



CRESCO LTD.

Q1 Financial Results Briefing for the Fiscal Year Ending March 2024

August 8, 2023

Event Summary

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[Venue Size]	
[Participants]	
[Number of Speakers]	1 Hiroshi Tominaga President and Executive Officer

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Presentation

Moderator: Thank you very much for standing by. Welcome to the financial results briefing of CRESCO LTD. for Q1 of the fiscal year ending March 31, 2024. Thank you for taking time out of your busy schedule to join us.

Today, Hiroshi Tominaga, President and Executive Officer, will provide an overview of the financial results for Q1 of the fiscal year ending March 31, 2024, and an outlook for the current fiscal year, followed by a question-and-answer session.

If you have any questions, please type your question in the "ask a question" box on the screen and send it to us. You may ask questions even during the presentation. Your questions will be read on your behalf and answered by the attendees. Please note that it may be difficult to answer all questions due to time constraints. We kindly ask for your understanding.

The briefing is scheduled to end at 16:00. A questionnaire screen will appear after completion. We appreciate your cooperation in answering this questionnaire as well. We will now start the presentation. President Tominaga, please go ahead.

Tominaga: Hello, everyone. I am Tominaga from CRESCO. Thank you very much for attending CRESCO's financial results briefing today. Now, I will begin the presentation according to the agenda.

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1 決算のポイント 1.1. 第1四半期の主な取組み

■ 組織および体制関連

- 4月1日付で、更なる品質強化と業務効率化の促進を目的として、「品質管理本部」を「品質・プロセス統括本部」に改組。
- 4月1日付で、デジタルソリューション事業を中心とした事業拡大のため、「営業統括部」を「ビジネスイネーブルメントサービス本部」の直下組織に。
- 5月10日の取締役会で、株主還元の充実と資本効率の向上を目的として、自己株式の取得（上限10億円または50万株）と自己株式の消却を決議。

■ 事業関連

- デジタルソリューションとしてのRPA強化
 - ・ UiPath社のRevenue Growth Partner of the Yearを受賞。
- デジタルソリューションとしてのAI分野強化
 - ・ Microsoft社の「Azure OpenAI Service」を利用した生成系AIチャットサービス「CrePT（クレプト）」を構築し、5月より社内向け運用開始。
 - ・ 当社AI専門家による「AIエスコート」サービス提供開始。
- その他
 - ・ 「セキュリティ脆弱性診断」のメニューにペネトレーションテストを追加したサービスを提供開始。
 - ・ 資本出資するインド法人「Cognavi India」がインド新卒学生向けジョブポータルサイトをオープン。
 - ・ 連結子会社「クレスコ・デジタルテクノロジーズ」が、サブスクリプション型WiFiサービスおよび製造業向け「統合BOM管理ソリューション」の提供を発表

The first point is the financial results. Now that we are in a new fiscal year, I would like to reiterate the main initiatives for Q1.

It is about organization and structure. As of April 1, we reorganized the former quality control division to the quality and process control division to strengthen quality and promote operational efficiency.

As of April 1, to expand our business with a focus on the digital solutions business, the sales management department was organized directly under what is now the business enablement services Ddivision.

Third, on May 10, the Board of Directors approved a resolution for the acquisition and redemption of treasury stock, up to JPY1 billion or 500,000 shares, to enhance shareholder returns and capital efficiency. The acquisition process is now well underway.

Now, about our business. First of all, in digital solutions, we have been strengthening RPA and received an award from UiPath this past April as Revenue Growth Partner of the year. This is about the growth rate from the previous year. The award is given in recognition of the growth rate.

Next, we are strengthening the field of AI as a digital solution. We have built a chat service called CrePT, a generative AI service that uses Microsoft's Azure Open AI and have begun using it internally.

Based on this knowledge, we have also begun offering a service called AI Escort, provided by our AI experts. We are getting quite a few inquiries for this AI Escort service right now, and we are in the process of starting a few orders from our clients.

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Other than that, regarding security vulnerability assessment. We have added a penetration test to the menu, a test in which an actual attack is conducted from the outside, and have begun offering it as a service.

Next is Cognavi Indea, an Indian corporation in which we have invested capital, which has opened a job portal site for new graduates in India. CRESCO has developed this Cognavi in Japan, and now this Cognavi developed by Cognavi Indea in India has been opened for India and Indian students.

Next, a consolidated subsidiary company, CRESCO Digital Technologies, announced that it will provide subscription Wi-Fi services and integrated BOM management solutions for the manufacturing industry and parts management, yes, parts management solutions.

