



**CRESCO LTD.**

Q2 Financial Results Briefing for the Fiscal Year Ending March 2023

November 10, 2022

## Event Summary

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<b>[Company Name]</b>	CRESCO LTD.
<b>[Company ID]</b>	4674-QCODE
<b>[Event Language]</b>	JPN
<b>[Event Type]</b>	Earnings Announcement
<b>[Event Name]</b>	Q2 Financial Results Briefing for the Fiscal Year Ending March 2023
<b>[Fiscal Period]</b>	FY2022 Q2
<b>[Date]</b>	November 10, 2022
<b>[Number of Pages]</b>	21
<b>[Time]</b>	15:00 – 15:56 (Total: 56 minutes, Presentation: 27 minutes, Q&A: 29 minutes)
<b>[Venue]</b>	Webcast
<b>[Venue Size]</b>	
<b>[Participants]</b>	
<b>[Number of Speakers]</b>	1 Hiroshi Tominaga                      President and Executive Officer

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# Presentation

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**Moderator:** Hello, everyone. We would like to begin CRESCO LTD.'s financial result presentation for Q2 of the fiscal year ending March 31, 2023. Thank you very much for participating today.

Today, our president and executive officer, Hiroshi Tominaga will provide an overview of the financial results for Q2 of the fiscal year ending March 31, 2023, and an outlook for the current fiscal year. We will hold a question-and-answer session afterward. Please note that due to time restrictions, it may be difficult to answer all questions. We ask you for your understanding in advance.

The presentation is scheduled to end at 16:00.

Now let's get started. President Tominaga, please go ahead.

**Tominaga:** Hello, everyone. My name is Tominaga of CRESCO.

Thank you for your continued attention to our company. And thank you for participating in the presentation of our financial results today. I will begin the explanation.

First of all, let me start with the key points of the financial results.

## 1 Consolidated Results main points 1.1. Main initiatives in the first and second quarters

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### ■ Organization and structure

- **Shifted to a two-representative system** by "Chairman & CEO" and "President and Executive Officer" effective April 1 and, accompanying the formulation of "CRESCO Group Ambition 2030," **changed our corporate logo (for the first time since the Company's founding)**.
- In order to speed up management decision making and implementation of measures through appropriate delegation of authority, an organizational reform was carried out to appoint executive officers as general managers.
- The Promotion Of Management Strategy-Unit was established to realize the long-term vision of CRESCO Group Ambition 2030 and the Group Supervisory-Unit to further demonstrate group synergy by promoting the sharing of sales projects among group companies.
- Increased the frequency of group officers meetings to enhance collaboration among the Group's officers for the purpose of strengthening agile management and improving group governance.
- On July 1, three consolidated subsidiaries (ARS Corporation Ltd., N-System Corporation, and Nexus Corporation) were merged and **reorganized into CRESCO J CUBE CO., LTD** for the purpose of producing further synergistic effects through the effective utilization of the Group's human and management resources.



### ■ Business

- Strengthened RPA as digital solution
  - April: Became UiPath's gold partner, a category of its certified reseller.
  - May: Began offering e-learning for companies that have purchased UiPath licenses.
  - August: Started selling "managed security services for SIEM," which detects and analyzes symptoms of a cyberattack and provides response and support by experts on the basis of information thus obtained.
- Encouraged self-study in technology, quality, and business transformation to raise business performance and create business opportunities. Created opportunities for multiple employees of the Company to teach at colleges and universities, strongly promoting people-centered management.
- IoT functions which it jointly developed with another company.
- CRESCO e-Solution Co., Ltd., our subsidiary, renewed MOA, a service for transitioning to SAP S/4HANA.
- Promoted the revision of our office spaces, including the relocation of offices and development sites, for the purpose of improving business efficiency.

I will describe the main initiatives up to Q2. Let me start with the organization and structure.

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First, as of April 1, Nemoto, the former president, became chairman and CEO, and I became president and executive officer. This is the year that we have just started operating under a two-representative system.

As we have established CRESCO Group Ambition 2030, our major goal for 2030, we would like to use this occasion to change our corporate logo, which is shown here as an orange asterisk on the upper left. It was changed for the first time since the foundation of the Company. It used to be a blue CRESCO logo but has been changed to an orange one this year.

To speed up operational decision-making and implementation of measures through the appropriate transfer of authority, we have appointed nine executive officers, all of whom are general managers.

And to realize the CRESCO Group Ambition 2030, we established a specialized main division for management strategy, and also established a group main division to promote group synergy while promoting the sharing of sales projects among the Group companies. Although I will explain later on, we now have 11 group companies.

By strengthening flexible management and improving group governance, we have increased the number of group directors' meetings, which we have not held very often in the past. And we will ensure that group directors' meetings are held once a quarter or semi-annually.

To achieve synergic effects through the effective utilization of the Group's human resources and management resources, three consolidated subsidiaries, ARS, N-System, and Nexus, were merged into CRESCO J CUBE as of July 1.

And now related businesses.

First, we are greatly strengthening RPA as a digital solution. We have teamed up with UiPath to become a certified Gold Partner reseller. UiPath is also holding a big event today and we are also participating in it. We are currently sending our message outside the venue.

In May, we started offering e-Learning for the UiPath licenses, and we are also educating our clients so that we can support not only the technical aspects but also various business aspects.

In August, we started selling something a little different here: Managed security services for SIEM, which detects and analyzes signs of cyber attacks and provides countermeasure support by experts based on this information. We have been gradually receiving orders since the announcement in August.

To raise the level of our business and create business opportunities, we encourage self-study in the areas of technology, quality, and business transformation while also encouraging all employees to study by setting a target where they set their own time. In addition, although it mentions universities here, we have created opportunities for some of our employees to teach not only at universities but also at technical schools and higher professional schools to actively promote people-oriented management.

Our subsidiary company, CRESCO Digital Technologies, sells its IoT-equipped social restroom systems, which I explained last time. It is selling the system to reach out to the tourism industry and installing sensors in restrooms to monitor the inflow of people at tourist attractions and also for cleaning the restrooms.

Next is CRESCO e-Solution, a company that is responsible for the ERP of global SAP, which has renewed its service called MOA, a migration service to SAP S/4HANA.

Finally, we are also conducting a review of office space, including the relocation of offices and development sites, with the aim of improving business efficiency.

