



CRESCO LTD.

Q3 Financial Results Briefing for the Fiscal Year Ending March 2024

February 6, 2024

Event Summary

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[Event Name]	Q3 Financial Results Briefing for the Fiscal Year Ending March 2024
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[Venue]	Webcast
[Venue Size]	
[Participants]	
[Number of Speakers]	1 Hiroshi Tominaga President and Executive Officer

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Presentation

Moderator: Hello, everyone. Thank you for waiting. We will now begin the financial results briefing of CRESCO LTD. for the third quarter of the fiscal year ending March 31, 2024. Thank you very much for taking time out of your busy schedules to join us.

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

If you have a question, please type it in the "ask a question" box on the screen and send it to us. You may send 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. Please understand this in advance.

The presentation is scheduled to end at 16:00. A questionnaire screen will appear after this event. We appreciate your cooperation in answering this.

We will now start the presentation. President Tominaga, please go ahead.

Tominaga: Hello, everyone. I am Tominaga from CRESCO. Thank you very much for taking time out of your very busy schedules to join CRESCO's financial results briefing today. To begin with, let me explain the situation in Q3.

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■ 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。また、デジタルソリューション事業中心に事業拡大のため「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、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。
- 9月29日、当社企業グループの財務情報と非財務情報（経営理念、事業内容、価値創造プロセス、サステナビリティ/ESGの取組みなど）を整理し、詳述した「統合報告書2023」を創刊。
- （※1月29日発表）グループの人材・経営資源の有効活用によるシナジー効果の更なる発揮を目的として、日本ソフトウェアデザイン(株)、(株)メクゼスおよび(株)クレスコ間でリソースの整理・統合を検討中。

■ 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。
 - ・ ウイングアーク1st社と販売代理店契約を締結。同社の電子帳票プラットフォームinvoiceAgentとUiPath連携による経理業務ペーパーレス化・自動化ソリューションの提供を開始。
- 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。
 - ・ 数理最適化手法を用いてホテルの部屋割り業務を効率化するツール「RooMagic」をリリース。

I will begin with the main points of the financial statements.

These are the main initiatives up to Q3. Some of them may overlap with what has been described in previous presentations, but I will explain them in a nutshell.

First, related to the organization and structure, the quality control-unit was reorganized into the quality & process management-unit in April, for the purpose of strengthening quality and promoting operational efficiency. Also, to expand our business, especially in the digital solutions business, we have placed the sales division directly under the business enablement service-unit.

On May 10, the Board of Directors approved the acquisition of treasury stock, JPY1 billion or 500,000 shares, and the cancellation of treasury stock, all of which were completed during H1.

On September 29, we published our first Integrated Report 2023, a report that details the financial and non-financial information of our corporate group, all in an organized manner. This is the first integrated report issued by CRESCO.

At the bottom of this part, the January 29 announcement is now a new topic. We have announced that we are considering the consolidation and integration of resources between Japan Software Design, Mexess, and CRESCO, intending to achieve further synergies through the effective utilization of the Group's human and managerial resources.

As for business-related matters, this is also duplicated from the previous presentation. To strengthen robotic process automation as a digital solution, we were awarded Revenue Growth Partner of the Year by UiPath. It means that CRESCO will work together with UiPath as a Diamond Partner.

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We have also signed a distributor agreement with WingArc1st, and have begun offering a solution for paperless and automated accounting operations by linking WingArc1st's electronic ledger platform invoiceAgent and UiPath.

As for strengthening the AI field of digital solutions, we have established the CrePT generative AI chat service using Microsoft's Azure OpenAI, and began operating it for internal use in May.

We have also launched a service called "AI Escort" by our AI experts, and have released a product called RooMagic, which uses mathematical optimization methods to streamline the hotel room assignment process, and we are now gradually beginning to receive orders for this service.

1 決算のポイント ✨ 1.1. 第3四半期までの主な取組み②

□ 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。
- ベトナムのレストラン&リテールテックスタートアップ企業CAPICHI社に出資。同社提供のQRモバイルオーダーシステム「Capichi OI」の日本国総代理店として、飲食店、小売店、宿泊施設のDX化への貢献を図る。
- 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。
- 当社のセキュリティソリューションの強化を目的として、情報セキュリティサービスを展開する(株)セキュアイノベーション（本社：沖縄県那覇市）と資本業務契約を締結。

In other matters, the Company launched a new service that adds penetration testing to its menu of security vulnerability assessments. In July, Cognavi India, an Indian company in which we have a capital investment, opened a job portal site for new graduates in India, and the site is actually being used by students in India.

