



CRESCO LTD.

Q3 Financial Results Briefing for the Fiscal Year Ending March 2020 For Securities Analysts and Institutional Investors

February 13, 2020

Event Summary

[Company Name]	CRESCO LTD.	
[Event Type]	Earnings Announcement	
[Event Name]	Q3 Financial Results Briefing for the Fiscal Year Ending March 2020 For Securities Analysts and Institutional Investors	
[Fiscal Period]	FY2019 Q3	
[Date]	February 13, 2020	
[Number of Pages]	16	
[Time]	15:30 – 15:57 (Total: 27 minutes, Presentation: 20 minutes, Q&A: 7 minutes)	
[Venue]	Kabutocho Heiwa Building 2F, 3-3 Kabutocho Nihonbashi, Chuo-ku, Tokyo 103-0026 (Hosted by The Securities Analysts Association of Japan)	
[Venue Size]	145 m ²	
[Participants]	40	
[Number of Speakers]	3	
	Hiroyuki Nemoto	President
	Michiaki Yonezaki	Department Manager, Public Relations & IR Office

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Presentation

Moderator: We have come to the appointed time, so we will now hold the financial results briefing of CRESCO LTD. for the third quarter of the fiscal year ending March 31, 2020.

First, I would like to introduce two people from our company. First, we have here Mr. Hiroyuki Nemoto, President. Next, this is Mr. Michiaki Yonezaki, Department Manager of the Public Relations & Investor Relations Office.

President Nemoto will follow with explanations on the financial results. After the explanations are done, we will have a question-and-answer session, so we would like to ask for your cooperation then.

We have attached a questionnaire to the materials we distributed to you earlier and we would like to ask for your cooperation with that as well.

With that, let's begin.

Nemoto: My name is Nemoto and I'm from CRESCO, LTD. Thanks for coming today. For about twenty minutes, I would like to discuss the materials that we have distributed and then proceed with the question-and-answer session.

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- 経営環境 … 米中経済摩擦問題や世界景気の減速感に加え、中東情勢の不安等、多くの懸念を抱えながらも、「攻めのIT経営」を主眼としたデジタル変革がIT投資を下支え。
- 第3四半期は、売上高と利益ともに2桁成長で、増収増益に。開発人員不足の影響は、依然、拭い切れないものの、受注量の適正化や開発体制の強化でカバー。
- 10月1日から子会社「クレスコベトナム」が、クレスコグループにおけるオフショア開発の中核として稼働へ。

[単位：百万円未満切捨]

- 売上高 … 市場変化に則した顧客ポートフォリオを見直し、31億29百万円の増収 (前年同期比 12.1%増)。
- 営業利益 … 3億37百万円の増益(前年同期比 14.6%増)。 利益率は“9.0% → 9.2%”と、0.2%改善。
- 経常利益 … 4億87百万円の増益(前年同期比 18.4%増)。

3Q累計		18/03期	19/03期	20/03期	前年同期比	対通期進捗率	通期	
							20/03期	前年同期比
	売上高	24,459	25,828	28,957	112.1%	76.4%	37,880	107.5%
	売上総利益	4,605 (18.8%)	4,809 (18.6%)	5,379 (18.6%)	111.9%			
	営業利益	2,297 (9.4%)	2,316 (9.0%)	2,653 (9.2%)	114.6%	78.1%	3,400 (9.0%)	106.0%
	経常利益	2,683 (11.0%)	2,654 (10.3%)	3,141 (10.8%)	118.4%	82.4%	3,813 (10.1%)	104.2%
	純利益	1,720 (7.0%)	1,673 (6.5%)	2,003 (6.9%)	119.7%	82.9%	2,416 (6.4%)	105.7%
注	EPS 円/株	77.90	76.49	94.09			114.28	



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[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四半期純利益」です。 3

The main points in our settlement of accounts are net sales and profit. We achieved double-digit growth in both sales and profits until the third quarter. The work may seem somewhat challenging depending on the customer but there is a lot of work and we are swamped. It feels like the shortage of people lingers.

In the third quarter, we established CRESCO VIETNAM CO., LTD. as a subsidiary on October 1 and it has begun operating as the core of our offshore development. So far, it has served as a representative office, but we have launched it as a full-fledged company.