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As we are in the midst of the COVID-19 pandemic, we are not preparing seats for all employees as we have done in the past, but we are making changes to the working environment to make it easier to work, including the addition of online conference space and making quite a lot of changes to each company's structure.

## 1 Consolidated Results main points 1.2. Income statement [highlights]

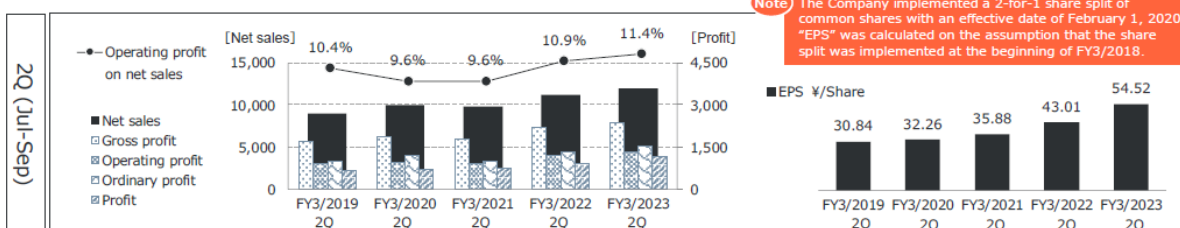
(Unit: Amounts less than 1 million yen omitted)

- During the first half of the fiscal year, net sales held steady, resulting in a double-digit increase of 10.7%, as demand for IT investments to improve productivity remained strong.
- Operating profit increased by 11.3% owing to the effect of revenue increase, the minimization of unprofitable projects, etc. Operating profit on net sales was 9.6% (9.6% in the same period of the previous fiscal year).
- As a result of successive falls in stock prices in the U.S., ordinary profit decreased by 4.8% as we recorded a valuation loss on derivatives (non-operating expenses) of 372 million yen for financial instruments held by the Company.

- Net sales**  
Increased 2,248 million yen (up 10.7% year on year).
- Operating profit**  
Increased 228 million yen (up 11.3% year on year).
- Ordinary profit**  
Increased 1,007 million yen (down 4.8% year on year).
- Profit**  
Increased 139 million yen (down 8.6% year on year).

	FY3/2021	FY3/2022	FY3/2023	YoY	Half-year progress	Half-year Forecast	
						<Announced on Feb 28, 2022>	YoY
<b>Net sales</b>	19,203	21,061	23,309	110.7%	102.1%	22,840	108.4%
<b>Gross profit</b>	3,255 (17.0%)	4,071 (19.3%)	4,531 (19.4%)	111.3%			
<b>Operating profit</b>	1,366 (7.1%)	2,017 (9.6%)	2,245 (9.6%)	111.3%	107.4%	2,090 (9.2%)	103.6%
<b>Ordinary profit</b>	1,844 (9.6%)	2,223 (10.6%)	2,116 (9.1%)	95.2%	90.4%	2,340 (10.2%)	105.2%
<b>Profit</b>	1,308 (6.8%)	1,606 (7.6%)	1,467 (6.3%)	91.4%	103.4%	1,420 (6.2%)	88.4%
<b>EPS ¥/Share</b>	62.34	76.44	69.76			67.49	

Note: Respective profit ratios shown in parentheses. "Profit" is "Profit attributable to owners of parent."



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I will now describe the numbers.

As for net sales and profit, demand for IT investments for improving productivity remained strong in the first half of the fiscal year. Sales were favorable, with a double-digit increase in net sales of 10.7%. The effect of this revenue increase and the minimization of unprofitable projects resulted in an 11.3% increase in operating income and an operating income margin of 9.6%, the same as the previous year.

On the other hand, due to the ongoing decline in stock prices in the US, we projected a loss in the valuation of derivatives for financial commodities that we own, which continued from Q1. The figures for this are JPY372 million. As a result, ordinary income decreased to 4.8%. During Q1, the negative figure for this was JPY484 million, meaning we have managed to improve for Q2 by a little over JPY100 million. We expect to see a slight improvement toward the end of this fiscal year.

As indicated on the right-hand side, net sales increased by JPY2.248 billion, operating income increased by JPY228 million, ordinary income decreased by JPY107 million, and net income decreased by JPY139 million.

For the cumulative total for Q2, we projected JPY23.3 billion altogether, which is much higher than the figures expected in May 2022, as shown on the right-hand side. However, the ordinary income mentioned earlier is still slightly short of its target.

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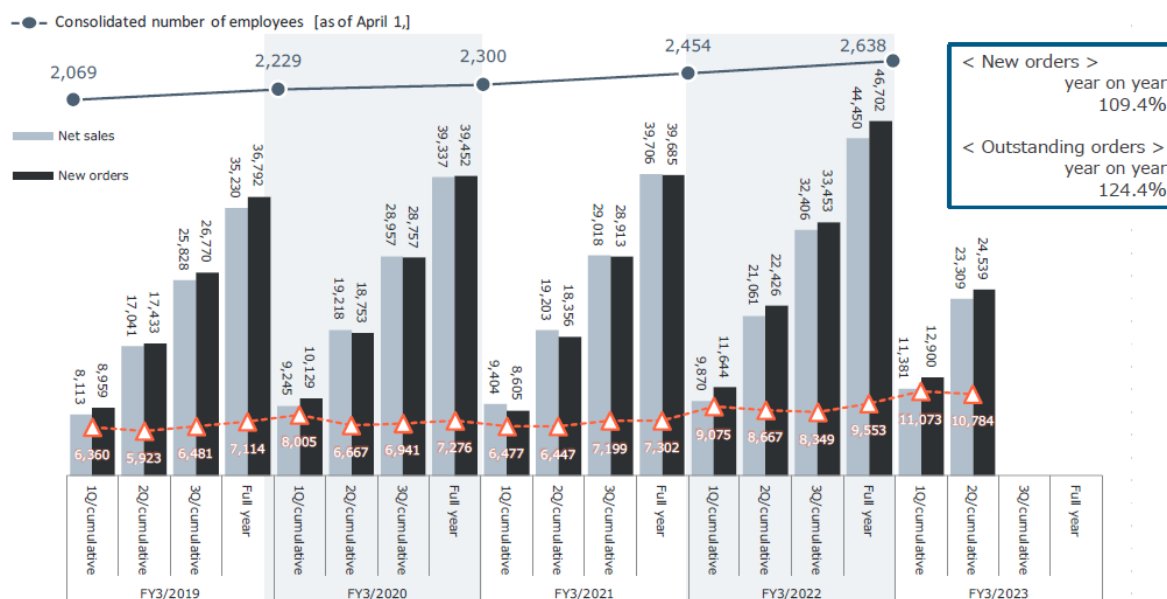
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The bottom graph shows the non-consolidated details for Q2. If you look at the non-consolidated results for Q2 YoY, the operating profit margin has improved from 10.9% to 11.4%, while sales and other factors have also increased. I think the figures show that the current business is growing well.

