



Summary of Quarterly Financial Results Press Conference for the Nine Months Ended December 31, 2019



2020/2/4
CRESCO LTD.

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1 Results main points

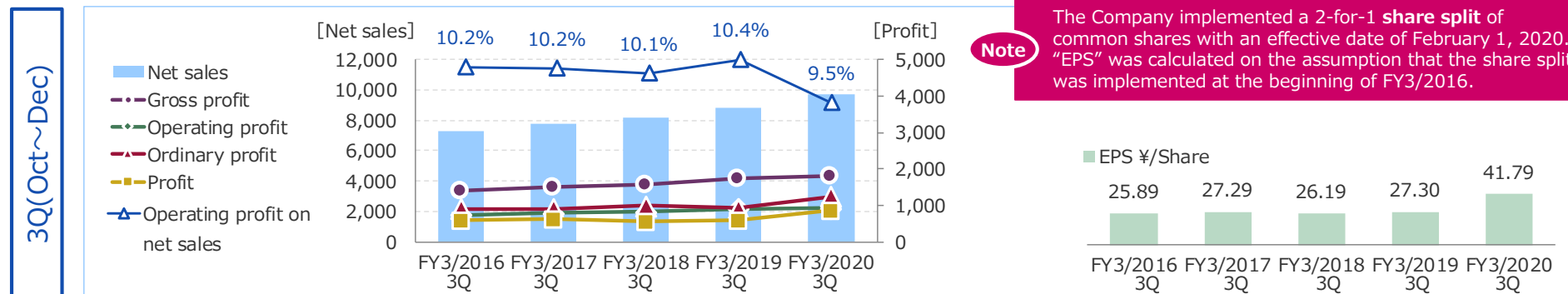
- **Business environment:** Despite various concerns such as the economic dispute between the U.S. and China and the slowdown of the global economy, in addition to instability in the Middle East, IT investment was supported by digital transformation centered on “aggressive IT management.”
- Net sales and profit both increased with double-digit growth in the third quarter. Despite being unable to wipe out the effects of the shortage of human resources assigned to development, it was covered by the optimization of order volume and reinforcement of the development team.
- “CRESCO VIETNAM CO., LTD.” began operating with offshore development as its core function in the CRESCO Group from October 1.

- ▣ **Net sales:** Increased 3,129 million yen due to the review of the customer portfolio that adapted to the changing market. (up 12.1% year on year)
- ▣ **Operating profit:** Increased 337 million yen (up 14.6% year on year). Profit ratio improved “from 9.0% to 9.2%” by 0.2%.
- ▣ **Ordinary profit:** Increased 487 million yen (up 18.4% year on year).

3Q (cumulative)		FY3/2018	FY3/2019	FY3/2020	YoY	Full-year progress	Full year	
							FY3/2020 Forecast <Announced on May 9, 2019>	YoY
	Net sales	24,459	25,828	28,957	112.1%	76.4%	37,880	107.5%
	Gross profit	4,605 (18.8%)	4,809 (18.6%)	5,379 (18.6%)	111.9%			
	Operating profit	2,297 (9.4%)	2,316 (9.0%)	2,653 (9.2%)	114.6%	78.1%	3,400 (9.0%)	106.0%
	Ordinary profit	2,683 (11.0%)	2,654 (10.3%)	3,141 (10.8%)	118.4%	82.4%	3,813 (10.1%)	104.2%
	Profit	1,720 (7.0%)	1,673 (6.5%)	2,003 (6.9%)	119.7%	82.9%	2,416 (6.4%)	105.7%
Note	EPS ¥/Share	77.90	76.49	94.09			114.28	Note

Note: Respective profit ratios shown in parentheses.