We have invested in CAPICHI, a Vietnamese restaurant and retail tech startup company, and are now working to contribute to the digital transformation of restaurants, retail stores, and lodging facilities as the sole agency in Japan for the QR mobile ordering system provided by CAPICHI. In fact, this service has begun to achieve some sales in Japan.

Next, CRESCO Digital Technologies, a consolidated subsidiary, announced Wi-Fi services for subscribers and integrated BOM management and parts management solutions for the manufacturing industry.

The bottom of this page shows that in December, we concluded a capital and business agreement with Secure Innovation, a company in Naha, Okinawa, which provides information security services, in order to strengthen our security solutions.

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That is all for the description of the initiatives.

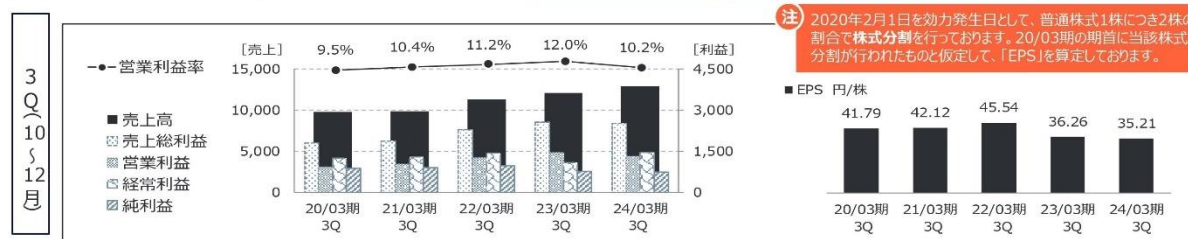
1 決算のポイント 1.2. 売上高・利益

【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、生成系AIの活用やサイバー攻撃対応等への関心の高まりもあり、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、前年同期比（以下同じ）+9.0%の大幅増収。
- 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▲10.8%の大幅減益。
- 経常利益は、金融商品に係るデリバティブ評価益（営業外収益）301百万円を計上し+21.4%の大幅増益。
- 特別利益として投資有価証券償還益108百万円を計上。

3Q累計		22/03期	23/03期	24/03期	前年同期比	対通期進捗率	通期業績予想	
							23/5/10 予想	前年同期比
	売上高	32,406	35,376	38,544	109.0%	73.4%	52,500	108.5%
	売上総利益	6,348 (19.6%)	7,095 (20.1%)	7,202 (18.7%)	101.5%			
	営業利益	3,292 (10.2%)	3,697 (10.5%)	3,298 (8.6%)	89.2%	62.8%	5,250 (10.0%)	105.0%
	経常利益	3,641 (11.2%)	3,202 (9.1%)	3,887 (10.1%)	121.4%	72.4%	5,370 (10.2%)	104.6%
	純利益	2,564 (7.9%)	2,230 (6.3%)	2,398 (6.2%)	107.5%	66.9%	3,582 (6.8%)	107.6%
	EPS 円/株	121.96	105.99	115.67			173.89	



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Next, the numbers, income statement.

As mentioned at the top, the normalization of economic activity due to the transition to Class 5 of COVID-19, as well as the increased interest in cyberattack response, etc., with the considerable use of generative AI already made last year, corporate demand for IT investment remains strong.

Although there are still some gradations by business segment, net sales increased mainly to major customers, resulting in a significant 9% increase in sales YoY.

On the other hand, operating profit decreased significantly by 10.8% due to an increase in the hiring of new graduates, higher salaries, increased investment in education, and the occurrence of several large unprofitable projects.

As I explained at the previous presentation, at the end of Q2, there were four unprofitable projects, and three of them were all settled at the end of Q2. We reported that the remaining one was still ongoing, and these figures are the result of incorporating those figures into this report.