## 1 Consolidated Results main points 1.3. Quarterly net sales, new orders and outstanding orders

(Unit: Amounts less than 1 million yen omitted)

- Although the extent of growth varied by industry category, the numbers of new orders and order backlog grew steadily against the backdrop of robust IT investment demand.
- The renovation of existing systems and DX promotion by client companies bolstered their order placement with us.



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This section explains the order received and order backlog.

Although there are some differences by industry sector, orders received and order backlogs have projected favorably, thanks to strong IT investment demand. We believe that each of our client company is very competitive in their respective industries and sectors using DX.

Many clients in various industries who cannot survive without using DX, and we believe that one of our duties is to support them and help them improve their business performance.

As noted on the right-hand side, orders received are 109.4% of the previous year's total, and the order backlog is similarly 124.4% YoY, indicating that orders are firm.

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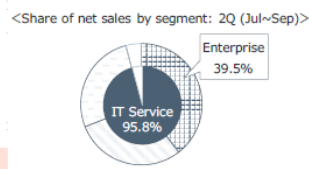
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## 1.4. Results by segment: IT services business [Enterprise]

Segment	Subsegment
IT Service	Enterprise

IT Service: Consulting, IT planning, Total service of development and maintenance  
 Enterprise: Information and communication, advertising, distribution services, transport, placement and dispatching, public services, resources and energy, construction and real estate, travel and hotels, medical and healthcare, etc.



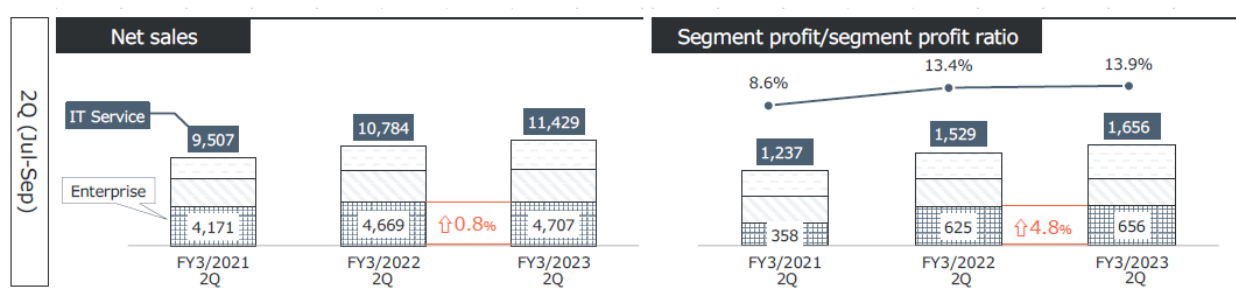
**Net sales : 8,898million yen (YoY 0.6%↓)**

- New projects were acquired in areas of distribution services and construction and real estate.
- There were some lost sales opportunities in placement and dispatching, transport, etc., due to the completion of some of the major projects and the occurrence of some unprofitable projects.

**Segment profit : 1,107million yen / 12.4% (YoY 0.5%↓)**

For the same reasons as for the decrease in net sales.

(Unit: Amounts less than 1 million yen omitted)



We will now continue with a description of the situation by segment.

First, CRESCO separates its IT services business into three segments and sub-segments, as shown in the upper right-hand side. The other is the digital solutions business, which is the fourth business that I will now explain.

This is the IT services and the enterprise business. The details of the enterprise business are shown in the sub-segment section above.

We also include information and telecommunications, advertising, distribution services and transportation, as well as recruiting and public services in our company. This segment's figures include clients in natural resources and energy, along with construction and real estate. We also have clients from the travel and hotel, as well as medical and healthcare industries, who are currently experiencing very difficult times.

Although net sales totaled JPY8.898 billion, a slight decrease from the previous year, the overall situation is progressing without major problems. I will explain the reasons for the slight decrease later. But first, the areas showing an increase are distribution services and construction and real estate, as we have acquired new clients.

The decrease is due in part to the loss of new business opportunities in the areas of staffing and temporary staffing, along with transportation, where large projects have been completed, as well as unprofitable projects.

As for the completion of large projects in the first half of the fiscal year, although IT services are provided from upstream to downstream processes, there is a general tendency for the number of staff to increase toward the downstream processes. So once the downstream process is completed and we deliver to clients and they begin operations, the number of staff decreases, and such large projects are completed.

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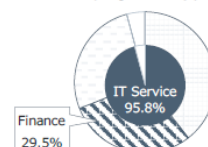
And for some unprofitable projects, although we had some difficulties around Q1, the quality has gradually stabilized and deliveries to clients are progressing. So we do not expect any major problems for the second half of the fiscal year. However, I believe we have temporarily experienced a slight slump.

Segment income is JPY1.107 billion, or 12.4% in terms of profit margin, slightly down from the previous year. This is attributed to the decrease in sales.

## 1 Consolidated Results main points 1.5. Results by segment: IT services business [Finance]

Segment		Subsegment	
IT Service	· Consulting	Finance	Banking, insurance, etc.
	· IT planning		
· Total service of development and maintenance			

<Share of net sales by segment: 2Q (Jul~Sep)>

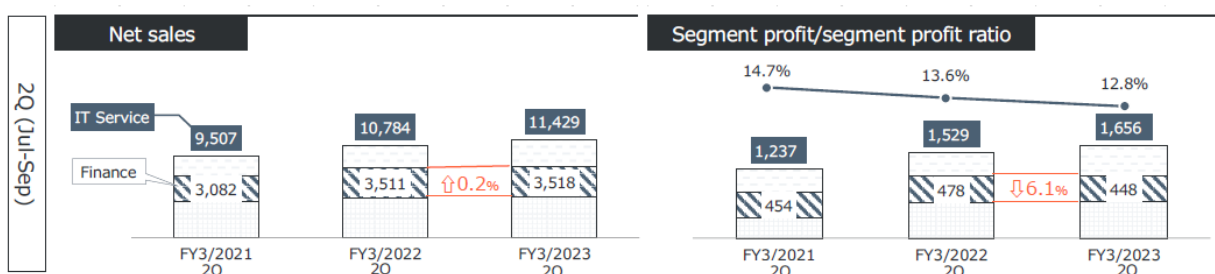


Cumulative

- **Net sales : 7,172million yen (YoY 9.9%↑)**
  - The number of infrastructure construction and migration projects in banking and insurance increased at the Company.
  - The number of projects in other areas, such as securities and payment card, also increased at our consolidated subsidiaries.
- **Segment profit : 864million yen / 12.1% (YoY 4.9%↑)**

For the same reasons as for the increase in net sales.

