

**CRESCO** 

# Summary of Quarterly Financial Results Briefing

for the Three Months Ended June 30, 2022

Aug 9, 2022



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# Consolidated Results main points



# 1.1. Main initiatives in the first quarter

## ■ Organization and structure

- Shifted to a **two-representative system** by “Chairman & CEO” and “President and Executive Officer” effective April 1.
- **Changed our corporate logo** effective April 1 for the first time since foundation.
- 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.

## ■ 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.
- Encouraged self-study in technology, quality, and business transformation to raise business performance and create business opportunities.
- CRESCO Digital Technologies, Ltd., our subsidiary, started selling a social toilet system equipped with the company’s IoT functions.
- Started a revision of our office space strategy, including relocation of development sites, for the purpose of improving business efficiency.



# 1.2. Income statement [highlights]

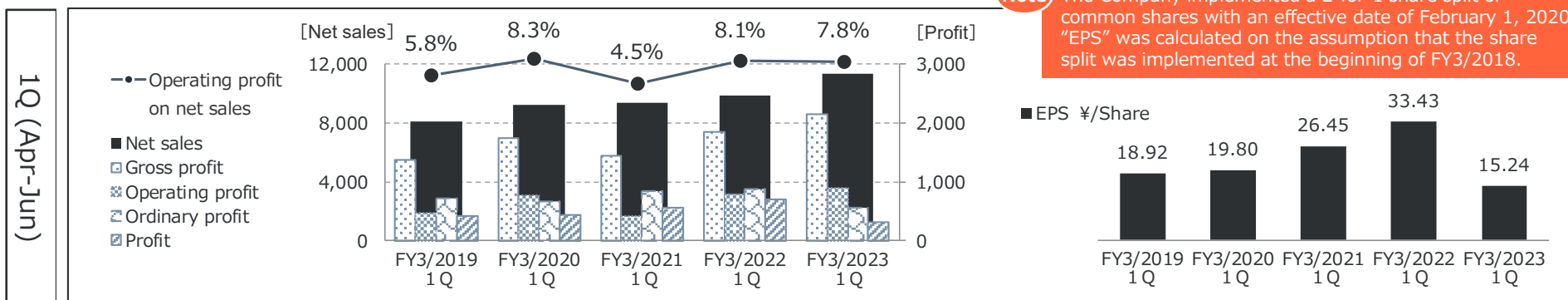
(Unit: Amounts less than 1 million yen omitted)

- Demand for IT investments to improve productivity through DX promotion continues to be strong. Net sales increased mainly from major customers although the extent of increase varied by industry category: a double-digit increase of 15.3%.
- Operating profit increased by 11.6%, but operating profit margin decreased to 7.8% from 8.1% for the same period last year due to some unprofitable projects.
- Ordinary profit decreased as we recognized a valuation loss on derivatives (non-operating expenses) of 484 million yen for financial instruments held by the Company.

- **Net sales**  
Increased 1,511 million yen (up 15.3% year on year).
- **Operating profit**  
Increased 92 million yen (up 11.6% year on year).
- **Ordinary profit**  
Increased 320 million yen (down 36.2% year on year).
- **Profit**  
Increased 382 million yen (down 54.4% year on year).

1Q/cumulative	FY3/2021					FY3/2022					FY3/2023					Half-year Forecast	
	FY3/2021		FY3/2022		FY3/2023		YoY	Half-year progress	<Announced on Feb 28, 2022>		YoY						
Net sales	9,404		9,870		<b>11,381</b>		<b>115.3%</b>	<b>49.8%</b>	22,840		108.4%						
Gross profit	1,451	(15.4%)	1,849	(18.7%)	<b>2,148</b>	<b>(18.9%)</b>	<b>116.2%</b>										
Operating profit	426	(4.5%)	799	(8.1%)	<b>891</b>	<b>(7.8%)</b>	<b>111.6%</b>	<b>42.7%</b>	2,090	(9.2%)	103.6%						
Ordinary profit	847	(9.0%)	883	(9.0%)	<b>563</b>	<b>(4.9%)</b>	<b>63.8%</b>	<b>24.1%</b>	2,340	(10.2%)	105.2%						
Profit	555	(5.9%)	702	(7.1%)	<b>320</b>	<b>(2.8%)</b>	<b>45.6%</b>	<b>22.6%</b>	1,420	(6.2%)	88.4%						
EPS ¥/Share	26.45		33.43		<b>15.24</b>				67.49								