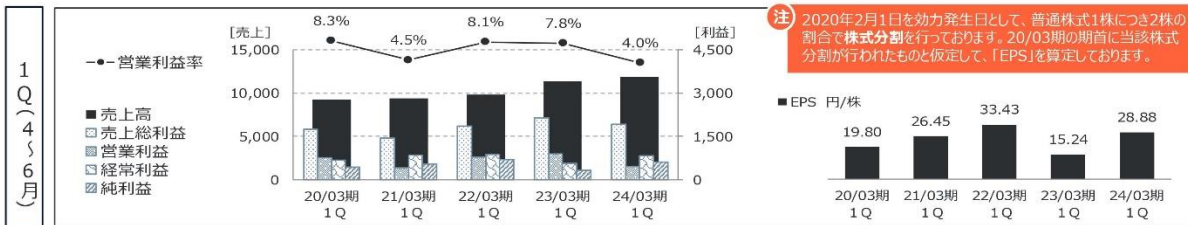
1 決算のポイント 1.2. 売上高・利益

[注] () 内の数字は各々の利益率を表します。
[注] 「純利益」は「親会社株主に帰属する当期(四半期)純利益」です。

[単位: 百万円未満切捨]

- 新型コロナ5類移行による経済活動正常化もあり、企業のIT投資需要は依然として旺盛。業種別にお濃淡はあるものの、主要顧客を中心に売上が増加し、4.4%の増収。
- 新卒採用増、給与水準引き上げ、教育投資拡大に加え、複数の大型の不採算案件の発生により、営業利益は47.3%の大幅減益。
- 経常利益は、保有するデリバティブ評価益（営業外収益）282百万円を計上し、47.4%増の大幅増益。

1 Q 累計		22/03期	23/03期	24/03期	前年同期比	対2Q累計進捗率	2Q累計 業績予想	
							23/5/10 予想	前年同期比
	売上高	9,870	11,381	11,881	104.4%	47.7%	24,900	106.8%
	売上総利益	1,849 (18.7%)	2,148 (18.9%)	1,926 (16.2%)	89.6%			
	営業利益	799 (8.1%)	891 (7.8%)	470 (4.0%)	52.7%	22.6%	2,080 (8.4%)	92.6%
	経常利益	883 (9.0%)	563 (4.9%)	830 (7.0%)	147.4%	38.3%	2,170 (8.7%)	102.5%
	純利益	702 (7.1%)	320 (2.8%)	606 (5.1%)	189.0%	42.7%	1,418 (5.7%)	96.6%
	EPS 円/株	33.43	15.24	28.88			68.29	



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Next is about sales and profit.

I think this is the part that attracts the most attention, but unfortunately, the overall impression is that we did not achieve the operating income.

Let me explain the three points above. First, the IT investment demand remains strong, as economic activity has normalized with the Class 5 transition of COVID-19. At CRESCO, we do many different things in different industries, but there are strengths and weaknesses in various industries. However, sales increased mainly to major customers, resulting in a 4.4% increase.

On the other hand, there has been an increase in the hiring of new graduates. Also, we raised the salary level significantly this April. We are also expanding investment in education. In addition to these factors, the most significant was the occurrence of several large unprofitable projects, which resulted in a significant 47.3% decrease in operating income. I will explain this later, but we have four unprofitable projects. This final figure

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results from the unprofitability of these four major projects, one in the financial segment and three in the enterprise segment, which I will explain later.

Next, in terms of ordinary income, the valuation of derivatives had been negative until last year, and now it has become neutral or zero. The difference between the two was recorded as a positive figure, resulting in a large 47.4% increase in profit. And overall, the operating income was not achieved, but ordinary and net income increased significantly from last year, which is a strange situation.

The numbers are in the middle of the table, the orange area in the middle. As I mentioned earlier, for the fiscal year ending March 31, 2024, sales increased by 4.4%, while operating income decreased by 47.3% to 52.7% of last year. Ordinary income and net income have grown.

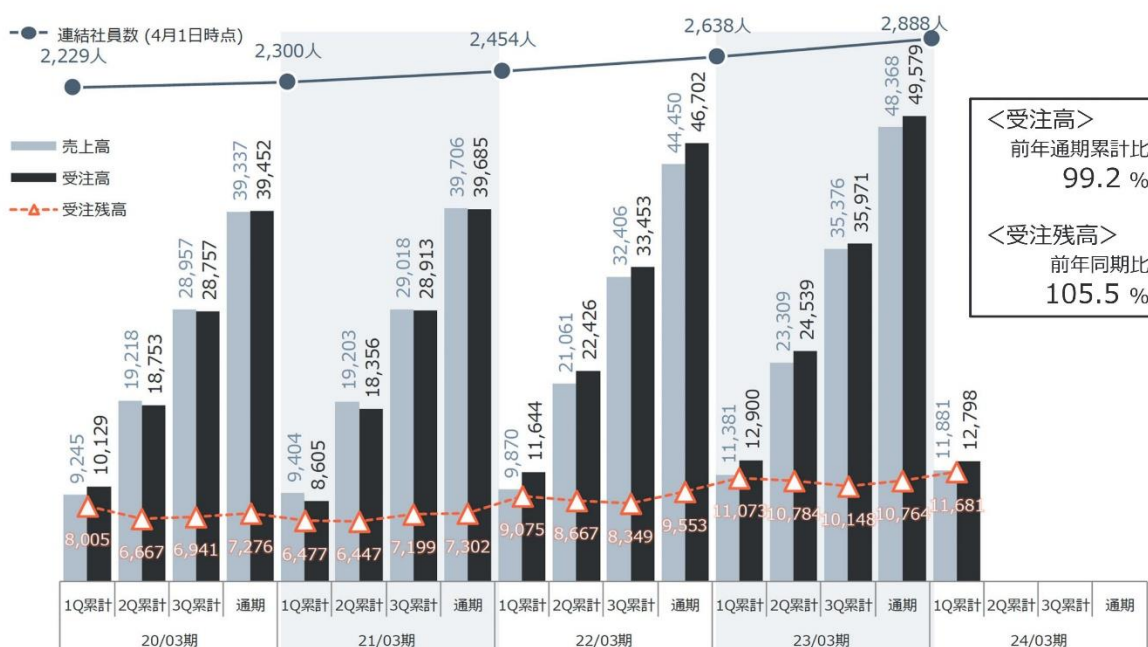
The graph below shows a comparison to Q1 of last year, and the operating margin for Q1 has not been that high in the past because of the significant investment in education. Still, this time, partly due to the impact of the unprofitable businesses, we ended up with significantly worse Q1 figures than in the past several years.