(Unit: Amounts less than 1 million yen omitted)



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The next segment is finance.

Finance includes banking, insurance, and securities, as indicated at the top. In CRESCO's case, banking and insurance account for a large percentage of this segment.

Net sales are JPY7.172 billion, a 9.9% increase YoY, or achieving growth of approximately 10%. The main factor is attributed to the increase in the number of infrastructure construction and migration projects in our banking and insurance segment. In addition, there has been a slight increase in projects in other areas of our consolidated subsidiaries, such as securities and cards.

Segment profit is JPY864 million, with a profit margin of 12.1%. I believe we are achieving strong growth here.

For banking, insurance, and finance, the transfer to the cloud is now a major project, and every client's finance must have their system transferred to the cloud simultaneously. And the number of projects is increasing considerably.

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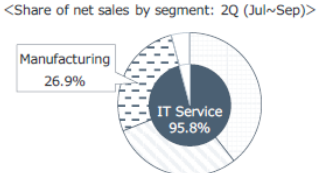
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1 Consolidated Results main points **1.6. Results by segment: IT services business [Manufacturing]**

Segment	Subsegment
IT Service · Consulting · IT planning · Total service of development and maintenance	Manufacturing Automotive, transport equipment, machinery, electronics, etc.



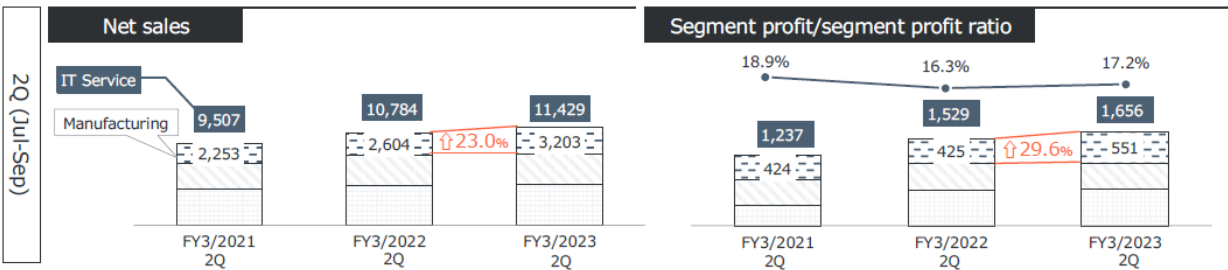
**Net sales : 6,221million yen (YoY 29.7%↑)**

The number of orders received from new clients and that of anticipatory investment projects increased in the areas of machinery and electronics and automotive and transport equipment at the Company and consolidated subsidiaries.

**Segment profit : 990million yen / 15.9% (YoY 36.0%↑)**

For the same reasons as for the increase in net sales.

(Unit: Amounts less than 1 million yen omitted)



The third segment is the manufacturing industry.

As mentioned above, regarding the manufacturing industry that we are responsible for, includes automotive, transportation equipment, machinery, electronics, and others. Electronics indicates electrical appliances in general, including home appliances.

Net sales are JPY6.221 billion, an increase of 29.7% YoY, which is nearly 30%. This is considerable growth. The main reason for this is attributed to an increase in orders from new clients for machinery and electronics, as well as automotive and transportation equipment. This applies not only to our company but also to our consolidated subsidiaries.

In addition, we have received orders for up-front investment projects, which have contributed significantly. This is because each manufacturer, particularly automobile manufacturers, needs to conduct considerable research in terms of security-related technology, and it includes the aspects of technological research.

Segment profit is JPY990 million, with a profit margin growing at 15.9%. The YoY growth is 36% and the reason for the growth exceeding 30% is similar to the previous case. But thanks to the growth in sales, we have projected profits for this segment.

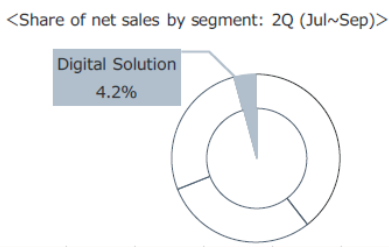
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## 1.7. Results by segment: Digital solutions business

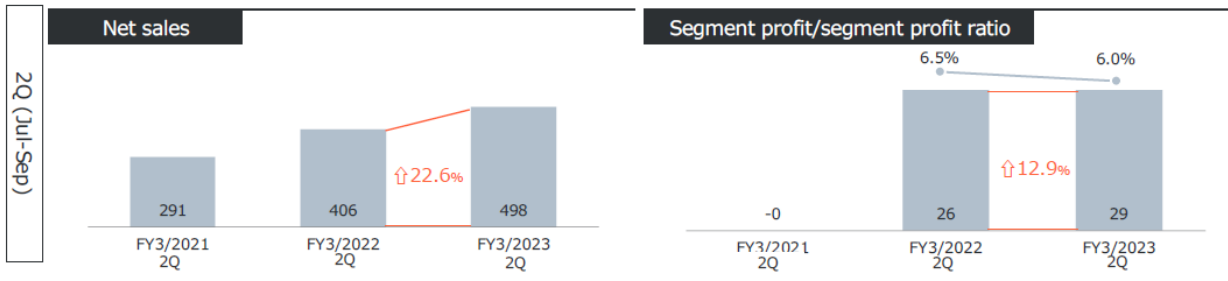
Segment	Business
Digital Solution	<p>Solution groups consisting of products and services supporting customers in realizing digital transformation (DX)</p> <p>&lt;Main products and services&gt;                      Creage : Cloud-related service    UiPath : RPA-related service                      Annotation : AI-related service    Training and seminars : AI, cloud, RPA, etc.</p>



**Net sales : 1,016million yen (YoY 28.2%↑)**  
 Sales of Creage, our main cloud service, and RPA licenses increased.

**Segment profit : 41million yen / 4.1% (YoY 48.7%↑)**  
 In addition to the above increase in net sales, the profit ratio of licensed products rose at consolidated subsidiaries.

