles advanced technologies with sights fixed firmly on several years in the future.

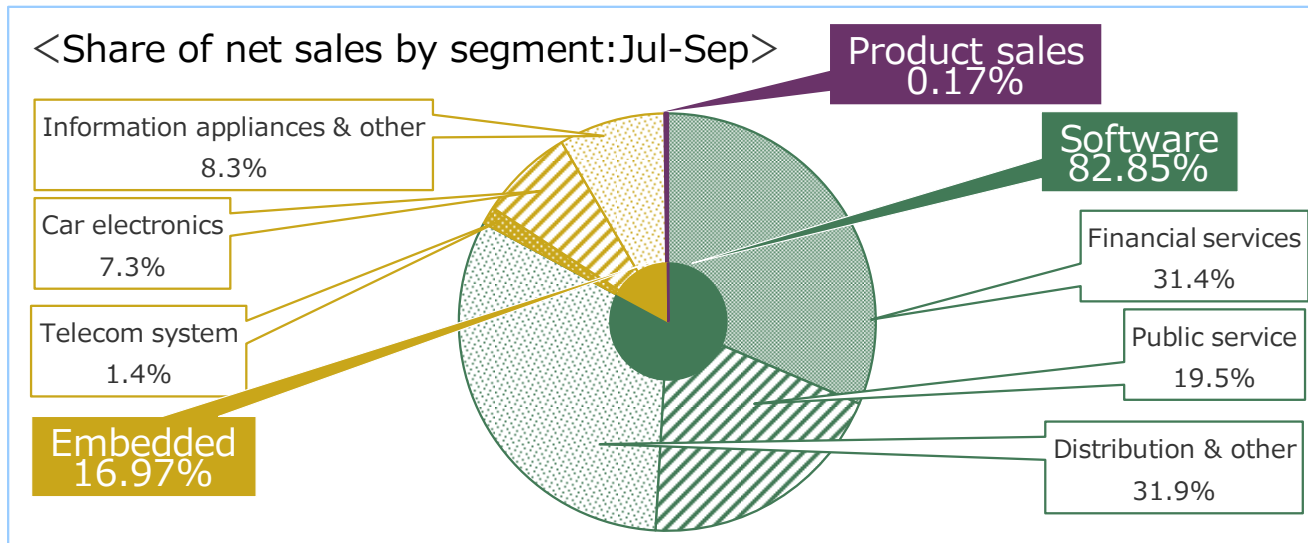
CRESCO's step-by-step progress

- Promoted the "Next-Gen CRESCO" strategy
- Covered all aspects of the Third Platform
- Expanded end-user transactions
- Provided as one-stop service the core technologies of application development, IT infrastructure system architecture, and embedded software development
- Founded in 1988 anticipating trend toward open-system platforms

- "CRESCO Ambition 2020"
- Lead the Digital Transformation



IT industry's growth



Segment	Business	Area
Software development	<ul style="list-style-type: none"> •Business application development •IT infrastructure system architecture •Original products and services 	<ul style="list-style-type: none"> •Financial services (Banking, insurance, payment card, securities, etc.) •Public service (Travel, human resources, airline, railway, electric power, broadcast, medical, etc.) •Distribution & other (Transport, retail, etc.)
Embedded software development	<ul style="list-style-type: none"> •Embedded software development 	<ul style="list-style-type: none"> •Telecom system (Mobile devices, etc.) •Car electronics (Digital meters, center displays, etc.) •Information appliances Other (Digital home appliances, medical equipment, control systems, etc.)
Product sales	<ul style="list-style-type: none"> •Product sales of a subsidiary "CRESCO Wireless, Inc." 	

Information system for banks



Online reservation for travel



Human resource matching



Package tracking for delivery, devices for drivers



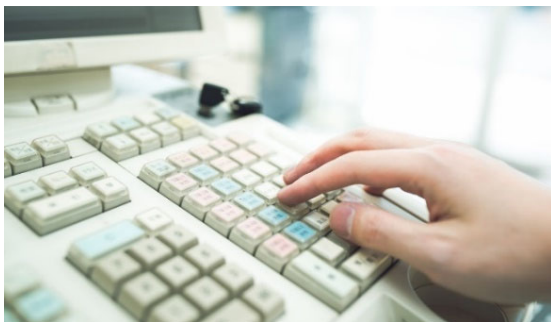
Seat reservation for airplanes



Seat reservation for movie theaters



POS system for mass retailers



Music distribution



Devices for convenience stores



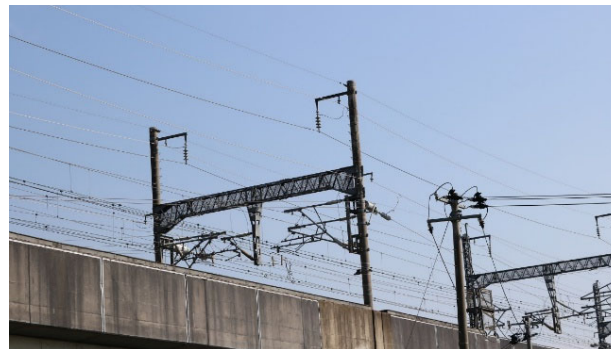
Center display, meter display for automobiles