As for the earnings forecast, as written on the right-hand side, we have not changed the figures. This will be explained later.

1 決算のポイント 1.3. 受注高・受注残高

[単位：百万円未満切捨]

- 受注高と受注残高は、ほぼ前年並みの水準。
- 経済活動正常化もあり、企業のDX推進に向けた動きは活発な状況。



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Next are the orders and order backlogs.

Orders and order backlogs are progressing at roughly the same level as the previous year. However, orders received are slightly lower than the previous year's total, due in part to the unprofitable businesses I have been explaining, and to be honest, opportunities for proposals have slowed down a bit as a result. Hence, the order backlogs are slightly lower as well.

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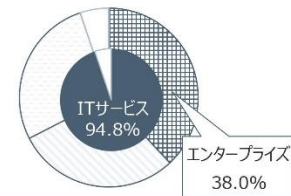
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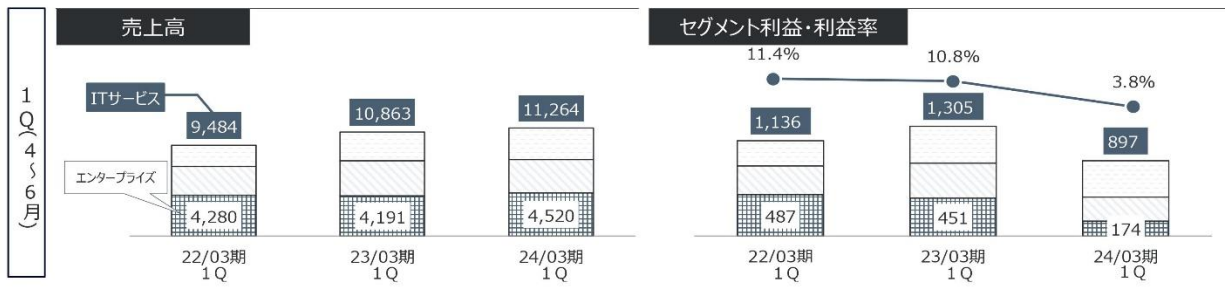
1 決算のポイント **1.4. セグメント別売上高・利益 [ITサービス事業：エンタープライズ]**

セグメント	サブセグメント
ITサービス ・コンサルティング ・IT企画 ・開発・保守の総合サービス	エンタープライズ 情報・通信、広告、流通サービス、運輸、 人材紹介・人材派遣、公共、資源・エネルギー、 建設・不動産、旅行・ホテル、医療・ヘルスケア、その他

<セグメント別の売上高比率:1Q(4~6月)>



- **売上高：45億20百万円（前年同期比 7.9%↑）**
「情報・通信・広告」分野において一部の連結子会社の売上が大幅に増加。
 - **セグメント利益／利益率：1億74百万円／3.8%（前年同期比 61.4%↓）**
「人材紹介・人材派遣」「流通サービス」の分野で不採算案件が発生。
- [単位：百万円未満切捨]



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Next, I will explain by business segment.

The IT services business, shown in the upper right pie chart, accounts for 38% of CRESCO's total sales. IT services are 94.8%, and almost dividing this into three parts is the enterprise segment at 38%.

As for what enterprise is, which is explained above, if you look at the sub-segments, you can see that we are engaged in roughly this type of business and industry.

Regarding sales, it totaled JPY4.52 billion in Q1, which is up from the previous year. There has been a significant increase in sales of some consolidated subsidiaries in the information/communications and advertising sectors.

As for profits, as explained earlier, there was a significant decline. We had three unprofitable projects here, resulting in a 61.4% decrease YoY. The reality is that we are spending a considerable amount of money to settle unprofitable projects in the areas of staffing, temporary staffing, and distribution services. You can see from the profit graph below that the numbers have dropped significantly from last year.