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

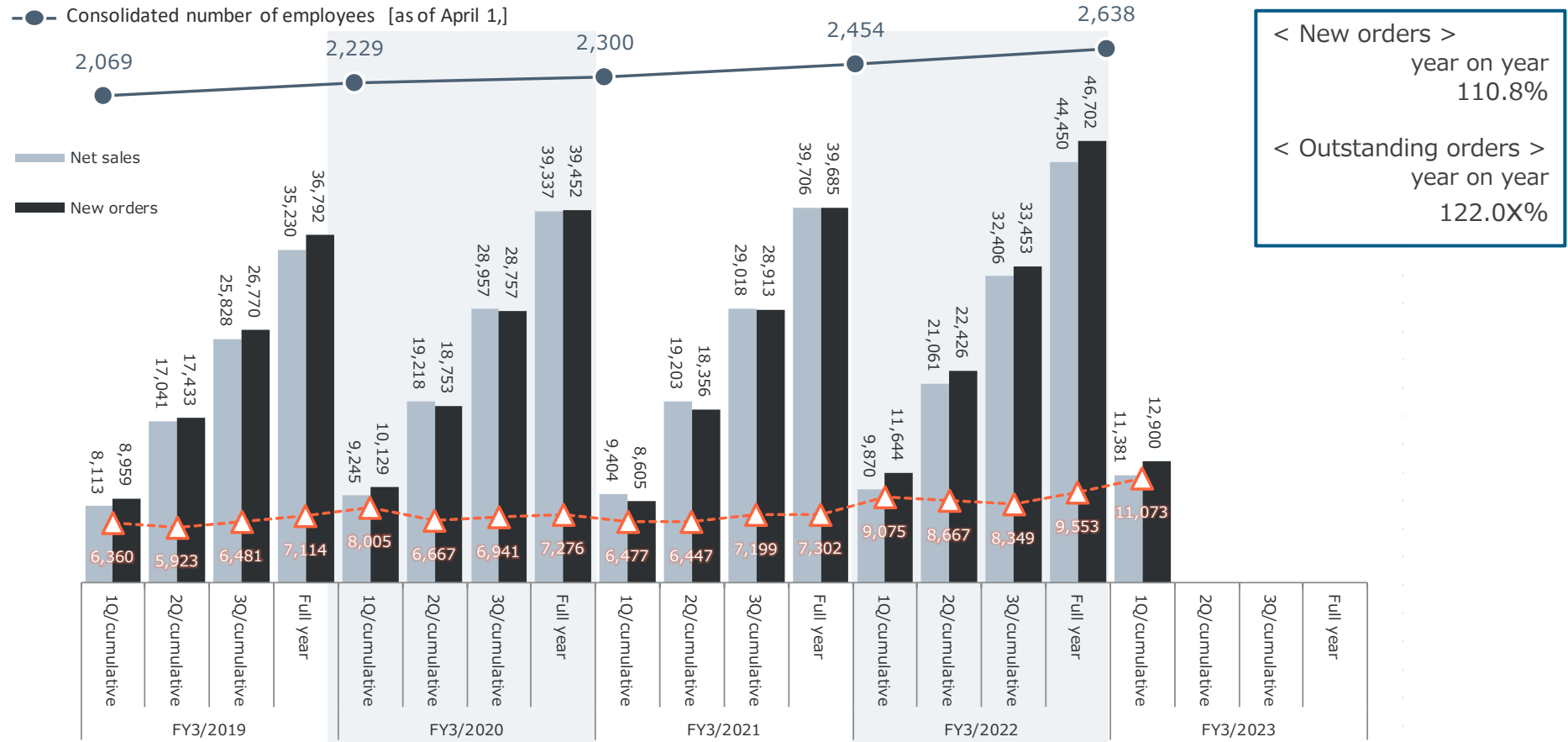




# 1.3. Quarterly net sales, new orders and outstanding orders

(Unit: Amounts less than 1 million yen omitted)