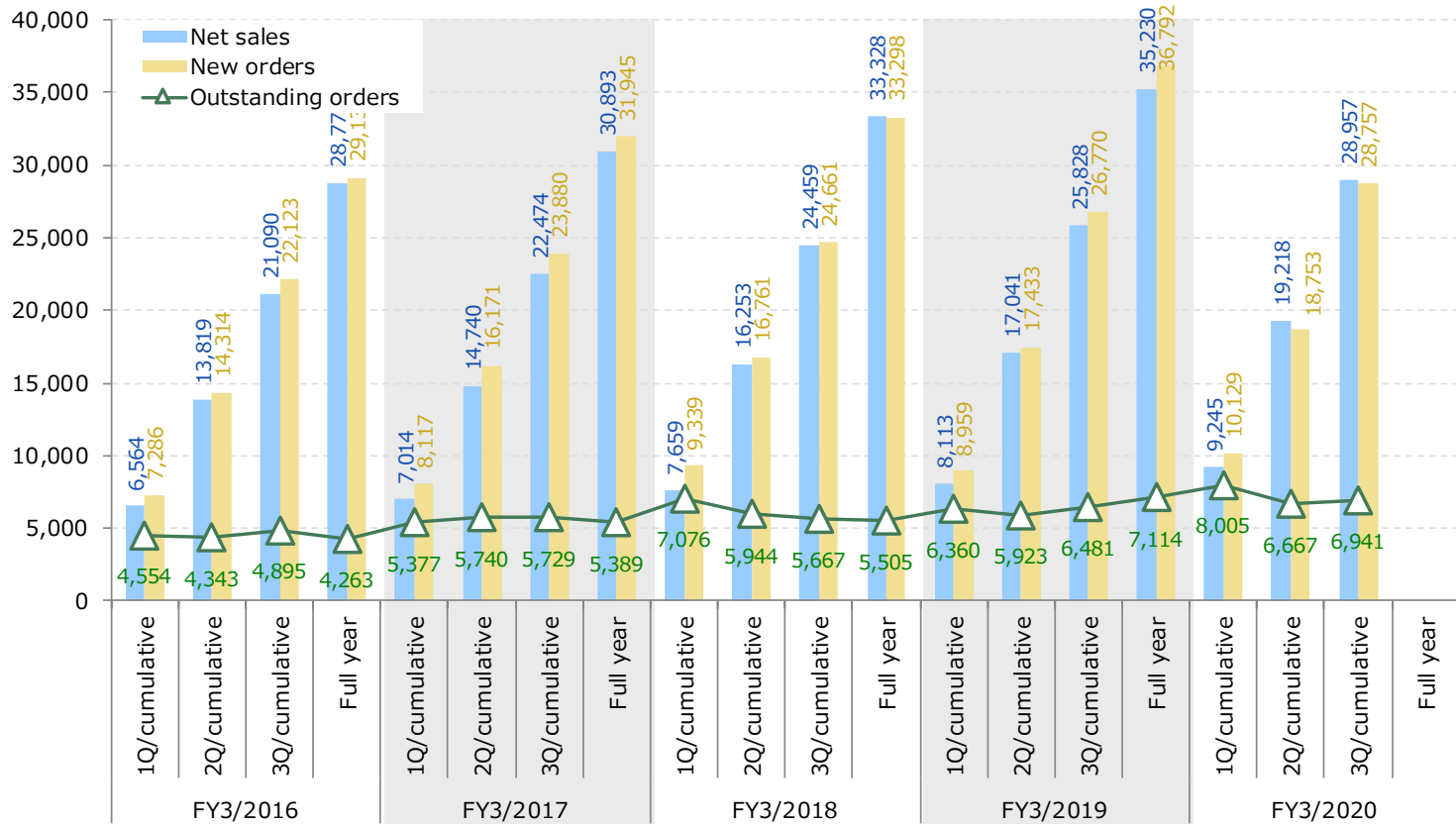
(Unit: Amounts less than 1 million yen omitted)



1.2. Consolidated quarterly net sales, new orders and outstanding orders



- Customer inquiries continued to be strong from the first half, backed by aggressive IT investment and the digital transformation (DX).
 - Software development:** There was a decrease in orders related to financial services, but orders from existing customers (public service, distribution & other) were steady, including at subsidiaries.
 - Embedded software development:** Orders were steady overall, despite changes in the mix of customers related to car electronics.
- Sales from service business expanded, and orders of DX projects (projects related to cloud and AI in particular) were steady.



< New orders >
year on year
107.4%

< Outstanding orders >
year on year
107.1%

(Unit: Amounts less than 1 million yen omitted)