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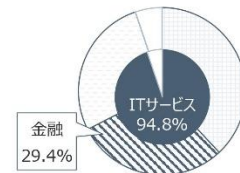
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1 決算のポイント  1.5. セグメント別売上高・利益 [ITサービス事業：金融]

セグメント		サブセグメント	
ITサービス	・コンサルティング	金融	銀行、保険、その他
	・IT企画 ・開発・保守の総合サービス		

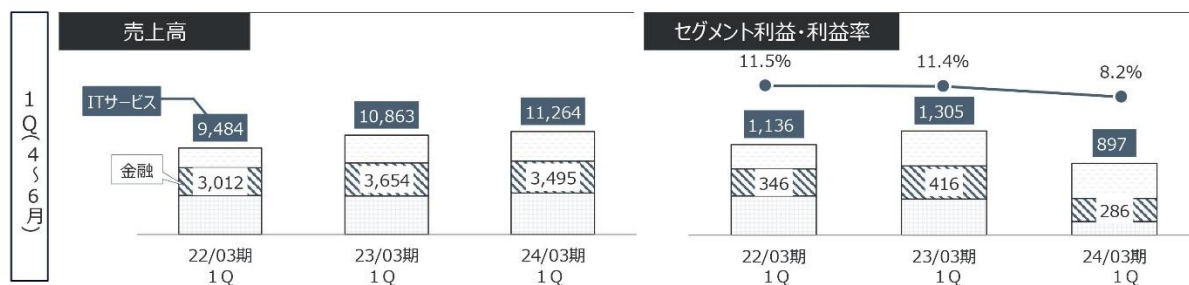
<セグメント別の売上高比率:1Q(4~6月)>



1Q累計

- **売上高：34億95百万円（前年同期比 4.3%↓）**
当社における「銀行」分野で受注が増加したものの、「保険」「その他」の両分野で大型案件収束により受注が減少。
- **セグメント利益／利益率：2億86百万円／8.2%（前年同期比 31.2%↓）**
売上高の増加と同様の理由に加え、「銀行」分野で不採算案件が発生。

[単位：百万円未満切捨]



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Next is the finance segment.

As for the financial segment, the upper right pie chart above shows that it also accounts for 29.4% of the 94.8% of IT services. This segment is, as the term implies, banking, insurance, and other segments that CRESCO is responsible for.

Sales were down slightly, at minus 4.3%. Although orders increased in the banking sector here, there was a tendency toward a decline in orders as large projects in both the insurance and other sectors were winding down. In addition to that, as I mentioned earlier, there were some lost opportunities, and it was not easy to make proposals.

Segment profit and profit margin were also down 31.2% YoY from the unprofitable large project in the banking sector. We had an unprofitable project in the banking field, and we are now settling them at a significant cost, so the numbers have not been going up very well. As you can see in the graph below, profit was also much worse than in the previous year.

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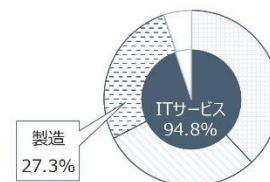
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1 決算のポイント **1.6. セグメント別売上高・利益 [ITサービス事業：製造]**

セグメント	サブセグメント
ITサービス ・コンサルティング ・IT企画 ・開発・保守の総合サービス	製造 自動車、輸送機器、機械、エレクトロニクス、その他

<セグメント別の売上高比率:1Q(4~6月)>



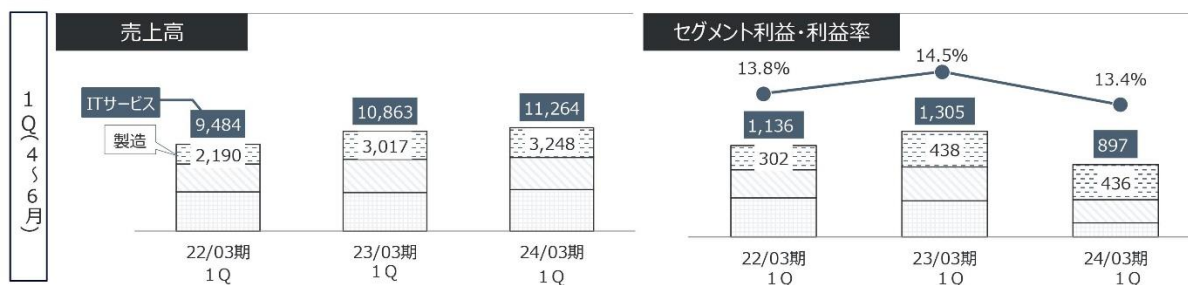
■ **売上高：32億48百万円（前年同期比 7.7%↑）**

主として「日本ソフトウェアデザイン(株)」の連結効果により「機械・エレクトロニクス」分野での売上増。

■ **セグメント利益／利益率：4億36百万円／13.4%（前年同期比 0.4%↓）**

上記理由による売上高増の効果を、人件費や教育費、のれん償却費増で相殺。

[単位：百万円未満切捨]



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Next is the manufacturing segment.

In the manufacturing segment, there were no unprofitable projects. As shown in the upper right graph, this segment accounts for 27.3% of the total. Sales here totaled JPY3,248 million, up 7.7% YoY, mainly from Japan Software Design, which joined the CRESCO Group in February. This consolidation effect has led to larger sales in the machinery and electronics sectors.