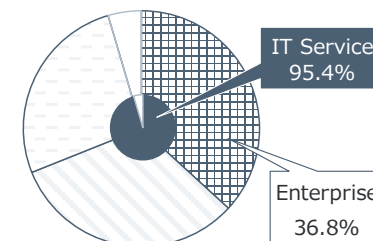
- New orders and order backlog grew steadily although the extent of growth varied by industry category.
- Promotion of DX by businesses and movements toward normalization of economic activities were tailwinds for our business.





Segment		Subsegment	
IT Service	<ul style="list-style-type: none"> <li>• Consulting</li> <li>• IT planning</li> <li>• Total service of development and maintenance</li> </ul>	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.

<Share of net sales by segment: 1Q (Apr~Jun)>



■ **Net sales : 4,191million yen (YoY 2.1%↓)**

Although we secured new projects in 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.

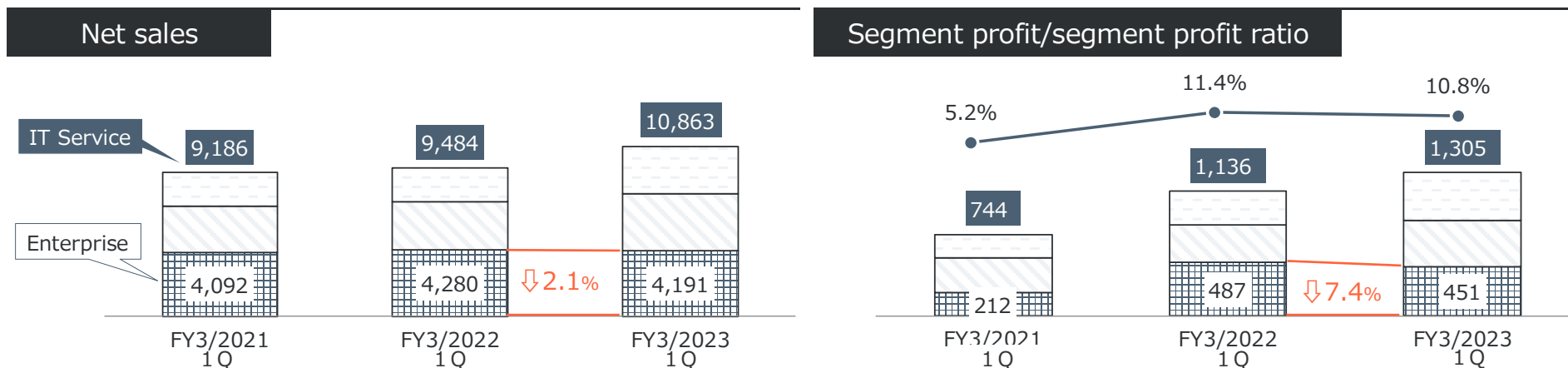
■ **Segment profit : 451million yen / 10.8% (YoY 7.4%↓)**

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

(Unit: Amounts less than 1 million yen omitted)

Cumulative

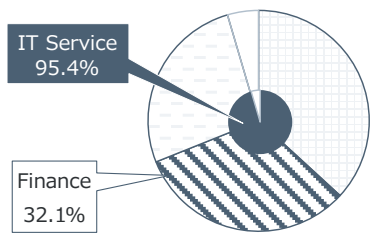
1Q (Apr-Jun)



# 1.5. Results by segment: IT services business [Finance]

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

<Share of net sales by segment: 1Q (Apr~Jun)>



**Net sales : 3,654million yen (YoY 21.3%↑)**

The number of infrastructure construction and migration projects in banking and insurance increased at the Company, and the number of projects in other areas, such as securities and payment card, also increased at our consolidated subsidiaries.