(Unit: Amounts less than 1 million yen omitted)



The fourth segment is the digital solutions business.

This is a project that CRESCO has been pursuing as a new major goal since the launch of CRESCO Group Ambition 2030.

CRESCO has reached its 35th fiscal year and up to now, we have been committed to engaging our clients and creating superb products, which I also believe. Although we are a company that has grown by creating products and building systems, we have started our business by offering services without creating many things but by offering various high-quality materials to clients with this digital solution available around the world.

As written above, we intend to offer a lineup of solutions based on products and services that help our clients' DX realization. And the main products and services are called Creage, a cloud-related service, followed by UiPath on the right, an RPA-related service, and Annotation, which is an AI-related service.

As for AI, cloud, and RPA in terms of education and seminars, we have employees who provide lectures, as I mentioned earlier. We also have an increasing number of employees who provide lectures internally or to clients. And, we are expanding our education and seminars to our clients with our employees.

As for net sales, they are still small compared to the overall business. It accounts for JPY1 billion out of the overall sales of over JPY23 billion, meaning it is less than 5% of the overall figures. However, we have achieved strong growth since the previous year and have projected a 28.2% increase.

This is shown above and indicates that sales of Creage, our mainstay cloud service, and RPA licenses have increased significantly. In terms of RPA, we have a good relationship with UiPath and we hope to expand this area as well.

Segment income was JPY41 million, which still needs improvement in terms of the overall figures. But it has increased by 48.7% from the previous year and I believe further growth will be necessary.

The reason for this is attributed to the increase in sales and the consolidated subsidiaries, which I have briefly explained earlier on the first page. We are selling new SAP-type licensed products at CRESCO e-Solution, whose profit margin is growing and is slightly well.

This concludes the segment explanation.

## 2 Future outlook 2.1. Trends in the economy and client companies

Although the Russian-Ukrainian conflict, which is unpredictable, and a rapid fall in the yen are matters of concern, their impacts are limited.

Demand for IT investments by our client companies remains strong.

- While there has been a progress in normalization from restrictions under the scourge of COVID-19, an extremely significant impact has been made on household consumption and corporate investment by price hikes in resources, raw materials, food, etc. arising from the Russian-Ukrainian conflict and the rapid progression of a decline in the yen brought about by differences in monetary and fiscal policies of Japan, the U.S., and Europe for addressing labor shortage and inflation.
- Although actions such as scrutinizing, postponing, or downscaling IT investment are observed with some of our corporate group's client companies, demand remains robust for IT investment for the renovation of existing systems and productivity improvement through DX promotion.

### <Reference: Survey on the economic assessment>

#### Monthly Economic Report for October 2022 [released on October 25, 2022]

The report expresses the judgment, "The Japanese economy is picking up moderately."

Concerning short-term prospects, the economy is expected to show movements of picking up, supported by the effects of the policies as the transition to a new phase of the "new normal" is underway.

\* However, slowing down of overseas economies is downside risk of the Japanese economy, amid ongoing global monetary tightening and other factors. Also, full attention should be given to price increases, supply-side constraints and fluctuations in the financial and capital markets.

#### Reuters survey on business conditions for October 2022 [released on October 13, 2022]

Diffusion Index (DI): While Manufacturing DI in October was 5, deteriorating by 5 points from the value for the previous month, non-manufacturing DI improved by 4 points to 15. Manufacturing DI deteriorated for two months in a row as higher raw material and fuel prices pressured revenues. Non-manufacturing DI is on an improving trend although price hikes impacted consumer sentiment.

#### QUICK Tankan (QUICK Short-term Economic Survey) for October 2022 [released on October 11, 2022]

Diffusion Index (DI): Manufacturing DI was 8 in October (deteriorating by 11 points), which is at the lowest level in one year and seven months. DI for all industries worsened by 4 points to 15.

#### Tankan (Short-Term Economic Survey of Enterprises in Japan) for September 2022 by the Bank of Japan [released on October 3, 2022]

Diffusion Index (DI): Against the backdrop of higher resource prices and weaker yen, the diffusion index for large manufacturing enterprises deteriorated by 1 point from the value per June survey to 8, aggravating for three quarters in a row. The diffusion index for large non-manufacturing enterprises improved by 1 point to 14, improving for two quarters in a row, as the COVID-19 situation turned for the better. Fixed investment by all enterprises in all industries for FY2022 is forecast to increase by 16.4% year on year. Software investment is forecast to increase by 17.8%.

Next, I would like to explain our outlook for the rest of the fiscal year ending March 31, 2023.

First, let me give you an overview of the economy and the trends of our clients.

Although the unpredictable Russian-Ukrainian conflict and the rapid depreciation of the yen are of great concern, the effects on our IT business are very limited at this point. Although we have heard a lot from our client companies, and as I have described earlier, there is still a strong desire to survive by implementing IT in all industries and sectors. And I expect that investment will continue through the future.

As mentioned below, while the normalization from COVID-19 is progressing, soaring prices of resources, raw materials, food, and other things are triggered by the Russian-Ukrainian conflict, whereas financial policies of Japan, the US, and Europe to control labor shortages and inflation, as well as differences in fiscal policies, are causing the yen to continuously and rapidly depreciate. This is severely affecting household consumption and business investment.

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As a matter of fact, some of the client companies of our corporate group have been selective, delayed, or scaled back their IT investments. However, the demand for IT investment to revamp existing systems and improve productivity through DX promotion remains strong.

This strong trend is based on the overall average. But as some industries are still struggling due to the effects of COVID-19, we intend to shift our resources to other industries, as we operate a wide range of businesses with the independent-type Sler. We will commit to internal management, we intend to start new businesses while investing our resources in areas that are growing.

## 2 Future outlook 2.2. Consolidated Forecast of financial results

(Unit: Amounts less than 1 million yen omitted)

- No change in the full-year consolidated earnings forecasts announced on May 10, 2022.
- If it becomes necessary to revise the forecasts due to future conditions, business trends, etc., the revision will be disclosed promptly.