This company, Japan Software Design, is headquartered in Osaka and does a wide range of businesses in the Nagoya and Osaka areas. We have a lot of engineers in the automotive sector and embedded electronics systems, which is a major contributor to sales here.

The effect of increased sales can also be seen in the segment profit. In terms of costs, personnel and training expenses, as well as amortization of goodwill, have increased, but these have been offset, and the figures are almost the same as the previous year. As you can see in the graph below, the profit margin here is not as high as in the previous year, and we believe this is partly due to the higher costs shown above.

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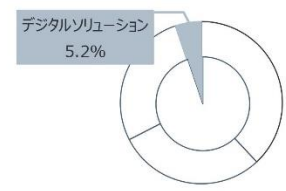
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1 決算のポイント **1.7. セグメント別売上高・利益 [デジタルソリューション事業]**

セグメント	事業
デジタルソリューション	顧客のDX実現を支援する製品・サービスからなるソリューション群 <主な製品・サービス名> Creage : クラウド関連サービス UiPath : RPA関連サービス アノテーション : AI関連サービス 教育・セミナー : AI、クラウド、RPAなど

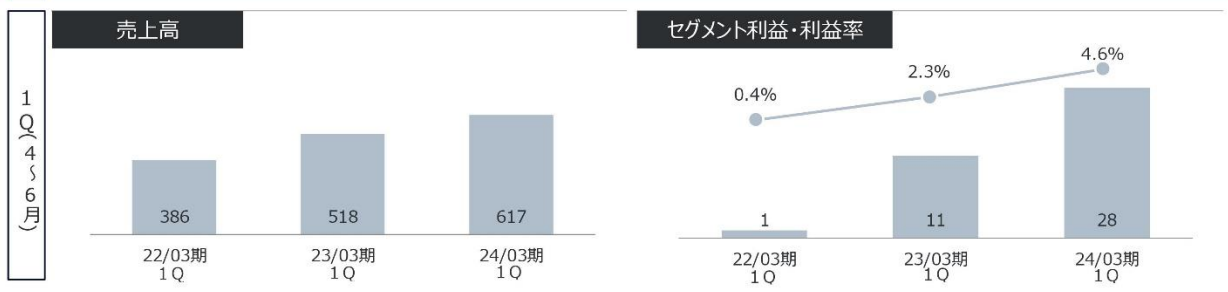
<セグメント別の売上高比率:1Q(4~6月)>



1 Q 累計

- **売上高 : 6億17百万円 (前年同期比 19.1% ↑)**
 主カクラウドサービスである「Creage」とRPAライセンスの販売が増加。
- **セグメント利益/利益率 : 28百万円 / 4.6% (前年同期比 141.1% ↑)**
 上記の売上高の増加と同様の理由。

[単位 : 百万円未満切捨]



Next is the digital solutions business field.

This is a new business area that CRESCO announced would begin in our new medium-term plan three years ago. It is a solution group consisting of product and service groups that help customers realize digital transformation. We mainly provide cloud-related services, AI services, RPA services, and educational seminars.

As shown in the upper right graph, shown in the pie chart, it accounts for 5.2% of the total. Sales are still low as a percentage of total sales, but they were JPY617 million, a steady increase from the previous year. This is an area where the cloud service Creage, the RPA license, and UiPath, which I mentioned earlier, the UiPath is an area that has been growing very robustly.

Similarly, regarding profits, they are still small, but as shown in the graph below, they have been steadily increasing for the past three years, with the growing impact of the increase in sales.

- 2023年5月10日公表の2024年3月期連結業績予想（2Q累計および通期）に変更なし。
- 今後の状況や事業動向等を踏まえ、業績予想の修正が必要となった場合には、速やかに開示。

[単位：百万円未満切捨]

2 Q 累 計	23/03期					24/03期	
	22/5/10 予想	前年 同期比	実績	前年 同期比	達成率	23/5/10 予想	前年 同期比
	売上高	22,840	108.4%	23,309	110.7%	102.1%	24,900
売上総利益			4,531 (19.4%)	111.3%			
営業利益	2,090 (9.2%)	103.6%	2,245 (9.6%)	111.3%	107.4%	2,080 (8.4%)	92.6%
経常利益	2,340 (10.2%)	105.2%	2,116 (9.1%)	95.2%	90.4%	2,170 (8.7%)	102.5%
純利益	1,420 (6.2%)	88.4%	1,467 (6.3%)	91.4%	103.4%	1,418 (5.7%)	96.6%
EPS 円/株	67.49		69.76			68.29	

通 期	23/03期					24/03期	
	22/5/10 予想	前年 同期比	実績	前年 同期比	達成率	23/5/10 予想	前年 同期比
	売上高	47,500	106.9%	48,368	108.8%	101.8%	52,500
売上総利益			9,641 (19.9%)	110.8%			
営業利益	4,750 (10.0%)	106.6%	4,998 (10.3%)	112.1%	105.2%	5,250 (10.0%)	105.0%
経常利益	5,150 (10.8%)	107.7%	5,135 (10.6%)	107.4%	99.7%	5,370 (10.2%)	104.6%
純利益	3,350 (7.1%)	103.5%	3,328 (6.9%)	102.8%	99.4%	3,582 (6.8%)	107.6%
EPS 円/株	158.99		158.10			172.50	

【注】（ ）内の数字は各々の利益率を表します。「純利益」は「親会社に帰属する当期純利益」です。

Based on the above results, this is our forecast for the fiscal year ending March 31.