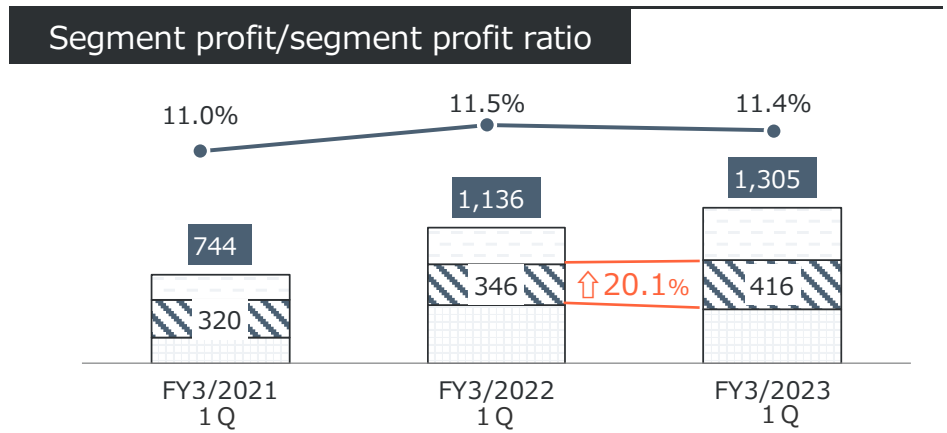
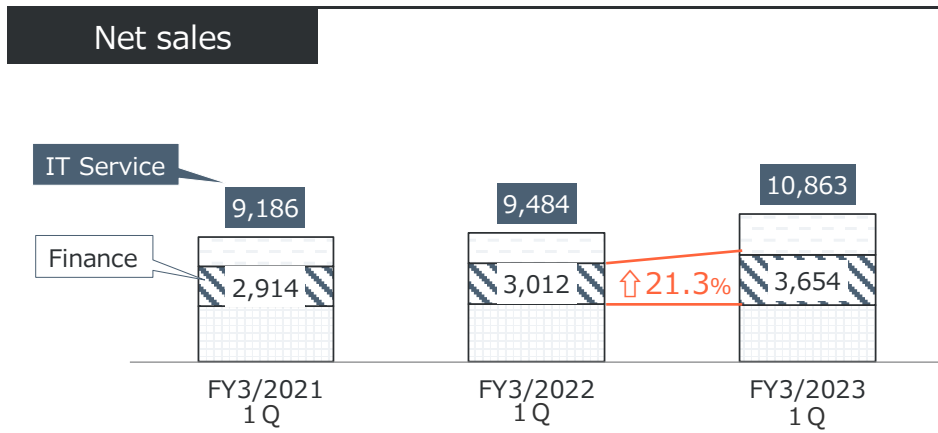
**Segment profit : 416million yen / 11.4% (YoY 20.1%↑)**

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

(Unit: Amounts less than 1 million yen omitted)

Cumulative

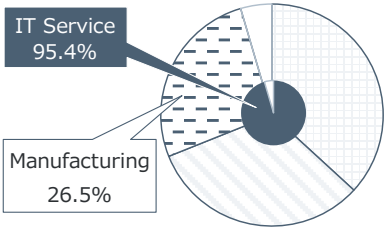
1Q (Apr-Jun)





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

<Share of net sales by segment: 1Q (Apr~Jun)>



**Net sales : 3,017million yen (YoY 37.7%↑)**

There were orders received by the Company from new clients in the areas of machinery and electronics as well as automotive and transport equipment, an increase in prior investment projects, and the effect of the consolidation of OEC Ltd.