Endoscope



Electric power control for railway



Smartphone camera



Video camera



TV

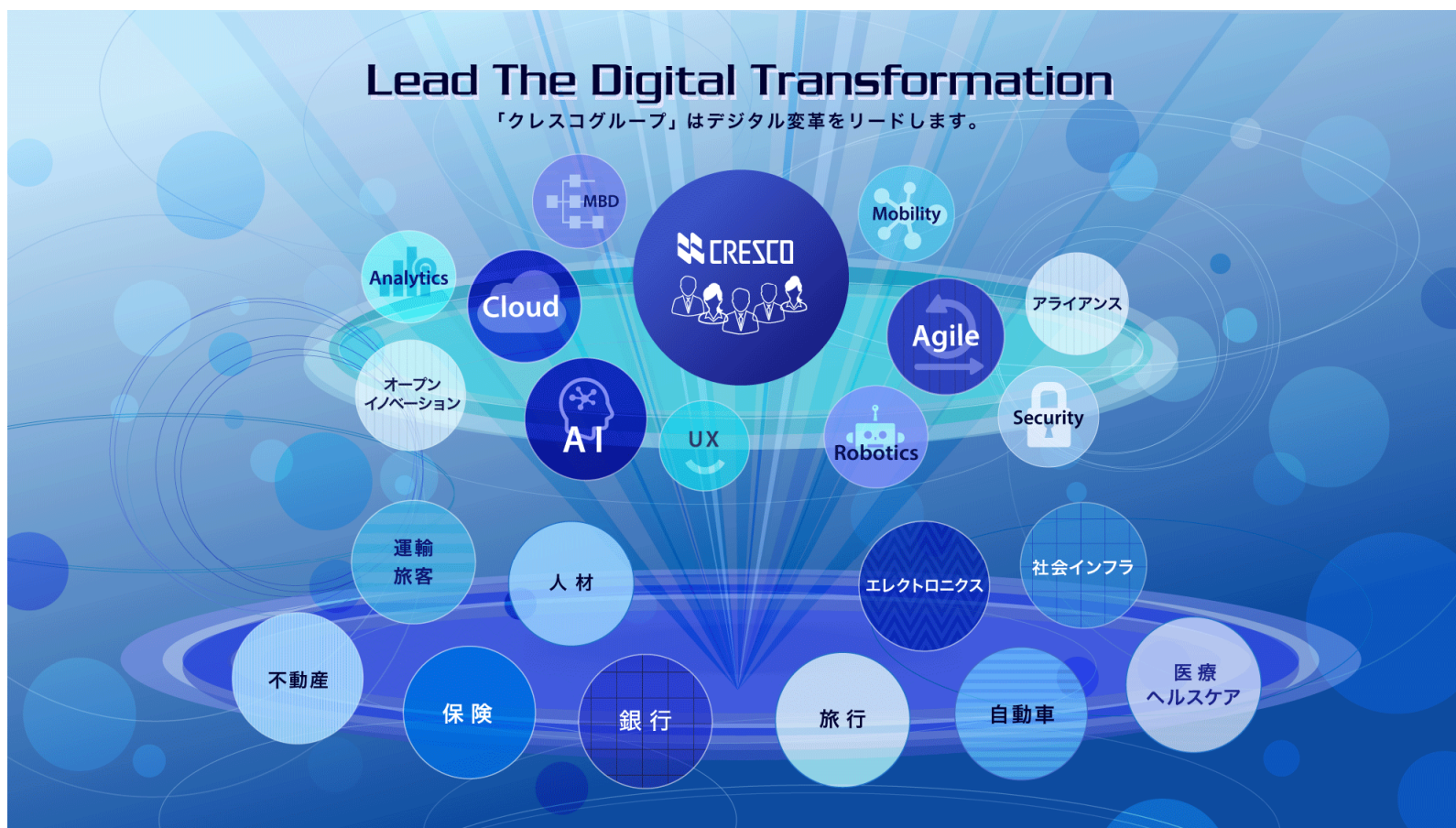


AI speaker



Definition of “Digital Transformation” by the Ministry of Economy, Trade and Industry

A situation where a company deals with dramatic changes in business environments, changes its products, services and business models so as to meet the demands of customers and society by taking advantage of data and digital technologies and changes its services per se, organizations, processes, corporate and business culture so that it can establish competitive advantages.