Sales are up JPY3.1 billion. Operating income and ordinary income are JPY337 million and JPY487 million, respectively. The operating income margin has improved slightly, from 9.0% in the previous year to 9.2%, but I would like to talk a little about this.

Looking at the non-consolidated profitability in the third quarter below, it has gone down by 0.9 points. This means that the provision for losses has been positive by about JPY80 million compared to the second quarter for projects that are a little trouble compared to the second quarter and the two projects are increasing their deficits. In addition, although we have not suffered a loss, the reason for the decline in profits is that we have incurred considerable costs due to quality issues in a large project at a subsidiary. However, the ratio for the full year from the first quarter to the third quarter is 9.2%, which is better than last year.

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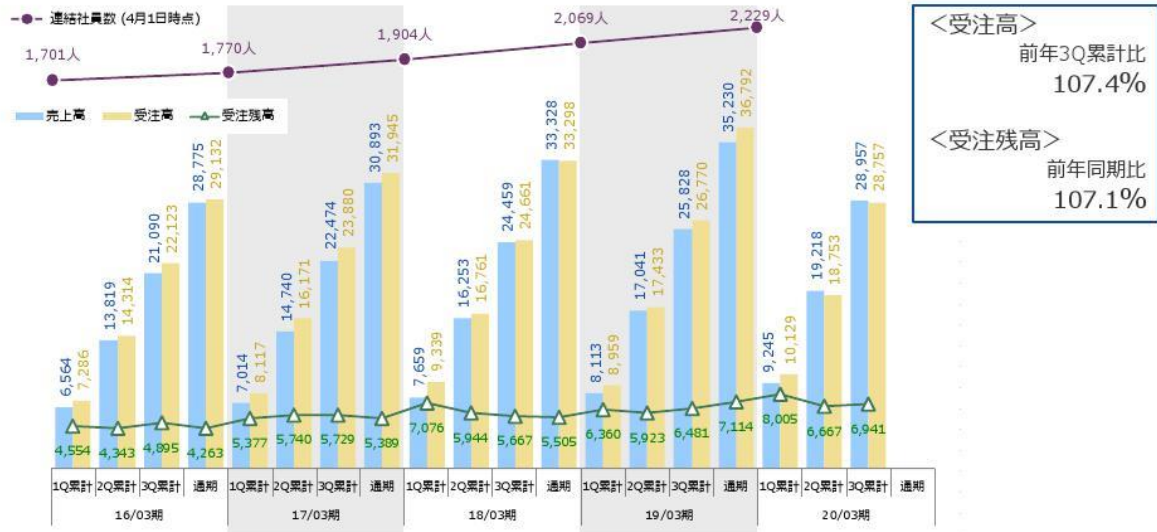


[単位：百万円未満切捨]

- 顧客の引合いは、上期に引続き、攻めのIT投資やデジタル変革(DX)を背景に活況が続く。

- ソフトウェア開発 … 金融関連は減少するも、子会社を含め、既存顧客(「公共サービス」「流通・その他」)の受注は順調。
- 組込み型ソフトウェア開発 … カーエレクトロニクス関連の顧客ミックスに変化はあるものの、全体の受注は順調。

- サービス事業の拡販と、DX案件(特に、クラウド関連とAI関連)の受注が順調。



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The amount of orders received and the order backlog were 107.4% of the previous year's level, which shows that we have a lot of work. This can also be said for both Software Development and Embedded Software Development.

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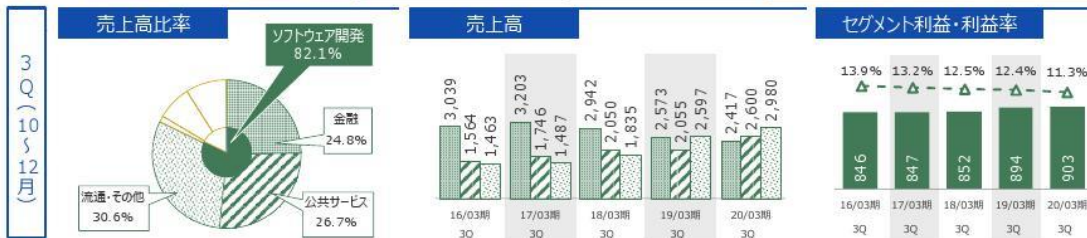
[単位：百万円未満切捨]