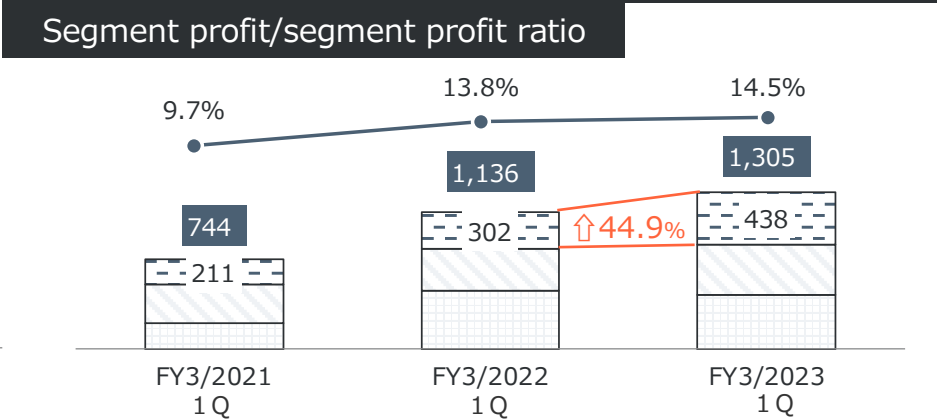
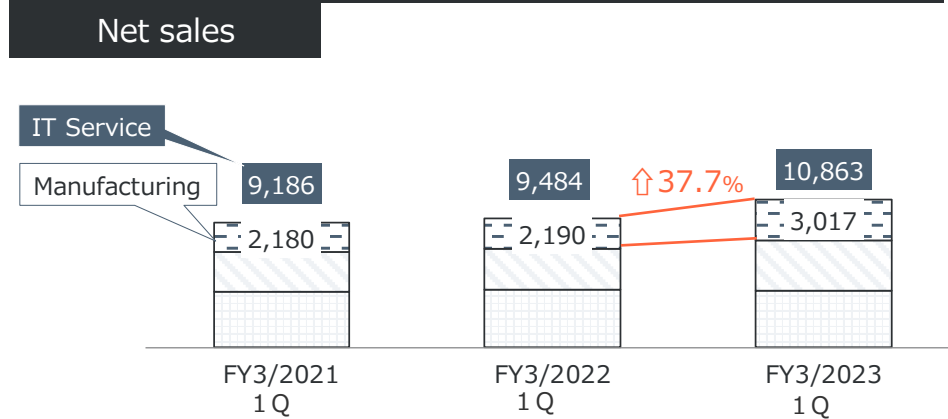
**Segment profit : 438million yen / 14.5% (YoY 44.9%↑)**

In addition to an increase in sales, unprofitable projects that had occurred in the same period last year at our consolidated subsidiaries were resolved.

(Unit: Amounts less than 1 million yen omitted)

Cumulative

1Q (Apr-Jun)