Full Year	FY3/2022					FY3/2023		
	Forecast	YoY	Actual	YoY	Achievement rate	Forecast	YoY	2 Q時点 進捗率
	<Announced on May 8, 2020>					<Announced on Feb 28, 2022>		
Net sales	44,000	110.8%	44,450	111.9%	101.0%	47,500	106.9%	49.1%
Gross profit			8,698 (19.6%)	120.8%				
Operating profit	4,440 (10.1%)	127.4%	4,457 (10.0%)	127.9%	100.4%	4,750 (10.0%)	106.6%	47.3%
Ordinary profit	4,600 (10.5%)	112.2%	4,782 (10.8%)	116.6%	104.0%	5,150 (10.8%)	107.7%	41.1%
Profit	3,180 (7.2%)	120.7%	3,236 (7.3%)	122.9%	101.8%	3,350 (7.1%)	103.5%	43.8%
EPS ¥/Share	151.14		153.92			159.12		

Note: Respective profit ratios shown in parentheses. "Profit" is "Profit attributable to owners of parent."

Now for our earnings forecast.

There is no change to the consolidated earnings forecast announced in May 2022. I will explain the orange section on the right.

For the full year, we are targeting sales of JPY47.5 billion. We will not change our targets and expect operating income to increase by 10% to JPY4.75 billion, ordinary income by JPY5.15 billion, and net income by JPY3.35 billion. We hope to carefully manage our operations to meet these targets.

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2 Future outlook  2.3. Consolidated Forecast of cash dividends

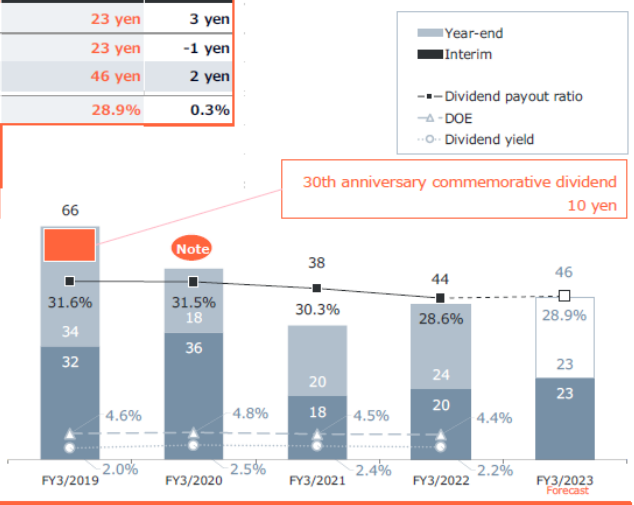
- Dividends will continue to be distributed in accordance with the Group’s shareholder return policy.
- No change in forecast of dividends for the fiscal year ending March 31, 2023 announced on May 10, 2022.

	FY3/2021	FY3/2022	FY3/2023		Change
	Actual	Actual	Actual	Forecast <Announced on Feb 28, 2022>	
Interim	18 yen	20 yen	23 yen	23 yen	3 yen
Year-end	20 yen	24 yen	-	23 yen	-1 yen
Full year	38 yen	44 yen	23 yen	46 yen	2 yen
Dividend payout ratio	30.3%	28.6%	-	28.9%	0.3%
Dividend yield	2.4%	2.2%	-	-	-
DOE	4.5%	4.4%	-	-	-
Total dividend payments	798 Millions of yen	925 Millions of yen	-	-	-

(Total dividend payment: Amounts less than 1 million yen omitted)

**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 performance.
- The Company does not offer any special shareholder benefits.
- 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.



**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 FY3/2019 interim dividend until the FY3/2020 interim dividend.
- The total amount 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.

The dividend forecast also remains unchanged.

We will continue to pay dividends according to our shareholder return policy. We are continuing management so that we will firmly deliver to our shareholders a total of JPY46, which consists of JPY23 for the interim period and JPY23 at the end of the fiscal year.

Reference  1) Changes in the Cresco Group's consolidated subsidiaries

1	FY3/2019				FY3/2020				FY3/2021				FY3/2022				FY3/2023			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
CRESCO e-Solution Co., Ltd.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
CRESCO Wireless, Inc.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
IOS Co., Ltd.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
CRESCO KYUSHU Co. Ltd.	●	●	●	●	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
CRESCO HOKURIKU. LTD.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
C3 Co. Ltd.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
CRESCO Digital Technologies Ltd.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Mexess Co., Ltd.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
N-System Corporation	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Nexus Corporation	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
ARS Corporation Ltd.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
CRESCO J CUBE CO., LTD.	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
CRESCO VIETNAM CO., LTD.	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
Enisias Co., Ltd.	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
OEC Ltd.	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○	○
<b>Total number of subsidiaries</b>	10	10	11	11	10	11	11	11	12	12	12	12	12	13	13	13	13	13	11	

[\*1] Applications Co., Ltd. became a subsidiary of IOS Co., Ltd. effective October 2, 2017.  
 [\*2] Nexus Corporation became a subsidiary effective January 12, 2018.  
 [\*3] Media Magic Co., Ltd. was renamed Mexess Co., Ltd. effective March 12, 2018.  
 [\*4] The Kansai Office of IOS Co., Ltd. was integrated into Mexess Co., Ltd. Effective April 1, 2018.  
 [\*5] Applications Co., Ltd. was integrated into IOS Co., Ltd. effective April 1, 2018.  
 [\*6] ARS Corporation Ltd. became a subsidiary effective October 1, 2018.  
 [\*7] e-techno. Co., Ltd. became a subsidiary of IOS Co., Ltd. effective November 1, 2018.  
 [\*8] Cresco KYUSHU Co. Ltd. was integrated into the Company effective April 1, 2019.  
 [\*9] CRESCO VIETNAM CO., LTD. was established effective September 17, 2019. (Date of business commencement: October 1, 2019)  
 [\*10] e-techno. Co., Ltd. was integrated into IOS Co., Ltd. effective October 1, 2019.  
 [\*11] Enisias Co., Ltd. became a subsidiary effective April 1, 2020.  
 [\*12] OEC Ltd. became a subsidiary effective July 1, 2021.  
 [\*13] Creative Japan, LTD. changed its name to CRESCO Digital Technologies Ltd. on May 1, 2022.  
 [\*14] Effective July 1, 2022, N-System Corporation and Nexus Corporation were integrated into ARS Corporation Ltd., which was renamed CRESCO J CUBE CO., LTD.