■ ソフトウェア開発

- ・ 営業および開発体制(オフショアを含む)の強化、グループ連携の徹底により、売上高は**12.2%の増収**。
- ・ プロジェクトマネジメントと品質管理の強化に注力した結果、セグメント利益は**14.0%の増益**。
- ・ 「金融」の減少分は、「公共サービス」「流通・その他」でカバー。「クレスコベトナム」を含む子会社の受注増加も寄与。

- 金融 … 銀行関連の顧客毎の変化が大きく、減少。(前年同期比 1億44百万円の減収)
- 公共サービス … 既存大口顧客(人材、旅行、運輸)のIT投資が、引続き増加。(前年同期比 9億46百万円の増収)
- 流通・その他 … 子会社(アイオス、クレスコ北陸、クリエイティブジャパン、メクス、アルス)における受注が拡大。(前年同期比 17億89百万円の増収)

		18/03期	19/03期	20/03期	前年同期比	
3 Q 累計	ソフトウェア 売上高	金融	9,025	7,797	7,653	98.1%
		公共サービス	5,572	6,266	7,213	115.1%
		流通・その他	5,817	7,099	8,888	125.2%
		セグメント利益(率)	2,500 (12.3%)	2,313 (10.9%)	2,637 (11.1%)	114.0%



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Software Development revenues rose 12.2% and segment income rose 14.0%. Although the Finance segment has bottomed out slightly, it has fallen slightly to 98.1% compared to the previous year since customers in the banking sector are very tough and investment has been narrowed down considerably.

In the areas of Public Services and Distribution/Others, the rate of increase was considerable at 115% and 125%, respectively. In the Distribution/Others segment, we believe that an increase in orders from subsidiaries is making a positive contribution.

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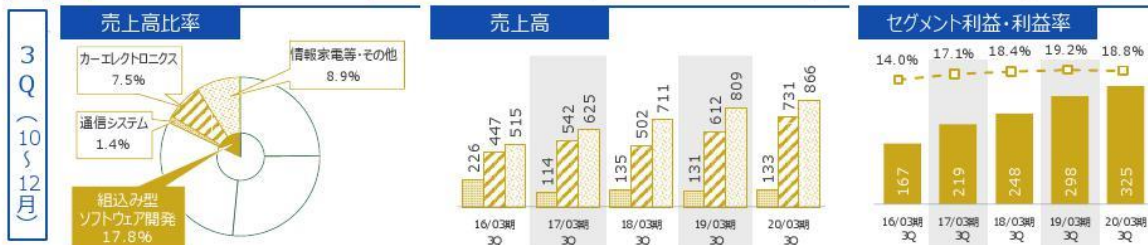
[単位：百万円未満切捨]

■ 組み込み型ソフトウェア開発

- ・ 主要顧客からの継続的な増員要請や、基本契約の見直し(包括契約の締結)の他、生産性改善の取組み、アジアを含む開発体制の強化が奏功し、売上高は**11.7%の増収**、セグメント利益は**13.5%の増益**。

- 通信システム … スマートフォン関連は微増。(前年同期比 6百万円の増収)
- カーエレクトロニクス … 主力のインフォテインメント系が拡大し、センサー系の開発も順調。(前年同期比 3億81百万円の増収)
- 情報家電等・その他 … デジタル情報家電が順調。(前年同期比 1億56百万円の増収)

		18/03期	19/03期	20/03期	前年同期比	
3 Q 累計	組み込み型	通信システム	376	383	389	101.6%
	売上高	カーエレクトロニクス	1,501	1,801	2,183	121.2%
		情報家電等・その他	2,090	2,446	2,602	106.4%
		セグメント利益(率)	649 (16.4%)	855 (18.5%)	971 (18.8%)	113.5%



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This is the Development of Embedded Software segment. Here, both revenues and segment profit increased by 11.7% and 13.5%, respectively. Although the development of communication systems and smartphones has already passed its peak, there are requests from our customers, so we have been firmly responding to them. With this, we were still able to secure the same level of work as last year, albeit just under JPY400 million.

Sales of car electronics products increased considerably to 121.2%. Until now, infotainment-related products were mainly used for head-up displays and the area around displays. Recently, however, the development of sensor-related products has also increased slightly.