As for ordinary profit, a gain on the valuation of derivatives related to financial instruments of over JPY300 million, or JPY301 million, was recorded, resulting in a large 21% increase in ordinary profit.

Extraordinary income also includes gains on redemption of investment securities of just over JPY100 million, or JPY108 million.

The results of this period are reported in the numbers shown in the orange portion of the middle table.

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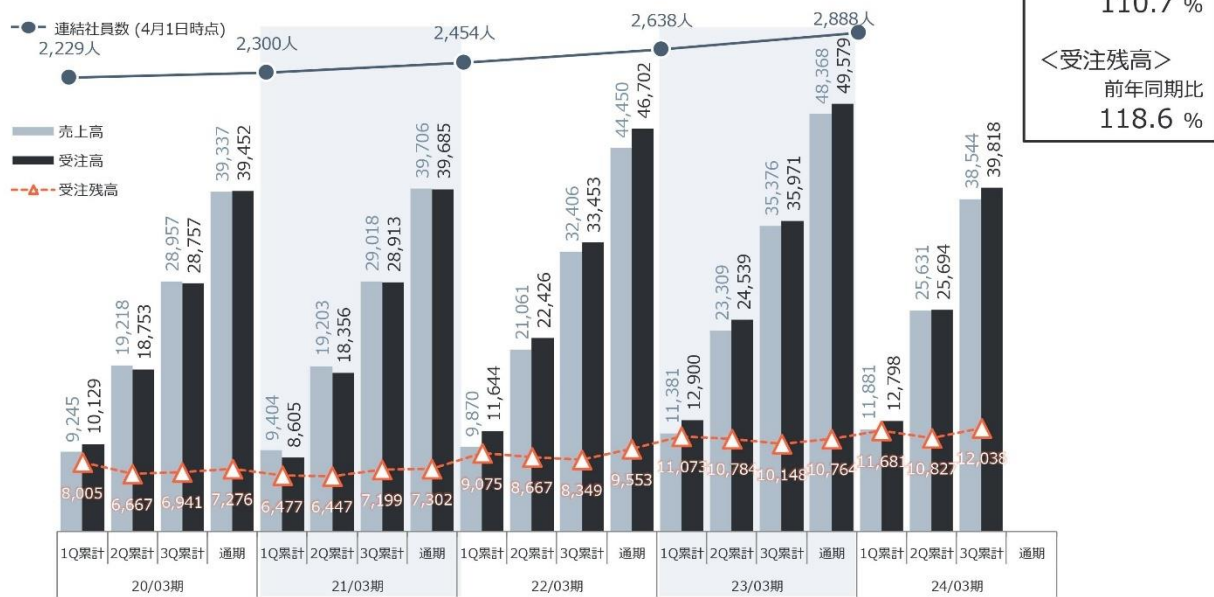
Net sales were JPY38.5 billion, operating profit was JPY3,298 million, and the operating profit on net sales was a little low, at 8.6% in total. Ordinary profit was JPY3,887 million, a 10% increase, and profit was JPY2,398 million, an increase from the previous year except for operating profit.

Below, there is a graph that pulls out only Q3, a graph on the lower left. As you can see from it, sales grew steadily in Q3, but as I reported earlier, operating profit was 10.2%, 1.8% lower than last year's. This was a result of the large impact of the unprofitable projects I mentioned earlier.

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]

- 受注高は前年累計比10.7%増。受注残高は前年同期比18.6%増。
- 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 is the explanation of new orders and outstanding orders.

New orders were up 10.7% YoY, and order backlog was up 18.6%. The order situation is very firm. With the normalization of economic activities, we feel that companies are very active in their efforts to promote digital transformation.