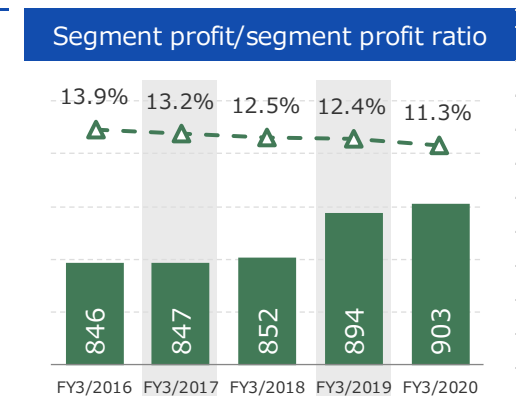
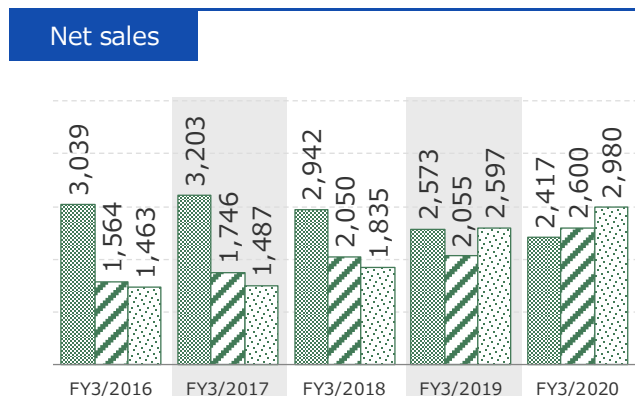
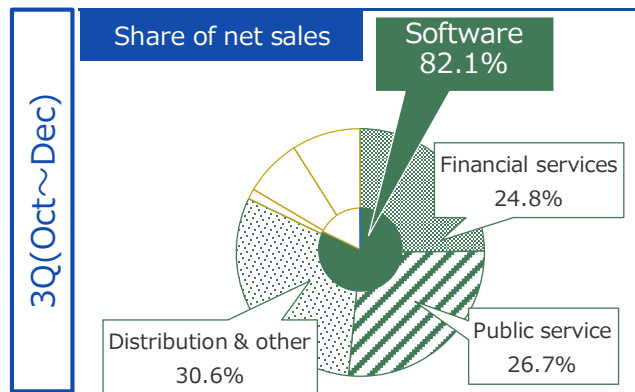
- Net sales **increased 12.2%** due to reinforcement of sales and the development team (including offshore), and the thoroughness of group-wide coordination.
- Segment profit **increased 14.0%** due to the effort to reinforce project management and quality management.
- 「The decrease in sales in “Financial services” was covered by “Public service” and “Distribution & other.” The increase in orders at subsidiaries, including CRESCO VIETNAM CO., LTD., also contributed.

- ▣ **Financial services:** There was a large change between banking related customers, and a decrease in sales. (sales decreased 144 million yen year on year)
- ▣ **Public service:** IT investments from existing major customers (human resources, travel, transport) continued to increase. (sales increased 946 million yen year on year)
- ▣ **Distribution & other:** Orders expanded at subsidiaries (IOS Co., Ltd.; CRESCO HOKURIKU. LTD.; CREATIVE JAPAN, LTD.; Mexess Co., Ltd.; ARS Corporation Ltd.). (sales increased 1,789 million yen year on year)

3Q (cumulative)		Software	Net sales	FY3/2018		FY3/2019		FY3/2020		YoY
			Financial services	9,025	7,797	7,653	98.1%			
			Public service	5,572	6,266	7,213	115.1%			
			Distribution & other	5,817	7,099	8,888	125.2%			
			Net sales	20,415	21,163	23,755	112.2%			
			Segment profit	2,500 (12.3%)	2,313 (10.9%)	2,637 (11.1%)	114.0%			

Note: Respective profit ratios shown in parentheses.

(Unit: Amounts less than 1 million yen omitted)



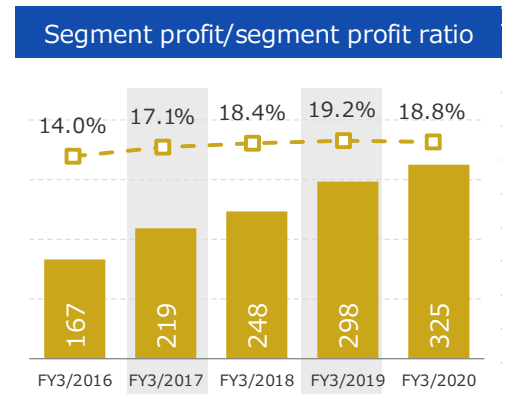
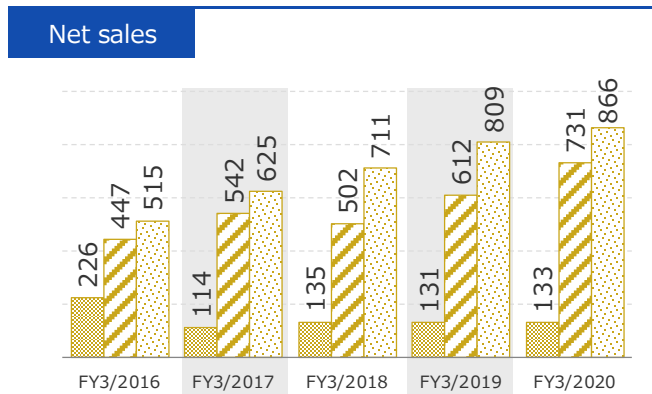
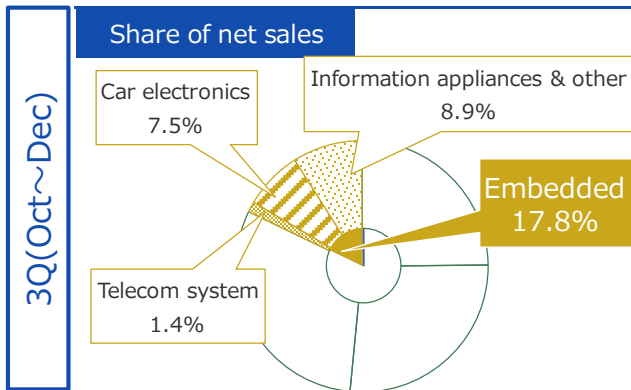
- Net sales **increased 11.7%** and segment profit **increased 13.5%** due to not only continued requests for additional staff from major customers and the review of basic contracts (conclusion of comprehensive agreements), but also initiatives for increased productivity and efforts, such as nearshoring, to reinforce the development team.