Orders for information home appliances are also relatively steady. Regarding the Embedded segment, however, there are slight differences in investments with customers in the manufacturing industry, as well as in automobile-related industries. We feel they are controlling the costs in existing developments by just a little and there is a considerable difference in the way they invest in the development of new products.

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[単位：百万円未満切捨]

- 足元の業況から、上振れの可能性はあるものの、現時点では、2019年5月9日に発表した**期末業績予想に変更なし**。
- 技術および品質面での更なる強化を図るとともに、AIとクラウド技術者の拡充教育、他社とのアライアンス推進、オープンイノベーション・産学連携による新ビジネスの創出に注力し、質的、量的成長を目指す。

通期	19/03期					20/03期	
	18/5/8 予想	前年 同期比	実績	前年 同期比	達成率	19/5/9 予想	前年 同期比
	売上高	35,500		35,230	105.7%	99.2%	37,880
売上総利益			6,673 (18.9%)	105.8%			
営業利益	3,280 (9.2%)	106.1%	3,207 (9.1%)	103.7%	97.8%	3,400 (9.0%)	106.0%
経常利益	3,580 (10.1%)	102.5%	3,658 (10.4%)	104.8%	102.2%	3,813 (10.1%)	104.2%
純利益	2,416 (6.8%)	109.7%	2,285 (6.5%)	103.8%	94.6%	2,416 (6.4%)	105.7%
注	EPS 円/株	110.42	104.46			114.28	注

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

注 2020年2月1日を効力発生日として、普通株式1株につき2株の割合で株式分割を行っております。19/03期の期首に当該株式分割が行われたものと仮定して、「EPS」を算定しております。

This is our outlook for the current fiscal year. Regarding the earnings forecast, we are in a favorable position compared to the forecast announced on May 9 of last year. However, we do not anticipate any significant changes from the forecast announced on May 9, so we have decided to make no changes to the forecast for the fiscal year-end.

Our company is committed to promoting new technologies to customers as quickly as possible and steadily carrying out new types of work. In this way, we would like to contribute to the so-called "DX" of new customers. We believe that our business performance forecasts are steadily progressing.

However, while we believe that we will be able to fully clear this fiscal year's targets, we need to be honest that we do not know what the effects of the recent pandemic will be in the next fiscal year. Our customers are also starting to be directly affected, so I think there is a possibility that their plans for the next fiscal year that we have heard so far will be reviewed.

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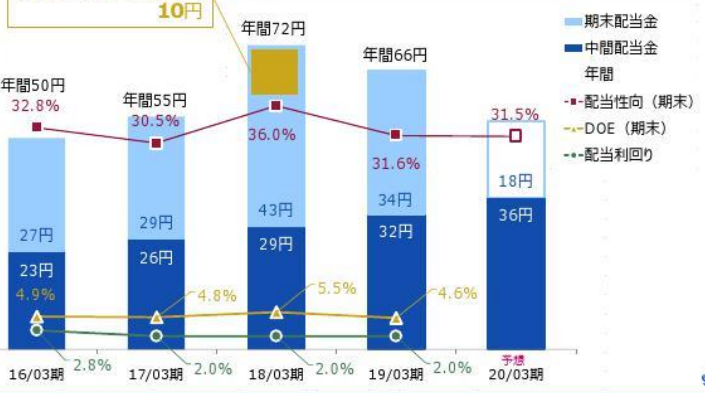
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- 2019年11月6日： **中間配当および期末配当予想の増配**(各34円 ⇒ 36円、各2円増)を発表。年間配当金は72円(4円増)に。
- 2020年2月1日付： **1対2の株式分割を実施。**配当予想は据え置き。(期末配当は分割により、36円 ⇒ 18円に修正)

	18/03期	19/03期	20/03期	
	実績	実績	実績	19/11/6 予想
中間	29円	32円	36円	36円
期末	43円	※ 34円	-	18円
年間	72円	66円	-	-
配当性向	36.0%	31.6%	-	31.5%
配当利回り	2.0%	2.0%	-	-0.1%
DOE	5.5%	4.6%	-	-
配当金の総額	781百万円	722百万円	-	-