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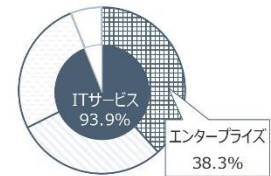


1 決算のポイント 1.4. セグメント別売上高・利益 [ITサービス事業：エンタープライズ]

[単位：百万円未満切捨]

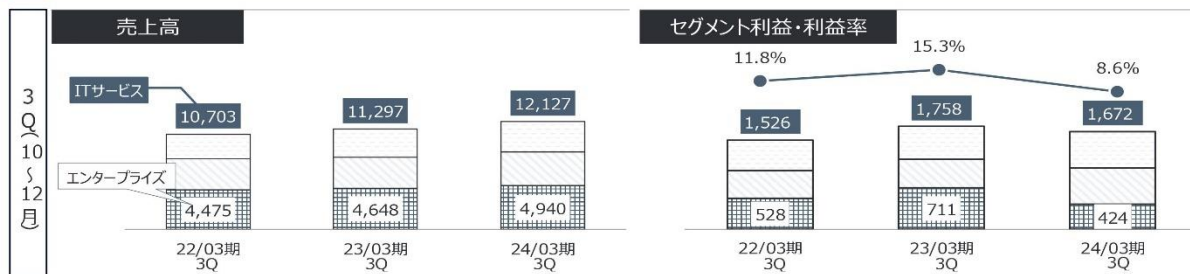
セグメント	サブセグメント
ITサービス ・コンサルティング ・IT企画 ・開発・保守の総合サービス	エンタープライズ 情報・通信、広告、流通サービス、運輸、 人材紹介・人材派遣、公共、資源・エネルギー、 建設・不動産、旅行・ホテル、医療・ヘルスケア、その他

<セグメント別の売上高比率:3Q(10~12月)>



3Q累計

- **売上高：147億31百万円（前年同期比 8.7% ↑）**
 - ・「情報・通信・広告」「建設・不動産」の両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：13億51百万円／9.2%（前年同期比 25.7% ↓）**
 - ・「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。



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We will continue to report sales and profit by segment.

First, of CRESCO's four segments, we will start with the enterprise segment. As you can see from the pie chart in the upper right corner, this enterprise segment represents 38.3% of the total segment. The customer situation is shown in the upper left table. With a large number of customers, all but the finance segment and the manufacturing segment are in this segment.

Sales totaled JPY14,731 million, up 8.7% YoY. In the information and telecommunications area, the advertising area, and also the construction and real estate area, sales of some consolidated subsidiaries increased significantly in both sectors.

On the other hand, profits were JPY1,351 million, a profit ratio of 9.2%, a significant drop of 25.7% YoY. As we have reported, this segment includes three of the four unprofitable projects that we had reported earlier, unprofitable projects in the placement and dispatching area and the distribution services area. I also said that there is one unprofitable project left, so the figure is that two out of three have been completed.

As you can see from the graph on the bottom of the slide, sales have been growing all along, but profit seems to be rather weak.

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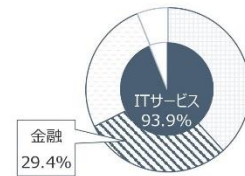
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1 決算のポイント **1.5. セグメント別売上高・利益 [ITサービス事業：金融]**

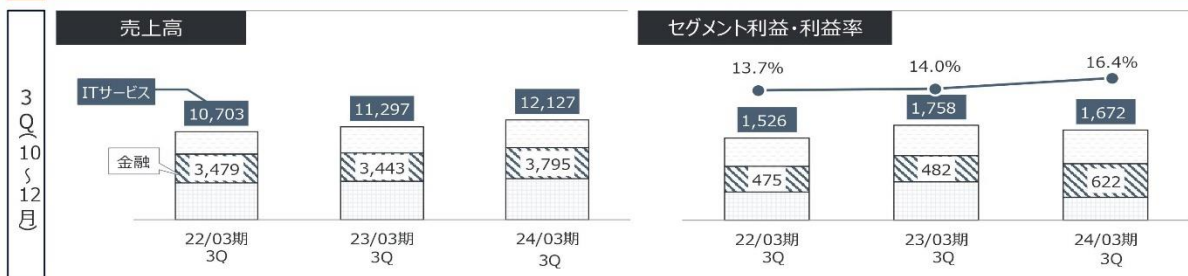
[単位：百万円未満切捨]

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	金融 銀行、保険、その他

<セグメント別の売上高比率:3Q(10~12月)>



- **売上高：108億22百万円（前年同期比 1.9% ↑）**
 - ・「保険」「その他」の両分野で大型案件収束により受注が減少したものの、「銀行」分野において既存顧客からの受注が増加。
- **セグメント利益／利益率：13億43百万円／12.4%（前年同期比 0.3% ↓）**
 - ・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。



Next is the second segment, finance.