Intelligent Folder

- Commencement of service: 2011
- High security file sharing service that can handle unlimited users and three languages



Intelligent Folder

Intelligent Folder Express

- Commencement of service: 2014
- Support for increasing the speed of file transfers



Intelligent Folder *Express* →

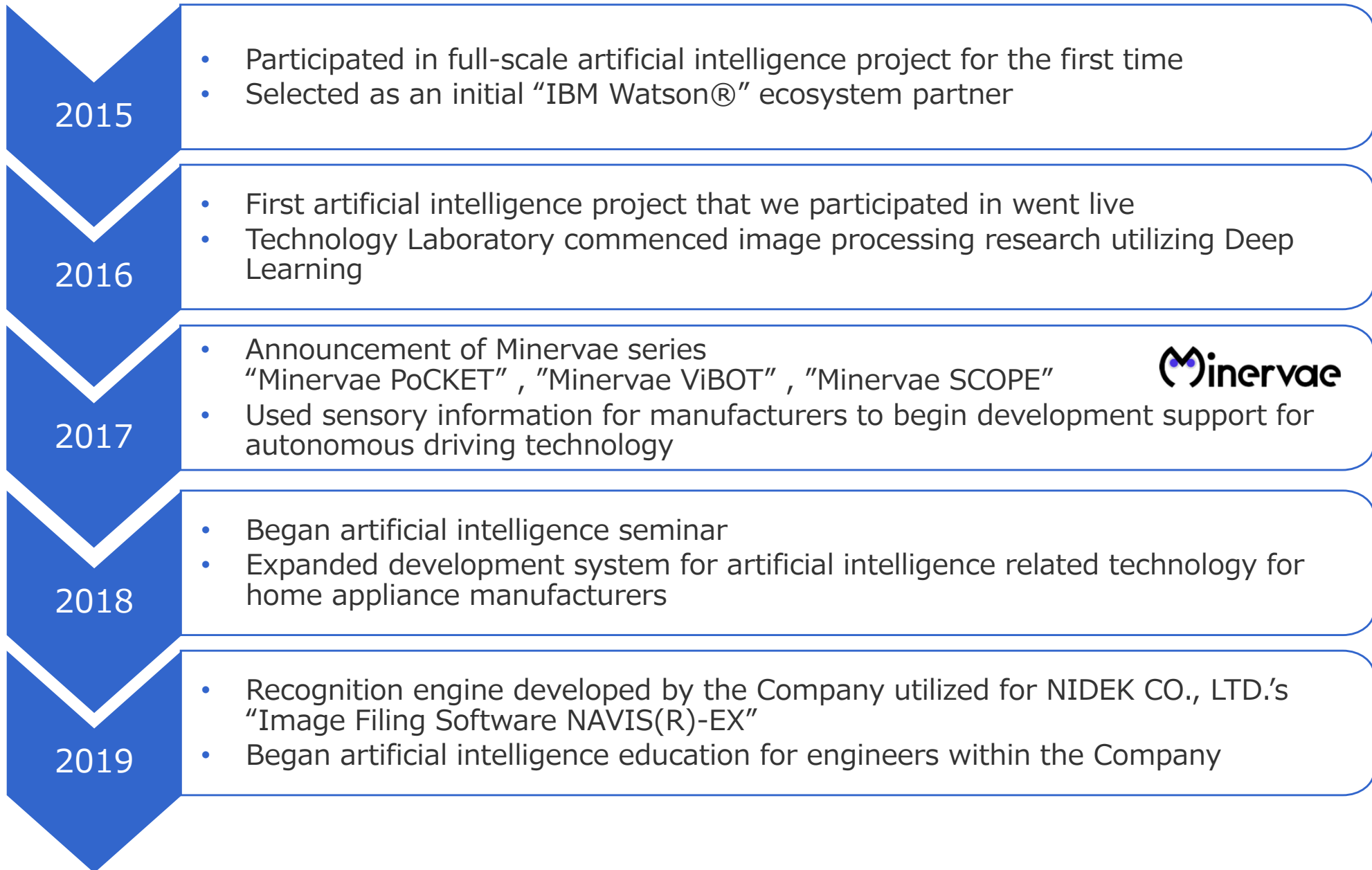
Creage

- Commencement of service: 2012
- Service to provide know-how regarding utilization of the cloud
 - Consulting: Proposal for efficiently utilizing the cloud
 - Integration: Development of the cloud environment
 - Managed: Operation of the cloud environment