株主還元方針

- ▶ 当社は株主のみならずに対する利益還元を経営の重要課題と位置づけ、株主資本の充実と長期的な安定収益力を維持するとともに、業績に裏付けられた適正な利益配分を維持することを基本方針としております。
- ▶ 特段の株主優待は行っておりません。
- ▶ 配当に関しましては、原則、**連結経常利益**をもとに、特別損益を零とした場合に算出される**親会社に帰属する当期純利益**の30%相当を自途に継続的に実現することを目指してまいります。



注 2020年2月1日を効力発生日として、普通株式1株につき2株の割合で株式分割を行っております。

- 16/03期中間～20/3期中間は分割前の実際の配当金の額を記載しております。
- 20/03期予想の合計は、株式分割の実施により単純計算ができないため記載しておりません。

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This is the dividends forecast. We conducted a two-for-one stock split with an effective date of February 1. Therefore, while it had been JPY36 per share thus far, it now will be JPY18 per share. We also increased the dividend by JPY4 on November 6 at the last second quarter's financial results, but we plan to keep the dividend unchanged from that.

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※3Qの対応状況は口頭でご説明し、後日、議事録を当社サイトで公開いたします。

1 鉄板品質の提供

2Q時

- 9月末の段階で、本体および子会社1社の計2プロジェクトで、10月以降に赤字が発生する見通しがあり、6,000万損失引当の処理をした。プロジェクトの状況は想定内で動いているが、厳しい。
- 昨年に出だしで、損失が1億円以上のプロジェクトが出ていたことに比べると、まだ今年は大分抑えられている。

2 生産性の追求

2Q時

- クレスコ本体の基幹系システムが全面刷新し、10月1日から稼働。今後は事務の生産性が向上する。今後はグループ内展開を進める。

3 リソース戦略の強化

2Q時

- 10月1日にベトナム現地法人を設立
- 北海道と九州のニアショアは、プロジェクトルームを増設し、かなり活況。

Next, I would like to explain the issues that need to be addressed in the form of qualitative dialogue and the status of our responses. The material on hand says that we talked about this in the second quarter, but the question is what happens when the third quarter is over?

Regarding quality, I talked about this a little bit earlier, but the provision for loss has worsened to JPY140 million in the third quarter. Further, our subsidiaries may not have posted losses yet, but their profits have been reduced by large projects. Therefore, it is difficult for all these subsidiaries to do well. We think this is not good, but for us this is an endless issue that will continue for many years.

This is because new technologies are emerging steadily and each project is different from one customer to another, so we cannot make a mistake when we are doing it. We believe that we must continue to mount activities to minimize their impact as much as possible. However, there are also unprofitable projects due to quality issues, but we are putting our best effort in other projects and the figures show no significant impact.

As for pursuit of productivity indicated by point two in the slide, on October 1 of last year, we completely renewed our core systems and main units. The settlement of accounts in the third quarter was successfully completed with the new system and the system is now fully operational. We expect productivity to rise steadily in the future.

Regarding strengthening our resource strategy, I want to say two things about this. It is written here that we will expand the project room, but the floor space is not quite enough. We are also renting out several locations, so we plan to increase our capital in Shinagawa, Hokkaido and Kyushu in the first half of next fiscal year from April to September.

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In the course of our business, we work together not only with our employees but also with our business partners. We also provide training on new technologies for our business partners to improve their skills. We would like to do more new jobs with our business partners, such as cloud, AI, and RPA, so we are carrying out a number of training sessions, asking them to obtain various qualifications and getting them to work together with us.

② 今期の見通し

2.3. 対処すべき課題の対応状況②

連結

※3Qの対応状況は口頭でご説明し、後日、議事録を当社サイトで公開いたします。

4

人材の採用と育成

2Q時

- 2020年度の新卒採用は、本体は予定通りに完了。
- 中途採用は苦戦中。費用をかけてでも、採用を進めていく。

5

新技術の研究・開発

2Q時

- AIに力を入れている。学会での論文発表や講演、インタビュー記事の掲載等、社外にアピールした結果、色々と引合いがきているが、金額的に大きな数字にはなっていない。社員教育、社外への発信をもっと進めていく。

6

グループ連携の強化

2Q時

- 10月1日に、子会社アイオスが同社子会社イーテクノを統合した。

7

営業体制およびお客様とのリレーションシップの強化

2Q時

- 特になし

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The next item is the recruitment and training of human resources and we have already begun recruiting for FY2021. We expect to struggle in this area because the market is a seller's market.