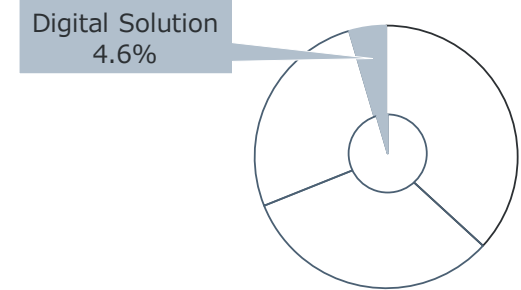




# 1.7. Results by segment: Digital solutions business

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>

<Share of net sales by segment: 1Q (Apr~Jun)>



Cumulative

- **Net sales : 518million yen (YoY 34.1%↑)**

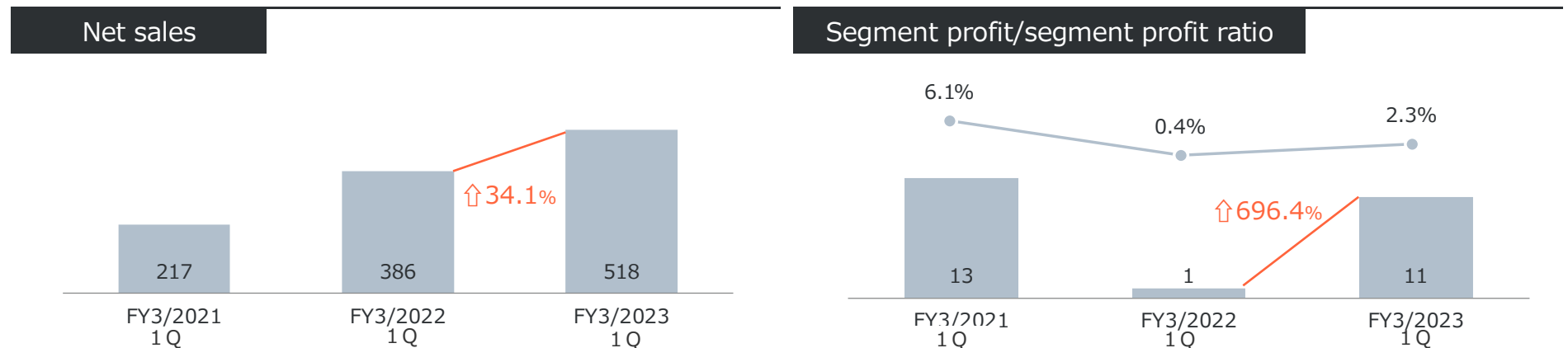
Sales of Creage, our main cloud service, and RPA licenses increased.

- **Segment profit : 11million yen / 2.3% (YoY 696.4%↑)**

Although there were increases in cost related to the expansion of organizational structure for digital solutions, the increase in net sales mentioned above was sufficient to absorb the increases in costs.

(Unit: Amounts less than 1 million yen omitted)

1Q (Apr-Jun)





# Future outlook



Although the COVID-19 pandemic, the Russian-Ukrainian conflict, and the weaker yen are matters of concern, their impacts are limited. Demand for IT investments by our client companies remains strong.

- While the threat of COVID-19 has subsided and signs of demand recovery were observed in the food and beverage, leisure, tourism, aviation, land transportation, and other industries, several events occurred that could adversely affect household and business consumption trends, including price hikes triggered by the Russian-Ukrainian conflict, upward pressure on labor costs, and the rapid depreciation of the yen.
- Although some of our corporate group's client companies are becoming more selective in their investments, demand for IT investments to revamp existing systems and to improve productivity through DX promotion continues to be strong, and inquiries continue to be firm.

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

##### Monthly Economic Report for July 2022 [released on July 26, 2022]

The report expresses the judgment, "The Japanese economy is pick up at a moderate pace." The first upward review since the outset of the COVID-19 pandemic. It is expected that the economy will pick up further going forward as economic and social activities continue to be normalized while all possible infection control measures are taken and partly due to the effect of various policy measures.

\* However, sufficient attention should be paid to downside risks due to fluctuations in financial and capital markets amid the ongoing monetary tightening worldwide, rising raw material prices, supply-side constraints, etc.

##### QUICK Tankan (QUICK Short-term Economic Survey) for July 2022 [released on July 15, 2022]

Diffusion Index (DI): Manufacturing DI worsened by 8 points to 10 in July, the first worsening in the last two months. DI for all industries worsened by 2 points to 22.

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

Diffusion Index (DI): Manufacturing DI in July was 9, unchanged from the previous month. Non-manufacturing DI improved by 1 point to 14. In the manufacturing sector, while strong demand has continued in semiconductor-related industries, many industries have been hit by rising raw material and energy prices. The non-manufacturing sector has been recovering, but only at a moderate pace, due to concerns about the effect of rising prices.

##### Tankan (Short-Term Economic Survey of Enterprises in Japan) for June 2022 by the Bank of Japan [released on July 1, 2022]

Diffusion Index (DI): While DI for large manufacturing enterprises worsened by 5 points to 9, non-manufacturing DI improved by 4 points to 13. Trends in the number of COVID-19 infection cases, which has shown signs of resurgence, future developments in the Russian military invasion of Ukraine, rising energy and food prices, the power shortage problem, and concerns about the worsening of overseas economies, such as the U.S. economy, are affecting business confidence for the future.



(Unit: Amounts less than 1 million yen omitted)

- No change in the 1H and full-year consolidated earnings forecasts for the fiscal year ending March 31, 2023 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.