Cresco Cloud Service
Creage

- ◆ 2019/11/05
Acquired "AWS Well-Architected Partner Program Qualification"
- ◆ 2018/01/18
Acquired "AWS Well-Architected Partner Program Qualification"



Support for “ifLink Open Community,” which was established with Toshiba and TOSHIBA DIGITAL SOLUTIONS as core members

- “ifLink Open Community” is a community that aims to be an open joint development IoT service that puts the users first.
- Its vision is to realize a world “where users can create value for themselves by freely combining modules” and “where participants enjoy broader business opportunities.”
- As core members, Toshiba Corporation and TOSHIBA DIGITAL SOLUTIONS CORPORATION established it in FY2019 and specific activities will begin from FY2020.
- As of November 5, 2019, ALPS ALPINE CO., LTD., KYOCERA Corporation, Global Mobility Service Inc., KDDI CORPORATION, SoftBank Corp., SORACOM, INC., DENSO CORPORATION, Tokyo Gas Co., Ltd., and the Company have expressed support.

■ ifLink

An IoT platform developed by TDSL. Using IF-THEN model settings similar to “IF the door is opened, THEN the light turns on,” users will be able to freely operate devices that are connected to their smartphones. Programming won’t be necessary and users without IT expertise will be able to utilize it.

■ ifLink Open Community

Activities, such as a “Co-creation Community,” where people can utilize ifLink, and users and members can conceive of convenient ways to use ifLink and other ideas originating from the user, and a “Development Community,” where members can mutually collaborate on various IoT devices, web services, applications, etc., add more connectible modules, and quickly develop trial products, are planned. Members aim for creation of an IoT service where users’ ideas are made into reality as well as the realization of making this into a business at an early stage, through test environments for verification and networks between companies.

- We established the **“Technology Laboratory”** in April 2012 in order to turn advanced technology into a business.
- We are researching and developing technologies that **may become trends in a few years in anticipation of the changing market and changing technologies.**
- We are promoting “joint research” with customers and “industry-academia collaboration” with research organizations such as universities, etc.

Results of the Technology Laboratory

- Cloud Service “Creage”
- Tool for automatically creating test specifications
- Increase scalability of IoT by adding the fog layer
- Control data granularity using physical distance
- Research to realize dialog agent
- Support in diagnosing ocular diseases using OCT images and machine learning



Download compilation
of results



Delivery of information

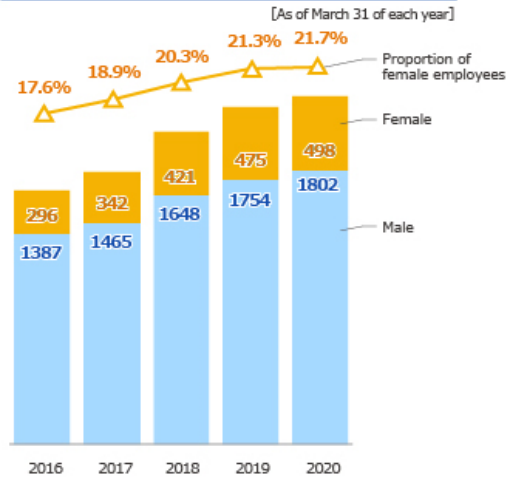
Engineers' Blog

Technology blog
by CRESCO engineers



(Unit: Persons)

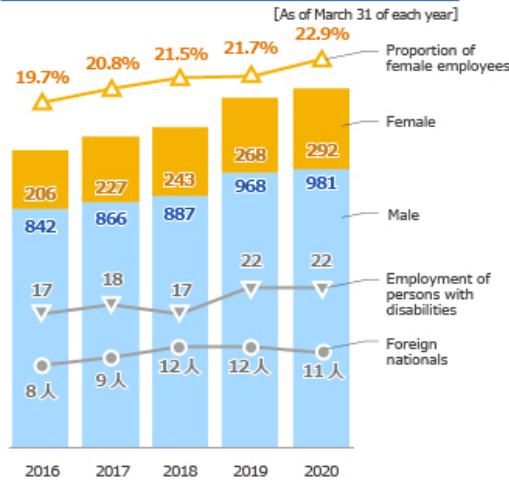
[Consolidated] Employee breakdown



< The industry average in FY2019 (according to JISA data) >
Proportion of female employees: 21.8%