As for finance, as you can see from the pie chart in the upper right corner, it accounts for 29.4% of the total. Since it is financial, as noted above, CRESCO does some banking, insurance, and other services, such as brokerage firms.

Sales were JPY10,822 million, which is a slight increase, up 1.9%. Large projects in both the insurance and other areas have been settled.

Orders decreased, but on the other hand, orders from existing clients in the banking area increased, resulting in a slightly positive in total.

Segment profit was JPY1,343 million, with a slightly lower profit ratio of 12.4% than the previous year. Here was one of the unprofitable projects, a big one, that was mentioned earlier. This is an unprofitable project in the banking area, but the unprofitable project was completed in H1, so all the figures have already been recorded as settled. The graph below also shows that orders have been increasing in Q3.

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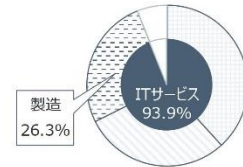


1 決算のポイント **1.6. セグメント別売上高・利益 [ITサービス事業：製造]**

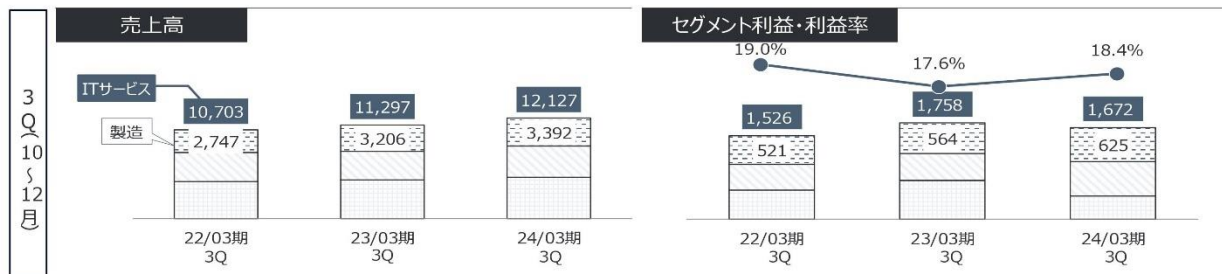
[単位：百万円未満切捨]

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:3Q(10~12月)>



- 3Q累計
- **売上高：101億78百万円（前年同期比 8.0% ↑）**
・ 当社および一部の連結子会社の「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：17億25百万円／17.0%（前年同期比 11.0% ↑）**
・ 売上高の増加と同様の理由。



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Next is the third segment, the manufacturing segment.

The manufacturing segment represents 26.3% of total sales, as shown in the upper right pie chart. As mentioned above, CRESCO's manufacturing activities are very much in the automotive, transport equipment, machinery, and electronics areas.

Sales were JPY10,178 million, up 8% YoY. This figure includes sales of machinery and electronics areas of the Company and some of its consolidated subsidiaries, including automotive. The automotive area is also very active, and sales are growing.

As for segment profit, there was no unprofitable business in this segment. If all goes well, the segment profit will be about this much: it will be JPY1,725 million, with a segment profit ratio of 17%, an 11% increase YoY, and a slight increase in the profit ratio. The reason for this growth has been the same as the increase in sales. If the project can proceed smoothly, we will be able to generate this level of profit ratio. The results at the bottom of the slide show that the sales volume is also growing steadily.

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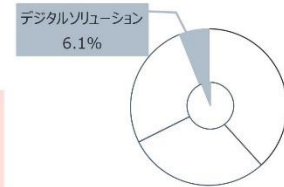


1 決算のポイント 1.7. セグメント別売上高・利益 [デジタルソリューション事業]

[単位：百万円未満切捨]