The fifth item is the research and development of new technologies. We put in one sheet of paper, but recently we have been putting out joint statements on the results of development at the customer's side and our employees have written technical books and put them on the market at bookstores and we use them in training. We have also been building a good relationship with universities by going there to conduct practical training, exercises, and lectures. Today, a graduate school student at Nagaoka University of Technology has come and is conducting practical training activities.

Further, there is an increasing number of cases in which customers work with us by being second to training. We are doing a variety of activities not only in our company, but also outside the company.

In addition, in November of the next fiscal year, we will hold an event called CRESCO Fair where all our employees will join. We will use new technologies to make various things and display them internally. We will also invite some of our customers and business partners, as we are planning to turn it into a major event. We plan to hold such an event with the purpose of raising the level of our technological capabilities.

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Let's go to the sixth item. With the aim of strengthening cooperation within the Group, we plan to conduct extensive personnel exchanges with Group companies toward the new fiscal year. They will be going back and forth.

The seventh item is the strengthening of the sales system and our relationship with customers. We are now formulating the plan for next year, so while that will be for next year, we are planning an event for customers and an executive event in December. As for the sales unit, it is developing activities to sell a variety of stuff to existing clients, with considerable focus on the marketing of subscriptions, cloud, RPA, and so forth.

② 今期の見通し
2.3. 対処すべき課題の対応状況③
連結

※3Qの対応状況は口頭でご説明し、後日、議事録を当社サイトで公開いたします。

8
新規ビジネスの組成

2Q時

- ソリューションの売上を増やしていく。
- 2Qは、Amazonのクラウド「AWS」に関するサービス「Creageアカウントプラス」と、外部のサービスと提携した「セキュリティ診断サービス」を発表した。

9
コーポレートガバナンスの推進

2Q時

- 特になし

10
健康管理と働き方改革の推進

2Q時

- 9月末に、健康経営に関する取組み宣言をした。認定までもっていきたい。

11
ダイバーシティへの取組み

2Q時

- 9月に、厚労省から「プラチナくるみん」に認定された。

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Item eight says formation of new businesses. In terms of sales of solutions, the sales department is mainly selling subscriptions and this continues to be the case. This is a considerable increase in monetary terms. Although the total amount is still small, its orders amount to several hundred million yen, so the growth rate is quite high.

Regarding corporate governance, with the change in internal system, we have taken a process of confirming that is all right in terms of the internal control system. Another point is that the Civil Code will be revised in April and we are conducting lectures for related parties regarding the impact of this revision. We do not expect such a significant impact to come from that.

The 10th point is the promotion of health management and work style reform. I have two points about this. Starting in April of the next fiscal year, we will shorten working hours. So far, we've been working eight hours, but we will change it to seven and a half hours. I think the labor cost is rising and this has become the trend in the world now, so we decided to do it too.

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I heard from general affairs earlier that we have been unofficially declared as a corporation that excels in health and productivity management. There were apparently about 2,500 companies as of last year, but in any case, being provisionally announced will become our selling point when it comes recruitment, so we are also mounting such activities.

In terms of initiatives for diversity, Minister Koizumi has already taken childcare leave and other measures. However, I think that it is becoming common in our company for employees, including male employees, to take such leave. There have also been conversations in the past that our company is not well known, we are engaged in activities as a sponsor and we will continue to do so. We will continue these two points in the next fiscal year as well.

One thing we are doing is we serve as a sponsor of FC Tokyo. It is our fifth year, but last year they have been very active and almost won the championship. Further, this is the third year that we are the main sponsor of the professional golfer Shina Kanazawa. We will continue to support them.

Lastly, as announced on January 7, we are currently in the process of equity financing using our own shares. It is expected to raise more than JPY2 billion. The biggest purpose of the money is for M&A or capital and business alliances. Talks for those are constantly progressing, so we will put money there. In addition, we want to invest in development resources and in the development spaces I mentioned earlier. We want to use the funds for investments in those areas, as well as in research and development.

That is all from me. We will now accept questions.