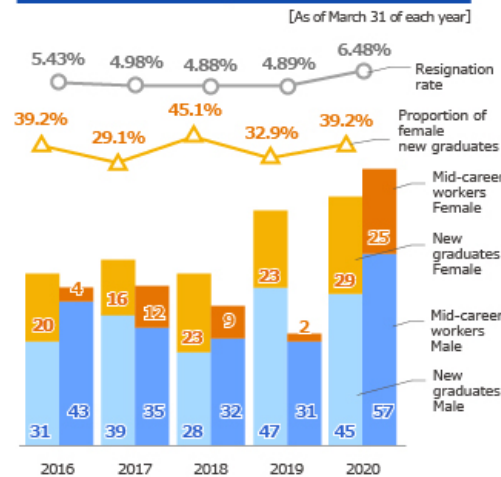
Non-consolidated

Employee breakdown



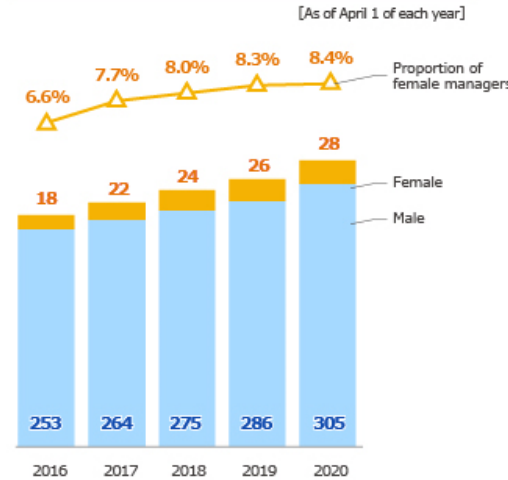
< The industry average in FY2019 (according to JISA data) >
Proportion of female employees: 21.8%

New employee breakdown and resignation rate



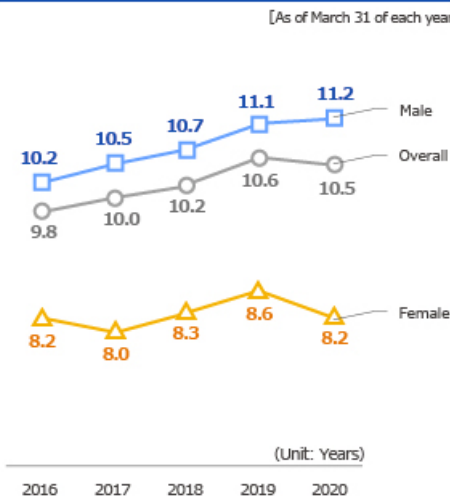
< The industry average in FY2019 (according to JISA data) >
Proportion of female new graduates: 34.5%

Manager breakdown

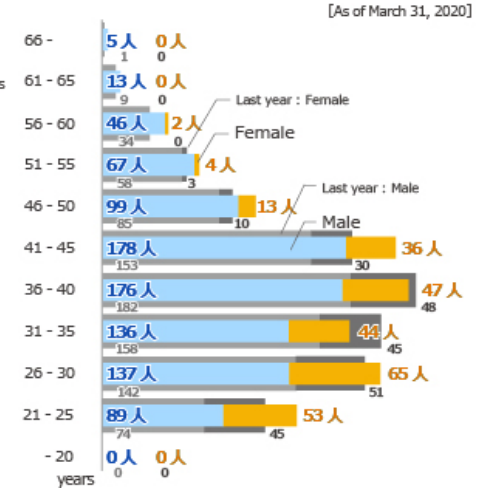


< The industry average in FY2019 (according to JISA data) >
Proportion of female managers: 6.2%