The outlook for the fiscal year ending March 31 is currently unchanged from the outlook announced on May 10. In Q1, we had a very large negative impact from the unprofitable projects I mentioned earlier, but we plan to recover firmly in Q2, Q3, and Q4.

As for the Q1 figures, I mentioned that we have four unprofitable projects, but we have also set aside a loss allowance for those four projects for Q1, so we will be able to recover in Q2, Q3, and Q4 by delivering the current projects and ensuring that they are delivered with good quality. Therefore, we have not made any changes to these figures.

In total, we have not changed our initial forecast of aiming for JPY52.5 billion for the full year and an operating income of JPY5.25 billion, or an operating income of 10%. Naturally, I have written above that if any changes occur in the future, they will be disclosed promptly.

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- 株主還元方針に則った配当を継続。
- 2023年5月10日公表の、2024年3月期の配当目標「50円」に変更なし。

	21/03期	22/03期	23/03期	24/03期	
	実績	実績	実績	23/5/10 予想	増減
中間	18円	20円	23円	25円	2円
期末	20円	24円	27円	25円	-2円
年間	38円	44円	50円	50円	0円
配当性向	30.3%	28.6%	31.6%	29.0%	-2.6%
配当利回り	2.4%	2.2%	2.9%		
DOE	4.5%	4.4%	4.5%		
配当金の総額	798百万円	925百万円	1053百万円		

[配当金の総額：百万円未満切捨]

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- 特段の株主優待は行っておりません。
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注 2020年2月1日を効力発生日として、普通株式1株につき2株の割合で株式分割を行っております。

- 20/3期中間は分割前の実際の配当金の額を記載しております。
- 20/03期の合計は、株式分割の実施により単純計算ができないため記載しておりません。

Likewise, the dividend forecast remains unchanged from that announced on May 10. We have not changed our original forecast of JPY50 for the full year, JPY25 for H1, and JPY25 at the end of the fiscal year, which is JPY50.

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1) 連結子会社の変遷

	2020年3月期				2021年3月期				2022年3月期				2023年3月期				2024年3月期			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
クレスコ・イー・ソリューション	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
クレスコワイヤレス	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
アイオス <small>【※1】【※5】【※7】【※9】</small>		●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
クレスコ北陸	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
シーサリー	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
クレスコ・デジタルテクノロジーズ <small>【※12】</small>	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
メクセス <small>【※3】【※4】</small>	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
エヌシステム <small>【※13】</small>	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
ネクサス <small>【※2】【※13】</small>	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
アルス <small>【※6】【※13】</small>	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
クレスコ・ジェイキューブ <small>【※13】</small>													●	●	●	●	●			
クレスコベトナム <small>【※8】</small>		○	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
エニシアス <small>【※10】</small>					●	●	●	●	●	●	●	●	●	●	●	●	●			
OEC <small>【※11】</small>									●	●	●	●	●	●	●	●	●			
日本ソフトウェアデザイン <small>【※14】</small>																	●	●		
子会社総数	10	11	11	11	12	12	12	12	12	13	13	13	13	11	11	12	12			

【※1】 2017年10月2日付で「アイオス」は「(株)アプリケーションズ」を子会社化 (当社の孫会社)
 【※2】 2018年1月12日付で「(株)ネクサス」を子会社化
 【※3】 2018年3月12日付で「メディア・マジック」は「メクセス」に商号変更
 【※4】 2018年4月1日付で「メクセス」は「アイオス 関西営業所」を統合
 【※5】 2018年4月1日付で「アイオス」は「アプリケーションズ」を統合
 【※6】 2018年10月1日付で「アルス(株)」を子会社化
 【※7】 2018年11月1日付で「アイオス」は「イーテクノ(株)」を子会社化 (当社の孫会社)

【※8】 2019年9月17日付で「CRESCO VIETNAM CO., LTD.(クレスコベトナム)」を設立 (高宮開辦は2019年10月1日付から)
 【※9】 2019年10月1日付で「アイオス」は「イーテクノ」を統合
 【※10】 2020年4月1日付で「(株)エニシアス」を子会社化
 【※11】 2021年7月1日付で「(株)OEC」を子会社化
 【※12】 2022年5月1日付で「クワイティブジャパン」は「クレスコ・デジタルテクノロジーズ」に社名変更
 【※13】 2022年7月1日付で「アルス」は「エヌシステム」「ネクサス」を統合
 【※14】 2023年2月1日付で「日本ソフトウェアデザイン(株)」を子会社化

The rest will be a supplement to the company profile that you may refer to.