Finally, and just for a moment, I would like to describe the transition of consolidated subsidiaries in the reference material, which was mentioned earlier.

This July, we merged three companies, N-System, Nexus, and ARS, shown in the middle rows, and changed the Company name to CRESCO J CUBE, which is shown in the row right below. By changing the name with the word "Cresco" on the front, we intend to make a new start with a stronger branding impression.

This company started in July and after three or four months, orders have been steady, management has gradually become more efficient, and we believe that we have established a very good corporate group for the next fiscal year.

The status of assets and liabilities, along with cash flow are all shown in the attached material. These are indicated in the figures here, which I would like you to see.

This concludes my explanation. Thank you for listening.

**Moderator:** Thank you.

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## Question & Answer

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**Moderator [Q]:** Now we will start the question-and-answer session.

Here is the first question. It mentions that we have projected a loss in the valuation of derivatives, probably related to the EB bond investment, and if we can continue to actively manage these funds. We welcome your explanation.

**Tominaga [A]:** As I explained earlier, the projection in the loss in valuation of derivatives for this fiscal year is JPY372 million in the first half of the fiscal year. The Board of Directors reports monthly on the status of this operation, as necessary, while also keeping an eye on the situation as to whether or not to be proactive about it.

We are in the process of discussing what to do with our current holdings of financial commodities and will continue to consider this issue. However, we do not intend to scale down this management overall, or continue expanding it.

**Moderator [Q]:** Thank you. The next question is as follows:

I understand that your company will conduct research on technology at your technical research center for planned utilization in the next several years, leading to the development of new services and solutions. There doesn't seem to be much need for your company's new services and solutions lately. How far have you progressed in your research? The person is asking for an explanation within the possible extent. We welcome your explanation.

**Yamada [A]:** Thank you for your question.

I would like to explain a little bit about this within the possible extent. I admit that this hasn't been disclosed. And after receiving this inquiry, I regret this.

Although we have announced in the past in various places, our specialty is ophthalmology. We have a solution that uses AI to analyze photos of the fundus or the anterior surface of the eye at eye clinics.

As you are probably slightly aware, the medical industry has many challenges when it comes to business development. And I feel that the pace is a bit slow.

In our company, our technology has strength with image analysis. So we are now expanding that image analysis technology into fields other than medical care by creating a variety of solutions and working to expand them to clients in other industries.

Although I cannot provide specific details, I believe we will be able to announce such details in the second half of the fiscal year or next year. That's all.

**Moderator [Q]:** Thank you. The next question is as follows:

If you look at the bottom-right of page seven, the profit margin trend for the financial segment shows a declining trend year after year. And we received a question regarding what was causing this profit margin decline. We welcome your explanation.

**Tominaga [A]:** In the area of finance, the profit margin has certainly declined a bit.

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Although there are some large projects here, the financial sector is still in a situation where the staff cannot take any action for a long period. This trend has been continuing with many clients. The projects themselves take three or four years to complete, and the labor and outsourcing costs have gradually increased from the initial estimate.

As for outsourcing costs, we have a long history in the financial sector and we have many senior staff members. I believe that this is one of the reasons why the profit margin has been slightly sluggish. However, we are currently working with our clients on various efforts to improve the situation and we are also adopting a policy of assigning young employees to finance teams and training them. Therefore, we are setting a target where we gradually improve these areas starting from the next fiscal year. That's all.

**Moderator [Q]:** Thank you. The next question is as follows:

You have been awarded an up-front development project related to automotive security. If possible, please explain the details.

I would also like to ask you how you see the opportunities for your company to play an active role in the trend toward the informatization of mobility. We welcome your explanation.

**Tominaga [A]:** We have received a question about security-related issues for automobiles.

Although I am also very fond of automobiles, I feel that cars themselves are becoming increasingly similar to computers, and that is why we are taking efforts to deal with automotive security.

For example, your driving history is already accessible by your insurance company via the network and they can evaluate your insurance based on your driving habits. Also, your payment details can be determined, depending on how you drive.

For example, you can make a reservation at a hotel while driving and paying on the spot. When you arrive at the hotel, everything is already taken care of. The same applies to restaurants where you finalize payment upon reservation. I believe that such information will gradually be completely aggregated for automobiles.

In this era, personal information and other very important security information are increasingly being used in cars via the cloud. And we are currently working on various research projects to prevent various types of information from leaking out of the network. That describes the first half of our security developments.

As for mobility-related initiatives, CRESCO has fortunately been a company that was built on both embedded systems and enterprise services, as mentioned earlier. Our company was built on both of these expertise.

Now, I strongly feel that these two are becoming connected. As I mentioned earlier with finance in regards to payments from cars, I feel that there is a connection with information from cars to be used on various web services and financial services. I strongly believe that CRESCO possesses both of those technologies.

Of course, this connection will probably change due to various technologies in the future. Therefore, I feel that it will be important for us to make proposals to our clients based on our technological capabilities. That's all.

**Moderator [Q]:** Thank you. The next question is as follows:

You often announce your activities to teach new IT trends where an employee performs a lecture or is appointed somewhere. How is this related to the performance of your core business? The person is asking about the expected effects and other factors. We welcome your explanation.

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**Tominaga [A]:** Regarding the effects of employee lecture activities, I have to admit that it is difficult to see the numerical effects on business performance. But we are aiming to promote branding from this perspective, while also strengthening our recruiting capabilities.

As I mentioned earlier, by engaging universities and technical schools to sell CRESCO's name and provide solid technical explanations, we have seen an increase in the number of new graduates joining the Company each year. We have strengthened our communication with university professors over the past few years. In that sense, I think it will be very effective in terms of recruiting.

In terms of branding, I feel that joint research with universities whose research specializes in certain fields, as well as providing lectures at such universities will attract the attention of people from various technical backgrounds, possibly leading to other projects being rewarded. That's all.

**Moderator [Q]:** Thank you. The next question is as follows:

How is the progress of the medium-term management plan? Please tell us about your main achievements and future challenges. We welcome your explanation.

**Tominaga [A]:** I will describe the medium-term management plan.

As for our progress, we have set a numerical target of JPY50 billion in our mid-term management plan up to 2023. As I explained earlier regarding the earning forecast for the current fiscal year, we expect to reach JPY47.5 billion in the current fiscal year. Therefore, I believe that we will be able to achieve our numerical targets in preparation for 2023.