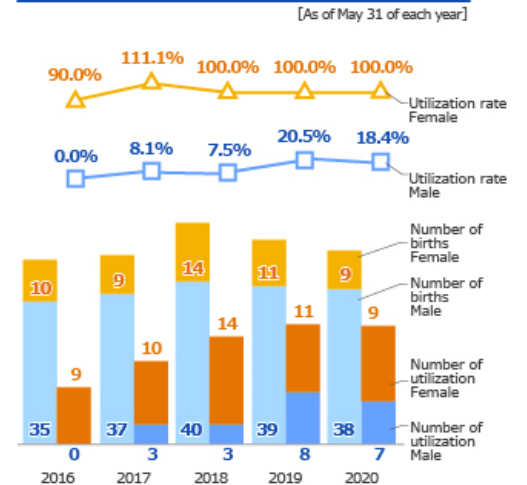
Average service years



Employee breakdown by age



Taking the childcare leave



Business indicators and shareholder return

	FY3/2017		FY3/2018		FY3/2019		FY3/2020		FY3/2021	
	Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end
ROA	9.0%	10.2%	11.1%	9.8%	8.9%	9.2%	9.0%	9.3%	9.5%	
ROE	13.9%	15.7%	17.3%	15.2%	13.9%	14.6%	14.7%	15.0%	15.1%	
Ordinary profit on total assets	13.4%	15.4%	16.2%	15.6%	14.3%	14.8%	14.9%	14.2%	13.3%	
Ordinary profit on net sales	8.7%	10.0%	10.4%	10.5%	10.1%	10.4%	9.9%	9.4%	9.6%	
Operating profit on net sales	7.7%	8.8%	9.0%	9.3%	8.2%	9.1%	9.0%	9.0%	7.1%	
Turnover of total capital used (Times)	–	1.5	–	1.5	–	1.4	–	1.5	–	
Financial leverage (Times)	–	2.9	–	2.8	–	2.8	–	3.0	–	
Current ratio	–	54.7%	–	57.9%	–	56.3%	–	53.3%	–	
Fixed assets ratio	–	49.5%	–	59.8%	–	57.2%	–	65.4%	–	
Leverage ratio	–	66.9%	–	62.5%	–	63.6%	–	60.4%	–	
Equity ratio	–	149.5%	–	154.9%	–	158.5%	–	161.4%	–	
Debt-to-equity ratio	–	1.5%	–	9.0%	–	6.1%	–	15.8%	–	
Interest coverage ratio (Times)	–	2537.7	–	851.7	–	796.4	–	723.7	–	
Cash flows from operating activities (Millions of yen)	(40)	1,144	960	2,174	351	1,824	1,690	3,693	1,300	
Cash flows from investing activities (Millions of yen)	(381)	(505)	(482)	(179)	(466)	(1,238)	(742)	2	(181)	
Cash flows from financing activities (Millions of yen)	(273)	(604)	(866)	(606)	(683)	(1,278)	(374)	(511)	(755)	
Free cash flow (Millions of yen)	(422)	638	477	1,995	(115)	586	948	3,695	1,118	
EPS (Yen)	38.32	90.14	51.72	100.13	49.20	104.46	52.74	114.30	62.34	
PER (Times)	–	15.4	–	17.8	–	15.9	–	12.5	–	
DOE		4.8%		5.5%		4.6%		4.8%		

Risk of Businesses

[As of June 22, 2020]

1. Risks related to changes in the business environment

The Group endeavors to respond flexibly to changes in the business environment by researching the market trend and expanding areas of business and customer groups. However, there is a growing tendency that demand for IT investment is significantly affected by IT strategies promoted and encouraged by the Japanese government as well as structural and other changes including the aging and decreasing population, in addition to domestic and international situations, economic conditions, business sentiment, etc.

Consequently, a slowdown in the economy and its deterioration can inhibit IT investment by customers to cause a decline in orders received, which can in turn adversely affect the operating results of the Group.

2. Quality risks in development projects

The Group practices project management based on a standardized method, trying to ensure management of all development processes including estimation, initiation, planning, execution, etc. and prevent the occurrence of delivery delays, additional costs, liability for damages, etc.

It is possible, however, that an unexpected discrepancy in the understanding of specifications or the occurrence of quality troubles at the development stage of a project causes the incurrence of additional costs, making the project less profitable or unprofitable.

In addition, although the Group monitors the progress of a project as it proceeds and endeavors to observe the contractual delivery date strictly, it is difficult for the Group to preclude uncertainty including external factors completely.

If the Group has failed to complete or deliver the work by the date agreed with the customer, it would be subject to delay penalties, and if the Group ultimately fails to complete or deliver the work, it would incur a liability for damages. In such cases, the operating results of the Group can be adversely affected.

3. Quality risks in software or services delivered

The Group guarantees the quality of software and/or services delivered (hereinafter referred to as "Deliverables").

Quality troubles, however, can occur with Deliverables of the Group, and the incurrence of additional costs, liability for damages, etc. due to troubleshooting can adversely affect the operating results of the Group.

Although the Group rigorously controls the quality of Deliverables, in addition to the possibility of incurring liability for damages due to the occurrence of bugs and other problems, it is possible to incur an unexpected claim for damages if Deliverables are to be embedded in products of the recipient.

While the Group takes care not to infringe rights of other companies in acquiring and protecting intellectual property, it is possible that the Group is claimed for damages or consideration or equivalent for the use of intellectual property if it infringes any intellectual property right of another company without awareness, which can in turn adversely affect the operating results of the Group.

[As of June 22, 2020]

4. Risks in generating a new business

In the business environment surrounding the Group, a rapid progress takes place not only in economy but also technological innovation. Accordingly, industry standards, user and social needs are also changing rapidly.