As I mentioned earlier, we have added Japan Software Design CO., LTD as the 12th company at the bottom of the list, starting in February 2023. After making various adjustments in governance and other areas, they are now working hard as a new member of the CRESCO Group and as an entity that will expand business in Osaka and Nagoya.

We will proceed with these 12 companies plus CRESCO, the 13th company. As mentioned earlier, we would like to recover well in Q2, Q3, and Q4 for a good performance.

This concludes my presentation.

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Question & Answer

Moderator [M]: Thank you very much. We will now open the floor for questions and answers. Please send us your question by text from the "ask a question" box on the screen. We will read your questions on your behalf, and the attendees will respond to them. Now, please ask your questions.

Participant [Q]: Here is the first question regarding unprofitable projects. You mentioned four projects, but will these projects affect Q2 and beyond? Or has it already been resolved? Thank you very much.

Tominaga [A]: Thank you for your question. Unprofitable projects, I explained earlier that there are four. All four projects are still in progress at this time, in August, and they are all ongoing projects.

However, as I mentioned earlier, following the settlement of accounts at the end of June, we have reorganized the plans for the four projects for July, August, September, and of course, H2, and we have also renegotiated with customers to ensure that all negative figures are allocated to Q1. We are now shifting to a system of firm delivery, so the response is that there will be no impact from Q2 onward. Thank you for your question.

Participant [Q]: I have another question. Both sales and profits seem to be growing steadily in the digital solutions business, but are things progressing as expected? Thank you very much.

Tominaga [A]: Regarding the progress of the digital solutions business, it is progressing as planned at this point, from when we initially set the medium-term plan. Both sales and the percentage of total sales are growing at this point. As for sales, yes.

However, we are still aware that we need to increase profitability, so we are currently developing in-house solutions for our own development, and we believe that we need to transition to more profitable operations.

However, as for the planned values, I believe that we have been making steady progress as planned from the time we established the Medium-Term Management Plan 2023 (2021 to 2023), which is shown on the bottom right of this page. That is all.

Participant [Q]: Here is the next question. How do you analyze the reason for the sudden occurrence of four unprofitable projects? Is any risk of spillover to other normal projects? Thank you very much.

Tominaga [A]: The cause of our four unprofitable projects. First of all, two of the four unprofitable projects are those that dragged on from last year. Last year, we also recorded some, although small, losses as projects. In two of the four cases, the deficit is slightly increasing as they head into the final process. The other two cases are those that have occurred since this past April.

It's not that all four cases occurred suddenly, but instead, they are not all zero every year, so I feel that the fact that the total cost has become so high is very much a management issue.

For the analysis, in the negotiation stage, from the initial quotation to when we receive an order from a customer, we negotiate various terms and conditions, such as the preconditions for the quotation. Still, here we were not able to manage in close cooperation with the field.

We are also taking on various challenges as our operations expand. These four projects were quite challenging, but we could not communicate well with the clients in the midst of these challenges, and management at the upper levels was not reaching the projects. This time, with the posting of these figures, we are thoroughly reviewing our management system and are now negotiating with our clients at the executive level.

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As to your question about whether there will be any other impact in the future, we cannot say there will be zero, in opportunity loss, as I briefly mentioned earlier. We are now at the stage where we can make new proposals by firmly settling these four projects, and to make new proposals, as mentioned earlier about increasing orders, we need to make sure that the current projects are settled, and then we can move on to the subsequent proposals. Regarding quality management, we have begun strengthening management, including those at higher levels, to ensure that the same problems are not repeated. Yes. That's all for the answer.

Participant [Q]: Here is the next question. You mentioned that the four unprofitable projects have been reserved for Q1, but since they are ongoing projects, am I correct in understanding that the operating margins for Q2 and beyond are lower than usual? Thank you very much.

Tominaga [A]: Regarding how the figures for the four projects are posted for Q2 and beyond, each of the four projects has a different outlook. While the figures are estimated low for some of them, there are also projects where the prospects are already clear and the goal is in sight, and we are now forecasting recording those projects at normal profitability. That is all.

Participant [Q]: Here is the next question. What would be the impact of labor cost-related increases on operating income? Thank you very much.

Tominaga [A]: Regarding your question about the impact of labor cost on operating income, we increased compensation by about 5% in April in consideration of other companies and trends in the industry. Since H2 of last year, we have been negotiating to pass on all of these costs to our customers, and we have gained an understanding of many customers. In short, regarding the increased costs, they are being converted into sales.

We do not believe there is such a significant impact here alone. We believe that if we can recover the profitability and unprofitable projects mentioned earlier, we will be able to achieve the previous operating profit margin. That is all.

Participant [Q]: Here is the next question. Despite this being the final year of the mid-term management plan, you have had unprofitable projects in several large contracting projects from the beginning. Still, the quality control page of your website states that you will provide quality that will reassure and impress your customers. Please explain what you mean by "reassuring and impressive quality."

Also, you mention strengthening quality in the basic strategy of the mid-term management plan, but I would like to know the specifics of how you are strengthening it. Thank you very much.