2Q/cumulative	FY3/2022					FY3/2023	
	Forecast <Announced on May 8, 2020>	YoY	Actual	YoY	Achievement rate	Forecast <Announced on Feb 28, 2022>	YoY
	Net sales	20,500	106.8%	21,061	109.7%	102.7%	<b>22,840</b>
Gross profit			4,071 (19.3%)	125.1%			
Operating profit	1,720 (8.4%)	125.8%	2,017 (9.6%)	147.6%	117.3%	<b>2,090 (9.2%)</b>	<b>103.6%</b>
Ordinary profit	1,900 (9.3%)	103.0%	2,223 (10.6%)	120.5%	117.0%	<b>2,340 (10.2%)</b>	<b>105.2%</b>
Profit	1,380 (6.7%)	105.5%	1,606 (7.6%)	122.8%	116.4%	<b>1,420 (6.2%)</b>	<b>88.4%</b>
EPS ¥/Share	65.65		76.44			<b>67.49</b>	

Full year	FY3/2022					FY3/2023	
	Forecast <Announced on May 8, 2020>	YoY	Actual	YoY	Achievement rate	Forecast <Announced on Feb 28, 2022>	YoY
	Net sales	44,000	110.8%	44,450	111.9%	101.0%	<b>47,500</b>
Gross profit			8,698 (19.6%)	120.8%			
Operating profit	4,440 (10.1%)	127.4%	4,457 (10.0%)	127.9%	100.4%	<b>4,750 (10.0%)</b>	<b>106.6%</b>
Ordinary profit	4,600 (10.5%)	112.2%	4,782 (10.8%)	116.6%	104.0%	<b>5,150 (10.8%)</b>	<b>107.7%</b>
Profit	3,180 (7.2%)	120.7%	3,236 (7.3%)	122.9%	101.8%	<b>3,350 (7.1%)</b>	<b>103.5%</b>
EPS ¥/Share	151.14		153.92			<b>159.22</b>	

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



# 2.3. Consolidated Forecast of cash dividends

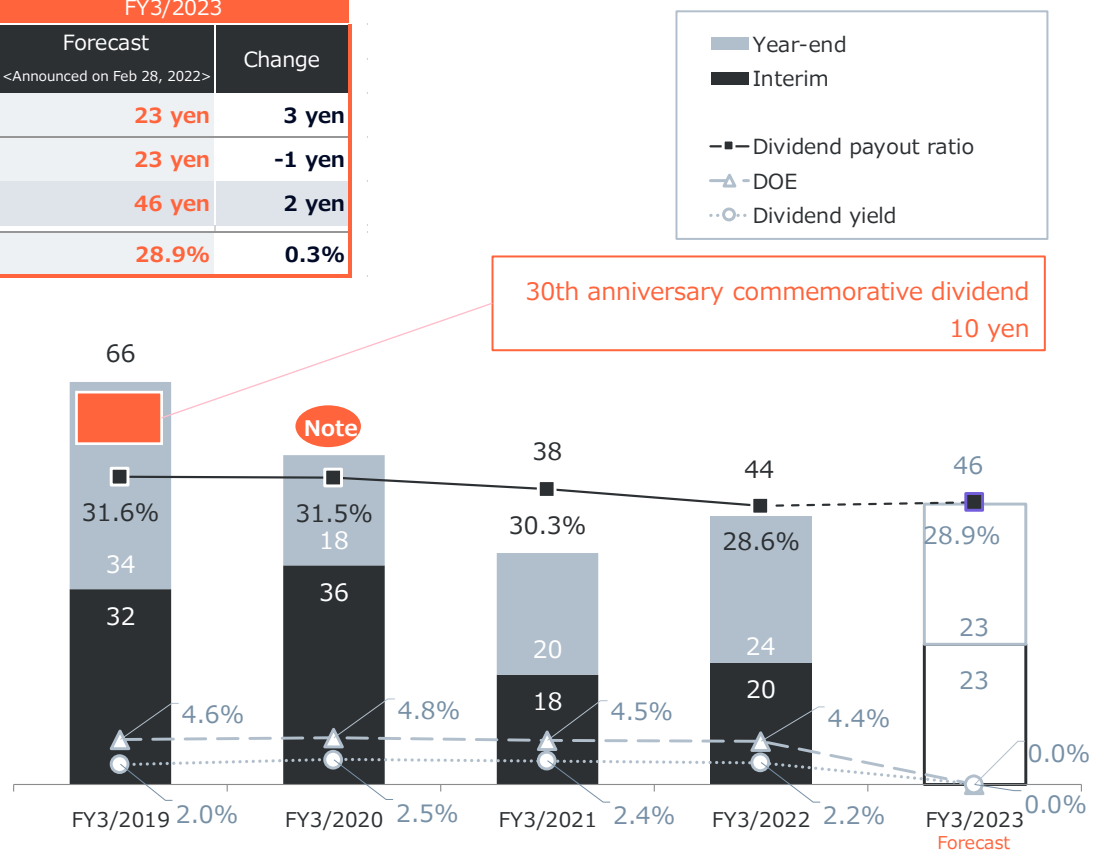
- Dividends will continue to be distributed in accordance with the Group's shareholder return policy.
- No change in our previous forecast announced on May 10, 2022 of **an increase of 2 yen to 46 yen** for the fiscal year ending March 31, 2023.