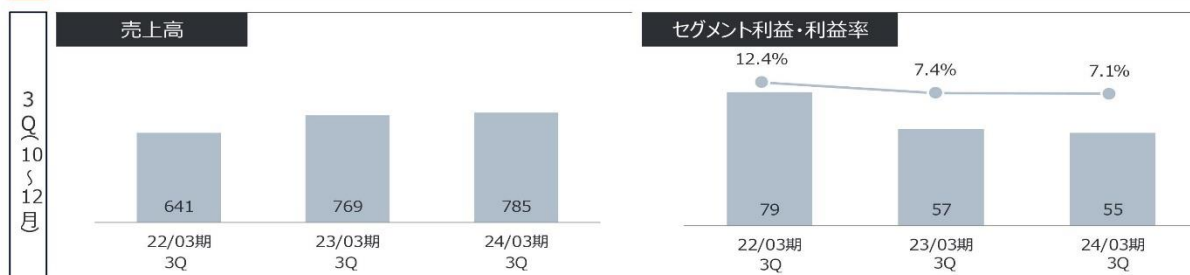
セグメント	事業
デジタルソリューション	顧客のDX実現を支援する製品・サービスからなるソリューション群 <主な製品・サービス名> Creage：クラウド関連サービス UiPath：RPA関連サービス アノテーション：AI関連サービス 教育・セミナー：AI、クラウド、RPAなど

<セグメント別の売上高比率:3Q(10~12月)>



3Q
累計

- **売上高：28億11百万円（前年同期比 57.4% ↑）**
 ・ 主力クラウドサービスの「Creage」とRPAライセンスの販売が増加。
- **セグメント利益／利益率：1億46百万円／5.2%（前年同期比 48.1% ↑）**
 ・ 上記の売上高の増加と同様の理由。



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Next is the fourth segment, the digital solutions business.

It has not been in operation for many years, but as you can see in the upper right corner, it has reached 6.1% of total sales. CRESCO's digital solutions business is shown in the box above, but this segment includes cloud computing, AI, robotic process automation, and seminars as main product services.

Sales totaled JPY2,811 million, up 57%, or at least about 1.5 times YoY. This is due to increased sales of licenses for Creage and robotic process automation, CRESCO's current flagship products.

Segment profit also increased by nearly 50%, for the same reason as the increase in sales. Here, too, below, is a graph showing that sales have been growing steadily.

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- 2023年5月10日公表の2024年3月期連結業績予想に**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。

	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	
通期	売上高	47,500	106.9%	48,368	108.8%	101.8%	52,500	108.5%
	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			173.89	

[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。

This is the forecast for the fiscal year ending March 31, 2024.

It is now two months to go, but we have not made any changes to our previous forecast for the fiscal year ending March 31, 2024. The consolidated earnings forecast announced in May 2023 remains unchanged throughout. If the situation changes in the future, we will promptly disclose it, of course.

Operating profit of JPY5.25 billion on sales of 52.5 billion; the operating profit on net sales of 10%. The forecast for ordinary profit is JPY5.37 billion, and the forecast for profit is JPY3.58 billion, and these figures remain unchanged.

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Question & Answer

Moderator [M]: Thank you very much. We will now start the question-and-answer session. Please send us your question by typing from the "ask a question" box on the screen. We will read out your questions on your behalf and the attendees will respond to them. Now, please ask your questions.

Now I will read out the first question, a question about unprofitable projects.

Participant [Q]: Why are the remaining unprofitable projects so complicated? What exactly is the problem, and can it happen in other development projects?

Tominaga [A]: I will talk about the unprofitable projects. As for the unprofitable projects, we deeply regret that communication errors with the clients were very significant.

As the project progressed, their requirements gradually changed from the original plan. It would have been better if we had had a firm grip on the situation and had been able to negotiate changes to the contract on a case-by-case basis, but we were unable to do so. As a result, the project proceeded on a site-first basis and the workload and deadlines had become much larger than they should have been.

Since this could happen in other projects as well, we have repeatedly discussed this issue at manager-level meetings, as well as at meetings of line managers and upper-level managers. The Company is firmly committed to prohibiting a recurrence. We are also doing additional training and other activities.

In addition, we had our legal counsel come to a meeting of all the directors of our Group companies the other week or so, and we had the lawyer conduct training on how to prevent such problems in terms of contracts, in order to prevent recurrence. That is all.

Moderator [M]: Thank you very much. Here is the next question, a question about staffing shortages.

Participant [Q]: Staffing shortages are not an easy problem to solve, but what measures will you take to overcome this challenge in the future?

Tominaga [A]: I think staffing shortages are a really big issue. As I reported earlier, I feel once again that it is important to manage unprofitable projects with a long-term perspective PM, or rather, a solid PM.