Tominaga [A]: First of all, I would like to answer your question about how we are strengthening quality. As for strengthening quality, as mentioned earlier, the quality control division became the quality control and process control divisions, and we are now reviewing our processes as well. To be honest, as I mentioned earlier, two unprofitable projects have been dragging on since last year, and two of them have occurred since April, which we haven't been able to address on time.

Now, the quality control division is reviewing the reporting route again so that we can pick up the voices from projects in the field on time, and we are starting anew this July.

Also, for the "reassuring quality" on our website, all of our employees work with pride in the fact that we are creating our customers' businesses with IT, and it means providing our project management to ensure reliable quality in creating IT that contributes to our customers' businesses, including deadlines.

This time, in all the projects, we could not firmly grasp the commitments to our customers' goals together with them. We should have had a firm grasp at the start, and since various changes in requirements occurred

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during the projects, we should have discussed with customers how to deal with those changes before proceeding with the projects. I believe this is what ultimately leads to a reassuring quality. That is all.

Participant [Q]: Here is the next question. What is the status of your recruitment? The question is, what are your plans for the fiscal year and current projections for mid-career and new graduates, respectively? Thank you very much.

Tominaga [A]: Regarding recruitment, a large percentage of both mid-career employees and new graduates have already completed or have passed the midpoint of their hiring activities for the next fiscal year.

Last year, we strongly achieved our goal of hiring more than 200 new graduates with the CRESCO Group hiring more than 200 new graduates. We are aiming for the same number this year, and it would be wrong to say that we haven't made it that far, but the situation is a bit tough. Not that it's not good at all. We are looking at a little more than 80% of last year's level, but we are currently unable to hire new graduates to exceed last year's level. We have not been able to do so, or rather, we have not been able to receive informal acceptances for our offers.

In the background, many user-oriented companies are also hiring IT personnel directly, so there is considerable competition with them. For new graduates, rather than competing with other companies in the same industry, we have recently been competing with user-oriented companies and consulting companies and ultimately losing out to new graduates. However, we believe we can secure more than 80%.

In terms of mid-career hiring, we have honestly struggled for the past several years. They're not easy to find. Well, not so many people go to GAFA now, but about three years ago, there were quite a few people who left CRESCO to go to GAFA, and there were also many people we lost out to GAFA after competing for them.

The market for mid-career hires continues to be extremely difficult, and although CRESCO has set a target of hiring more than 30 people per year, we have not been able to meet that target. That is all.

Participant [Q]: Here is the next question. Are there any changes in the investment stance of companies as a result of the transition of COVID-19 to Class 5, such as more active investment in the travel industry? Thank you very much.

Tominaga [A]: Regarding changes in the investment stance of client companies, those who had stopped IT investment during the pandemic are now expanding, as they have to complete all the projects they had halted.

As I mentioned earlier, the demand for the travel business, including inbound travel, is growing considerably, and they must, of course, invest in IT to meet this demand. We are moving forward with the need to finish the projects that customers had stopped. That is all.

Participant [Q]: Here is the next question. You have recorded a gain on valuation of derivatives, but do you intend to continue credit management through derivative transactions in the future? Thank you very much.

Tominaga [A]: The derivatives part is adding a little bit to the profit, as I reported earlier. However, since we posted a significant negative balance last year, the Board of Directors and others have discussed the matter, and we are now moving forward with a policy of gradually reducing the amount of loans when they become due for redemption.

Compared to last year, the total investment is now down to about 60%. I think it's correct to say that the 60% it has been reduced to has been returned as a small profit since last year. Our policy is to continue to reduce derivative products as we wait for redemption dates. That is all.

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Participant [Q]: Here is the next question. I believe your company's dividend payout ratio is low among system integrators. We see the company's total return ratio as being in the upper end of the middle group due to the share buyback program implemented this fiscal year. In other words, without regular share buybacks, returns appear relatively negative, even though the equity capital is relatively strong. I know it is a difficult timing to comment on this as this is the final year of the medium-term management plan, but I would like to know what your thoughts are on shareholder returns. Thank you very much.

Tominaga [A]: Thank you for your question. I think we are talking about dividend payout and shareholder returns. As for your suggestion that the dividend payout ratio is a little low, our Board of Directors has been sharing information and receiving information about other companies, and we are discussing various issues based on that information. We will continue to discuss the optimal cash allocation at the Board of Directors meetings, etc., and will consider this issue in the mid-term plan for the next fiscal year, etc. That is all.

Moderator [M]: Thank you very much. We will continue to take your questions, so if you have any questions, please send us your questions by text.

Now that there seems to be no other question, we would like to close the question and answer session. Lastly, Tominaga, the President, would like to offer a few words. President Tominaga, please go ahead.

Tominaga: Thank you all for watching CRESCO's presentation today. While the Q1 results were not so good, as I explained earlier, we are now working on a system that will allow us to recover in Q2, Q3 and Q4, so we would appreciate your continued support. Thank you very much for your time today.

Moderator: That concludes today's financial results briefing.

A questionnaire screen will appear after this, and we would appreciate your cooperation in answering this questionnaire. Thank you very much for watching and joining us to the end today.

[END]

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