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Question & Answer

Moderator: Thank you for your explanation. Now, it's time for the question-and-answer session. If you have any questions, please raise your hand. When you are going to ask a question, a microphone will be brought to you, so please talk in the microphone. We plan to publish this briefing in full, including the question-and-answer section. Therefore, if you say your company name or your name when you ask a question, it will be disclosed as is. If you wish to stay anonymous, please do not say your name when asking questions.

Does anyone here have a question? This is your opportunity to ask. Anyone?

Participant: I am from Daiwa Securities. I have one question. You talked about the unprofitability of subsidiaries earlier. Please talk about their number and the amount involved, as well as the impact on the Company's performance in the future.

Nemoto: There are a total of three main unprofitable projects this fiscal year. One is the main unit. Although it has virtually returned to normal, the amount of its deficit is just under JPY100 million. The other cases are in different companies, but they are our subsidiaries.

One such project is the SAP project, where the loss probably amounted to about JPY150 million. The other project has not reached the red yet, but the order amount is about JPY500 million. We would have originally targeted gross profits of JPY100 million or JPY150 million. However, it has racked up excessive costs and used an extra JPY50 million or so leading to a considerable reduction in profits. I am aware that the three main projects are unprofitable for the Group as a whole. Does that answer your question?

Participant: Thanks. If I may add, could you please also discuss the causes?

Nemoto: I have not heard all the details, but there was an error in estimates in relation to the deficit in the main unit's project that amounts to approximately JPY100 million. It has ultimately ended, but since the amount produced is about three times that of the initial estimate, it is only natural that the costs increased. Customers also understand this and I think they will let us eliminate this gradually from the next fiscal year onward. In addition, there was a mistake in estimation in the SAP project. It feels like we ran into a situation where the upstream side has not done its part properly.

We have also heard that although it has not yet gone to the red, the reduction in profits of another company's large project was because quality problems arose at the end of the project and so the company had to use JPY40 million to JPY50 million for measures to stabilize the quality. Is that OK?

Participant: That's all. Thanks.

Moderator: Thanks. Does anybody else have questions?

Participant: Thanks for your explanation. I would like to ask you about outsourcing costs. Looking at the supplementary data, I feel that the outsourcing costs for the past two quarters have risen significantly. What is the background to this situation and what measures are you going to take in the future? Although you talked about resources earlier, please tell us about those matters.

Nemoto: In order to respond urgently to the unprofitable project that I mentioned just now, we must resort to outsourcing since employees are working in a sort of tight schedule. We temporarily raised the level by ordering 20 or 30 people. But as I said earlier, if we look at the third quarter alone, the operating income

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margin has fallen by 0.9 percentage points compared to the previous year, so I think that the cost in that area is working.

However, it is transparent to some extent and we considered it to be something where we can see the future. In any case, I think that this is a major cause.

Participant: Thanks. In addition, you also said that you are a little concerned about the next fiscal year, as differences seem to have emerged in the area of developments. Specifically, industry-wise, is this going to happen in the automotive industry? Please talk about this area.

Nemoto: In the industry of automobiles, there are also some factories that are not operating right now and we are doing business with many major customers in air transportation, airplanes, and travel industries. These areas are directly affected by the outbreak of the new strain of coronavirus. In fact, when I made my New Year greetings in January, there was no talk about that virus at all. However, if you watch the news over the past one to two weeks, it looks like the impact is significant. This is just my guess, but I think it's not really like that. That's how the situation is.

Participant: Excuse me. Has the expansion from infotainment to sensor systems in the embedded car electronics segment been deliberate? Or are users and development heading toward that direction? What are your thoughts about this and in what area would you like to expand in the future?

Nemoto: Sensors are like the link in automatic driving that we are talking about today. However, I think customers will be steadily making investments in such new things. Since a considerable amount of goods have been manufactured for a long time in the field of infotainment, even in our talks with car manufacturers, they are asking us to save them a considerable amount in costs. We are also talking with component manufacturers, but we often hear about such requests, so we would like to do more in new areas of investment if possible.

Participant: Thanks.

Moderator: Thank you. Any other questions? OK?

There seems to be no more questions, so to end this briefing, I would like to ask you for one more thing. This is about completing the questionnaire we told you about in the beginning. I would like to ask for your continued cooperation in this regard.

And with that, we hereby end today's financial results briefing. Thank you for coming.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked as follows: [Inaudible].*
2. *This document has been translated by SCRIPTS Asia.*

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