	FY3/2020	FY3/2021	FY3/2022	FY3/2023	
	Actual	Actual	Actual	Forecast <Announced on Feb 28, 2022>	Change
Interim	36 yen	18 yen	20 yen	<b>23 yen</b>	<b>3 yen</b>
Year-end	18 yen	20 yen	24 yen	<b>23 yen</b>	<b>-1 yen</b>
Full year	<b>Note</b>	38 yen	44 yen	<b>46 yen</b>	<b>2 yen</b>
Dividend payout ratio	31.5%	30.3%	28.6%	<b>28.9%</b>	<b>0.3%</b>
Dividend yield	2.5%	2.4%	2.2%		
DOE	4.8%	4.5%	4.4%		
Total dividend payments	750 Millions of yen	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.



# Reference

# Reference Changes in the Cresco Group's consolidated subsidiaries

	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. [*1][*5][*7][*10]	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
CRESCO KYUSHU Co. Ltd. [*8]	●	●	●	●	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
CRESCO HOKURIKU. LTD.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
C3 Co. Ltd.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
CRESCO Digital Technologies Ltd. [*13]	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
Mexess Co., Ltd. [*3][*4]	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
N-System Corporation	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
Nexus Corporation [*2]	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
ARS Corporation Ltd. [*6]	/	/	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●			
CRESCO VIETNAM CO., LTD. [*9]	/	/	/	/	/	○	●	●	●	●	●	●	●	●	●	●	●			
Enisias Co., Ltd. [*11]	/	/	/	/	/	/	/	/	●	●	●	●	●	●	●	●	●			
OEC Ltd. [*12]	/	/	/	/	/	/	/	/	/	/	/	/	●	●	●	●	●			
<b>Total number of subsidiaries</b>	10	10	11	11	10	11	11	11	12	12	12	12	12	13	13	13	13			

[\*1] Applications Co., Ltd. became a subsidiary of IOS Co., Ltd. (a sub-sub-sidiary of the Company) 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. (a sub-sub-sidiary of the Company) 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.

# Disclaimer

- ❖ Although CRESCO takes considerable care with respect to the content of this material, it does not bear any responsibility with regard to problems caused by information errors.
- ❖ The information is provided as reference to assist in investment decisions, and its purpose is not to solicit investment. CRESCO requests that users use their own judgment when making decisions on investment.
- ❖ Information relating to future predictions and forecasted values such as financial forecasts on this material have been written based on judgments and assumptions on information presently available that is considered reasonable.
- ❖ Changes in risks and uncertain elements, and changes in the economic situation may force CRESCO to change the information without notice or make the actual financial and other results differ significantly. The content of this material then could differ from future outcome. Please consider this when making investment decisions.

[IR inquiries]  
E-mail: [ir@cresco.co.jp](mailto:ir@cresco.co.jp)