The Group is endeavoring to generate innovative new businesses (services and products) in order to respond such changes in an agile way and ensure its competitive advantage.

It is difficult, however, to analyze the trend of the market and predict future demand appropriately given drastic changes in the trend in technology. If R&D and development management by the Group fail to work effectively, the Group cannot provide a new business in a timely manner. In that event, the emergence of a competitor which provides a revolutionary service or product, delay in the Group's response to new technologies, opportunity loss, etc. can adversely affect the operating results of the Group.

5. Risks related to information security

In the course of its business, the Group handles various confidential information (business information, customer information, personal information, etc.) and is required to address information security cautiously and ensure strict information management. The Group has developed various policies together with related internal regulations as well as strove for preventing an information security accident and reinforcing responsiveness to the detection of an incident and the occurrence of an accident by introducing the latest information security system and reinforcing the Group's information security management system.

Furthermore, employees and contractors, upon signing agreements, are regularly provided with appropriate training and subjected to a compliance check, which covering information security as well, in order to raise their awareness about information management and prevent any information leakage from within.

In addition, support for the Act on the Protection of Personal Information has been strengthened by making an effort to obtain Privacy Mark certification and ISMS, and, at the same time, an effort towards safety control has been made by clarifying the hierarchy of responsibilities, in accordance with the Personal Information Protection Management System (PMS).

If, however, a leakage of personal information or confidential information should occur due to a cyberattack or information security accident, criminal act, etc. despite these measures, the operating results of the Group can be adversely affected due to the incurrance of liability for damages, a loss of social credibility, etc.

[As of June 22, 2020]

6. Risks related to the reliance on certain customers

Although the Group formulated business plans based on transactions with a wide range of customers, due to the nature of its business that is based on ongoing commercial relationship with its customers, the Group's sales tend to concentrate on a limited number of customers.

The relationships with these customers have been stable since the commencement of transactions. A change in their business and/or outsourcing policies, however, can adversely affect the operating results of the Group.

In particular, sales to IBM Japan, Ltd. account for a significant percentage of the Group's consolidated net sales as shown in the table below:

Counterparty	Fiscal year ended March 31, 2019		Fiscal year ended March 31, 2020	
	Net sales (Thousands of yen)	Percentage	Net sales (Thousands of yen)	Percentage
IBM Japan, Ltd.	4,714,620	13.4%	5,168,020	13.1%
Total consolidated net sales	35,230,083	100.0%	39,337,600	100.0%

(Note) Above figures do not include consumption taxes.

7. Risks related to securing and developing human resources and employee resignations

Amid the persistent labor shortage, it is inevitable that employee turnover will increase.

Based on the assumption that "difficulty in recruitment will continue and employee turnover will increase going forward," the Group endeavors to make it more attractive and improve its work environment further for steadily securing and retaining human resources.

If, despite such efforts and measures, the Group fails to secure or develop such human resources as planned and if employee resignations increase, the operating results of the Group can be adversely affected.

8. Risks related to alliances with business partners

In the course of business operations, the Group has established alliances with contractors, including overseas contractors. While the Group has implemented measures such as providing project information and holding business partner forums in order to strengthen the alliances with business partners, the Group's inability to secure business partners in a timely and appropriate manner, or any changes with regard to such relationships can adversely affect operating results of the Group due to reasons including the hindrance of the launch and/or execution of a project and/or the provision of services.

[As of June 22, 2020]

9. Risks related to work and health

In light of the Japanese government's policy on "work style reform" and the trend of relevant legal institutional changes, the Group has positively worked on personnel management and work environment development not only through appropriate institutional design but also through working hour management, encouragement to take a paid leave, anti-harassment measures, and promotion of mental and physical health of employees.

However, the persistent labor shortage, combined with the structure of system development, system failure at a customer's location, responses to a delay in project development, etc., in addition to services or products offered by the Group, may cause stress-related health problems and/or a decline in productivity due to the loss of project members, which can in turn adversely affect the operating results of the Group.

10. Risks related to compliance

Led by the Internal Control Committee of the Company, the Group is working to improve corporate ethics by establishing the "Basic Policy on the Establishment of the Internal Control System" and the "Code of Conduct for Compliance Management" as the shared norm and endeavors to develop a fair and just corporate culture by ensuring the strict compliance with laws, regulations, and internal regulations, etc. by each and every officer and employee of the Group.

It is possible, however, that a violation of a relevant law or regulation or a wrongful act by an officer or employee cannot be completely avoided even if such measures are taken.

Should such an event occurs, social credibility of the Group declines, which can adversely affect the operating results of the Group due to the suspension of transactions with customers or a large amount of administrative monetary penalty, a claim for damages, etc.