In terms of recruitment, we are constantly recruiting through agents, information sharing within CRESCO, and referrals from employees.

The market for mid-career hiring has been extremely competitive, and we have only been able to recruit about 70% of our planned mid-career hires. However, we are changing various measures every year. We will not change the policy of gradually hiring people who can manage well.

Concerning new graduate recruitment, we were fortunate to be able to hire more than 200 new graduates for the entire CRESCO Group in April 2023. We expect to be able to hire a similar number of workers in April 2024. We are already moving forward with a plan to hire new graduates of the same size, plus more for the next fiscal year ending in April 2025.

We would like to strengthen our recruitment of both new graduates and mid-career workers. That is all.

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Moderator [M]: Thank you very much. Here is the next question, an additional question about unprofitable projects.

Participant [Q]: Could you please explain more, adding to what you said about unprofitability? In what you just said, there was no comment on what you would do as a project management structure, as an IT-based managerial control business. Please mention this point.

Tominaga [A]: I mentioned PM, project management issues as unprofitable projects, so you ask about IT management structure.

As I have been reporting here, since H1 of the year, I feel that the biggest issue is the large number of communication errors.

At the time of receiving a large order, it was not clear whether the terms and conditions of the contract were firm, whether the contract was a solid form, and whether the project was proceeding under the conditions agreed upon by upper-level management, including the management of both companies. We also recognize that it is a major issue that we have not been able to review the contracts and other documents that have been in existence for a long time and are now a bit outdated.

As I mentioned earlier, we have had many discussions with our legal advisors seizing this opportunity, and we have agreed to review various documents, contract documents, and the way we grasp the management of the other party. We are now working to control these issues. That is all.

Moderator [M]: Thank you very much. The next question is regarding the enterprise business.

Participant [Q]: What was the reason for the increase in sales and decrease in profit for the enterprise business in Q3, October through December? Was there any additional allowance for the one remaining unprofitable project in Q3?

Tominaga [A]: In the enterprise business, the main reason for the increase in sales and decrease in profit in Q3 was unprofitable projects, as I mentioned earlier. Additional provisions have been made. The figure shown on B/S is just over JPY100 million, JPY101 million for the provision for loss on orders received. The figure of JPY101 million is placed on the B/S. That is the figure for this enterprise segment's additional order loss.

In addition, there is also the amount of money that we were negotiating to get back in this Q3, which is still over JPY100 million. The total figure of JPY210 million to JPY220 million is the negative figure recorded for this unprofitable project only in Q3 of this fiscal year.

Therefore, our analysis shows that if this more than JPY200 million had been included as operating profit in the enterprise segment, the figure would have been quite normal. That is all.

Moderator [M]: Thank you very much. The next question is regarding new orders.

Participant [Q]: Orders for Q3, from October to December, have increased significantly, up 24% YoY. What is the breakdown of the increase?

Tominaga [A]: Orders have indeed increased from the previous year. The industries that are performing well are, as I mentioned earlier, in the manufacturing segment, the automotive area. In particular, demand for software development by CRESCO has been increasing due to the shift of Japanese manufacturers to electric vehicles. We have received many inquiries from customers who have purchased CRESCO's technological capabilities in the past and have asked us to work with them.

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As for the finance segment, I reported earlier that the insurance area has settled down a bit, but the banking area has seen a slight increase in the number of publicly disclosed projects, and orders for banking-related projects are on the rise. That is all.

Moderator [M]: Thank you very much. We will continue to accept your questions, so if you have any questions, please send us your questions by text. The next question is as follows:

Participant [Q]: Your company is stable with a solid performance plan, but on the other hand, I think you are lacking in challenging new things and risk-taking. Will there be a commitment in this area in the next medium-term management plan?

Tominaga [A]: Thank you for your warm remark. I think you mean that our challenge is still not enough. As you all know, CRESCO is a company that has been working and growing for more than 30 years with the trust of its customers in the field. After all, we have quite a few long-time customers. Some of our clients have been with us for 20 years or 30 years. We have been able to acquire new projects based on a sense of the issues with such clients in the field. I believe these new projects are the signs of their trust that continues to grow.