For other issues, we believe that the digital solutions mentioned earlier need to be developed further. Although the cloud and RPA are the two pillars of our business, we are also taking efforts to conduct internal research for various solutions and creating solutions to firmly establish the third pillar. That's all.

**Moderator [Q]:** Thank you. The next question is as follows:

We received a question asking whether we can give some examples of DX projects in the financial sector and the manufacturing sector, including cases, to the possible extent. We welcome your explanation.

**Tominaga [A]:** I will answer regarding DX projects in finance and manufacturing.

In the financial sector, as I explained earlier, the transfer to the cloud is still continuing.

I used to be a system engineer in the financial sector myself. That was back when the financial sector used to put robust mainframes and servers in a robust data center, and it would be securely guarded. But now we are gradually moving to the cloud.

However, from an overall perspective, it appears that the transfer to the cloud has not yet progressed, and we expect the ongoing transfer to continue while the financial sector's DX is focused on cloud projects.

For the manufacturing industry, we are seeing a significant increase in the number of projects where clients require improvements in operational efficiency and reduce costs in their manufacturing processes. As we implement cost reductions, it is important to carefully assess the process, automate it by using the process mining method, and connect it to RPA as mentioned earlier. I feel that many of our clients in the manufacturing industry who use the RPA by starting with process mining is greatly increasing. That's all.

**Moderator [Q]:** Thank you. The next question is as follows:

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We received a question asking whether the trend of delaying or scaling back IT investments is accelerating, regardless of certain industries. We welcome your explanation.

**Tominaga [A]:** Some of the industries that we do business with are still in a very difficult situation, such as the travel industry, and they are showing delays.

I also feel that there is a very favorable trend, thanks to various government measures this time with their issuing of coupons. However, the overall situation is still looking a bit grim.

In other industries and sectors, there has not been much movement at this time for delays. On the other hand, there is a buildup situation where COVID-19 prompted a one-year delay. And we are currently in a situation where we must address these issues at once. That's all.

**Moderator [Q]:** Thank you. The next question is as follows:

We received a question regarding the acceleration status of revamping the existing system and DX promotion, such as the progress of how it is spreading from large companies to medium-sized companies. The person is also asking for quantitative data.

When is the peak expected? We welcome your explanation.

**Tominaga [A]:** Regarding the quantitative aspect of the DX flow, to be honest, we don't have much control over it. And I believe it is still in progress.

As for the peak, although the overall transfer to the cloud has progressed considerably overall, there is still a lot of work left in the financial sector, which I have discussed earlier. And we expect the peak to continue.

We can expect RPA and AI to continuously grow significantly in the future. However, we haven't actually thought about the peak. We haven't only done so, but I believe we haven't grasped the entire situation yet. That's all.

**Moderator [Q]:** Thank you. The next question is as follows:

Regarding the results for the first half of the fiscal year, when sales and operating income exceeded expectations, what exactly happened?

The person is also asking if you can describe any anticipated risks for the second half of the fiscal year that could affect our performance. We welcome your explanation.

**Tominaga [A]:** Regarding unexpected factors relating to the performance for the first half of the fiscal year, along with risks in the second half of the fiscal year, it wasn't beyond expectations for the former.

The shortage of human resources in IT, and its effect has resulted particularly in the rising cost of outsourcing, as well as our employees. This may have been more than expected. In fact, as I explained earlier in the financial section, I believe that outsourcing costs have risen considerably.

The same applies to risks for the second half of the fiscal year. But we must cut down on outsourcing costs and we also have a subsidiary in Vietnam. Therefore, we can lower the outsourcing fees within Japan while hiring foreign technicians and managing costs. I believe that is an issue we need to address for the second half of the fiscal year. That's all.

**Moderator [Q]:** Thank you. The next question is as follows:

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What are the client attributes for the digital solutions business? For example, the person is asking about the size and types of relevant industries and other details within the possible extent, we welcome your explanation.

**Tominaga [A]:** Regarding the client attributes for digital solutions, although this may coincide with my previous answer, the financial sector is our largest client base, particularly for the cloud.

Also, I believe that RPA is being adopted by a wide range of clients in general, including manufacturing and enterprise industries in general.

The same is true for AI. In our case, although the percentage of AI used in the financial sector is still small, it is actively being implemented by other industries and sectors. That's all.

**Moderator [Q]:** Thank you. The next question is as follows:

For the unit cost of IT services, how much has it increased over the last five years? We welcome your explanation.

**Tominaga [A]:** For the unit cost of IT services, as I mentioned earlier about outsourcing costs, it is a very big issue.

For the past five years, the increase has been about 5% in the last one to two years. So I believe it has increased in the range of 10% to 20% over the past five years.

Of course, we have to offset the higher outsourcing costs to our clients. If we don't actively offset the costs to our clients, our profitability will be sluggish. That is why we must actively address these issues. That's all.

**Moderator [Q]:** Due to time limitations, I would like to conclude this session with the next question.

For the M&A strategy, what areas do you focus on? I would be grateful if you could discuss this in detail. I am asking for your cooperation.

**Tominaga [A]:** I will describe the M&A strategy.

As I showed you earlier in the table showing the 11 companies under the CRESCO group, all of them belong to the same industry but may cater to clients of different industries or use different technology. For the next 10 years, we will promote M&A to integrate our businesses.

Obviously, our future policy doesn't differ much from our current one. For example, some companies specialize in certain regions and we have offices in many regions as well. There may be companies that are willing to work with us, and as mentioned earlier with digital solutions, we intend to engage clients in pre-sale activities by presenting our technology while we need to strengthen our support capabilities. We can't just continue with our old strategies and recruit more people. We need to adopt a slightly different view while considering future M&A. That's all.

**Moderator [M]:** Thank you. Now we will conclude the question-and-answer session.

Finally, our president, Tominaga would like to add a few words. President Tominaga, please continue.

**Tominaga [M]:** Ladies and gentlemen, thank you very much for joining us today for a little over an hour, including all the questions.

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I have been the president for six months now. Everybody at our company has been reiterating the word “challenge.” I would like to challenge various things and newly support Japan’s IT as much as possible so that the next generation and our kids will lead happy lives in their society.

We hope you will continue to support us. We welcome your explanation.

**Moderator [M]:** This concludes the presentation of financial results for today.

Thank you for your participation today.

[END]

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