11. Risks related to litigation, etc.

Lawsuits may be brought against the Group with regard to its business activities, liabilities pertaining to services or products offered by the Group, labor issues, etc. Depending on the development of such lawsuits, the Group may be subject to liabilities for damages and loss of credibility. In such cases, the operating results of the Group can be adversely affected.

While the Group is reinforcing awareness efforts and the internal management system so that no service or product offered by the Group may infringe any intellectual property rights of any third party, it is possible that a third party already possesses intellectual property rights which is beyond the Group's knowledge.

In that case, the Group can be subject to a suit or claim for the reason of infringement, forcing the Group to bear the damage or to acquire or develop alternative technology, which can adversely affect the operating results of the Group.

- Material lawsuit, etc.

A suit was filed against Cresco Wireless, Inc., a consolidated subsidiary of the Company, in the fiscal year under review.

* For details, refer to the Annual Securities Report, "V. Financial Information, 1. Consolidated Financial Statements, (2) Others."

[As of June 22, 2020]

12. Risks related to financial markets

The valuation of the securities and other financial instruments held by the Group is dependent on trends in the domestic and overseas economies as well as stock markets and other financial markets. As such, we regard this as an important risk concerning fund management and other business investments.

While the Group works to minimize risk by grasping fair values of securities, etc. in appropriate timing, it is difficult to avoid risk completely; if an unavoidable market crash occurs, a significant decline in asset value may occur and can impact the operating results, etc. of the Group.

If the price of financial instruments held by the Group should fall, the Group may incur a significant loss.

In addition, a future revision in systems, standards, etc., concerning the accounting treatment of fair value of financial instruments can adversely affect the operating results of the Group.

13. Risks related to natural disasters, etc.

The Group is endeavoring to take actions for a BCP tailored to the mode of business and actual situations of the Group and introduce a teleworking system in order to fulfill its security obligation owed to stakeholders and respond promptly to emergencies on the assumption of the materialization of external threats, including natural disasters such as earthquakes, storms or floods, accidents such as fires, the closure of business establishments due to a large-scale system failure or other incidents, physical or cyber terrorism, etc.

However, a disruption to business continuity or decline in productivity may occur due to considerations for securing offices and places of business, securing workforce and ensuring safety and hygiene, etc., which can adversely affect the operating results of the Group.

Besides the damage, destruction and/or disruption of social infrastructure and a failure of central functions, if significant damage occurs to customers, suppliers or supply chains, order reception and supply may stagnate for a long period of time in the course of reconstruction and recovery, which can adversely affect the operating results of the Group.

[As of June 22, 2020]

14. Risks related to infectious diseases

Assuming the manifestation of threats including a pandemic, cluster occurrence, overshoot and lockdown due to the spread of an infectious disease, the Group enacted the Basic Policy for the Action Plan Against Novel Influenza in order to respond promptly to emergencies, thereby fulfilling its security obligation of avoiding the exposure of stakeholders to an infection risk, and also endeavors to take actions for a BCP tailored to the mode of business and actual situations of the Group and to introduce a teleworking system.

However, a disruption to business continuity or decline in productivity may occur due to the closure of offices and places of business, necessity for working from home and teleworking, the prohibition of nonessential and nonurgent outings, etc., which can adversely affect the operating results of the Group.

If damage occurs to customers, suppliers or supply chains, order reception and supply may stagnate for a long period of time in the course toward cessation of infection spread, which can adversely affect the operating results of the Group.

15. Risks related to investment including M&A and capital and business alliance

The Group promotes active M&A and capital and business alliances for the purpose of expanding the scale and areas of business and reinforcing the profit bases in the software development business, which is the main line of business, advanced technology (AI, cloud computing, etc.) related business and new business areas.

Investment is executed upon conducting detailed due diligence under cooperation with external experts and, at the same time, sufficiently examining investment effect, risk, etc. in advance at the Board of Directors, etc.

Profit initially expected, however, may not be obtained due to changes in the business environment and other factors, resulting in a decreased possibility of recovering investment.

If the possibility of recovering investment decreases, business reorganization or similar measures may be implemented in order to streamline management and strengthen the business base, in which case costs entailed by reorganization can be incurred temporarily, adversely affecting the operating results of the Group.

Sometimes, business reorganization or similar measures cannot be implemented in an appropriate period and method, in which case the whole or a part of investment can become a loss or additional investment can be required, etc., adversely affecting the operating results of the Group.

"In addition, if goodwill fails to generate sufficient future cash flow, it will be necessary to recognize impairment loss, which may cause a large amount of impairment loss to adversely affect the operating results of the Group."

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【IR inquiries】

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