On the other hand, we have been partly unable to take on new challenges, including those of our customers, because we have only been improving our existing products. To be honest, CRESCO has also not been able to take on the challenge of expanding our business to new customers because we are still placing the highest value on our existing customers.

As the IT industry continues to change and the demands of system integrators continue to change, new challenges are still necessary. We believe it is important to continue to make proposals to new customers from our technical research center and digital solutions business, as well as to existing customers to improve their business, and to present these proposals outside the Company.

Next year, we will start a new medium-term management plan. We are aware of this as an issue within the Company, so we will keep it in mind and present the plan so that it will be appreciated by everyone outside the Company. We appreciate your understanding.

Moderator [M]: Thank you very much. We are still accepting questions, so if you have any questions, please send them to us by text. The next question is as follows:

Participant [Q]: You mentioned that information appliances are declining and automotive is on the rise. What strengths of CRESCO will allow for sustainable growth in the manufacturing segment?

Tominaga [A]: I think you are talking about how to expand automotive of the manufacturing segment and how to deal with the decrease in information appliances. Originally, in the area of information appliances, our technical area of expertise was in camera control, display systems, and TV control. We worked with a very large domestic client on product development in the form of what was probably the top technology in Japan. However, as you may have noticed, information appliances do not sell that well, and it is necessary to shift people away from these products, after all.

As for the automotive area, as I explained earlier, there is a great need for display technicians and camera technicians in the field. The car industry is in great demand for technologies including diagnostic imaging that can get information from cameras with sensors, controlling driving with sensors, controlling automatic driving, and then displaying these on a screen. We are receiving interviews from our customers with interest in this area, as our people in the information appliance field are shifting more and more in this direction, and the technology matches their needs.

Thus, the reality is that there has been a gradual shift in that field, and orders are increasing. That is all.

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Moderator [M]: Thank you very much. We are still accepting questions, so please send us your questions by text. The next question is as follows:

Participant [Q]: Do you have an outlook on when the unprofitable projects will be terminated?

Tominaga [A]: We just said that there is one unprofitable project left, and we are controlling it in a way that we are going to terminate it in June 2024, in five months. The amount of loss up to that point, which is considered to be a loss this time, has been recalculated and allocated to the provision for loss on orders received at this time, which means that the maximum possible cost up to next June has already been entered in the current financial statements. That is all.

Moderator [M]: Thank you very much. We are still accepting questions, so please send us your questions by text.

Tominaga [A]: The Company has some additional information to add to the answer to your earlier question. This is a supplemental explanation of the future structure for IT-based managerial control over unprofitable projects. I would like to explain in addition.

I mentioned earlier about communication errors, but I read your question again one more time carefully, and there was a comment about how to manage business management from an IT-based perspective, so I would like to mention a few more things about that.

Regarding IT-based business management, we must now continue to promote business efficiency, and it is also the same in the area of development. We have started to use CrePT, a generative AI, to manage production at each stage of the process in some of our projects.

We need to promote efficiency through the use of IT, including, for example, the automation of testing. The areas where there were communication errors earlier can be better visualized, converted into data, and controlled with the data.

We need to promote areas that can be controlled quantitatively with data, rather than by feeling. We have been taking measures in the quality control department to improve the management system in those areas and the method of taking indicators. That is all the additional explanation.

Moderator [M]: Thank you very much. We are still accepting questions, so please send us your questions by text.

Now that there seem to be no further questions, we will conclude the question-and-answer session.

Finally, Tominaga, President of the Company, will give a few words.

Tominaga [M]: Thank you all for watching and participating in our presentation for such a long time today.

As I reported earlier, the next Medium-Term Management Plan 2026 will start in the next fiscal year. We have two months to go, and we have been preparing well for that.

As mentioned in the keywords, the keyword is "challenge," and we would like to promote management to achieve JPY70 billion and an operating profit on net sales of 11.5% three years later by firmly taking on challenges that have never been taken on by CRESCO, the IT industry, or system integrators before.

We hope you will continue to support CRESCO. Thank you for your participation today.

Moderator [M]: That concludes today's financial results presentation.

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After this, a questionnaire screen will appear, and we would appreciate your cooperation in answering it. Thank you very much for watching up to the end of today's presentation.

[END]

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1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
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