- ▣ **Telecom system:** There was a slight increase in smartphone-related sales. (sales increased 6 million yen year on year)
- ▣ **Car electronics:** Sales expanded in our mainstay area of infotainment, and development of sensors was steady. (sales increased 381 million yen year on year)
- ▣ **Information appliances & other:** Sales of digital information appliances were steady. (sales increased 156 million yen year on year)

		FY3/2018	FY3/2019	FY3/2020	YoY	
3Q (cumulative)	Embedded	Telecom system	376	383	389	101.6%
		Car electronics	1,501	1,801	2,183	121.2%
		Information appliances & other	2,090	2,446	2,602	106.4%
	Net sales		3,968	4,631	5,175	111.7%
	Segment profit		649 (16.4%)	855 (18.5%)	971 (18.8%)	113.5%

Note: Respective profit ratios shown in parentheses.

(Unit: Amounts less than 1 million yen omitted)



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2 Future outlook

- Due to current business circumstances, **there are currently no changes to the year-end forecast** announced on May 9, 2019, despite the possibility of higher than expected performance.
- In addition to further reinforcing our technology and quality, we are working to build new business by expanding education of AI and cloud engineers, pursuing alliances with other companies, pursuing open innovation, and industry-academia collaboration, and are aiming for qualitative and quantitative growth.

Full Year	FY3/2019				FY3/2020	
	Forecast	YoY	Actual	YoY	Forecast	YoY
	<Announced on May 8, 2018>				<Announced on May 9, 2019>	
Net sales	35,500	106.5%	35,230	105.7%	37,880	107.5%
Gross profit			6,673 (18.9%)	105.8%		
Operating profit	3,280 (9.2%)	106.1%	3,207 (9.1%)	103.7%	3,400 (9.0%)	106.0%
Ordinary profit	3,580 (10.1%)	102.5%	3,658 (10.4%)	104.8%	3,813 (10.1%)	104.2%
Profit	2,416 (6.8%)	109.7%	2,285 (6.5%)	103.8%	2,416 (6.4%)	105.7%
Note EPS ¥/share	110.42		104.46		114.28	Note

Note: Respective profit ratios shown in parentheses.

Note

The Company implemented a 2-for-1 **share split** of common shares with an effective date of February 1, 2020. "EPS" was calculated on the assumption that the share split was implemented at the beginning of FY3/2016.

2.2. Forecast of cash dividends



- November 6, 2019
We announced increases in our interim and year-end dividend forecasts (from 34 yen to 36 yen each, an increase of 2 yen). The annual dividend will be 72 yen (an increase of 4 yen).
- As of February 1, 2020
A 2-for-1 share split was implemented.
Forecast of cash dividends remains unchanged. (The year-end dividend will be revised from 36 yen to 18 yen due to the share split)

Note

	FY3/2018	FY3/2019	FY3/2020 Forecast		
	Actual	Actual	Actual	<Announced on May 9, 2019>	Change
Interim	29 yen	32 yen	36 yen	36 yen	4 yen
Year-end	* 43 yen	34 yen	–	18 yen	-16 yen
Full year	72 yen	66 yen	–	–	–
Dividend payout ratio	36.0%	31.6%	–	31.5%	-0.1%
Dividend yield	2.0%	2.0%	–	–	–
DOE	5.5%	4.6%	–	–	–
Total dividend payments	781 Millions of yen	722 Millions of yen	–	–	–

* The year-end dividend for the fiscal year ended March 31, 2018 includes a special dividend to commemorate the 30th anniversary of our founding.

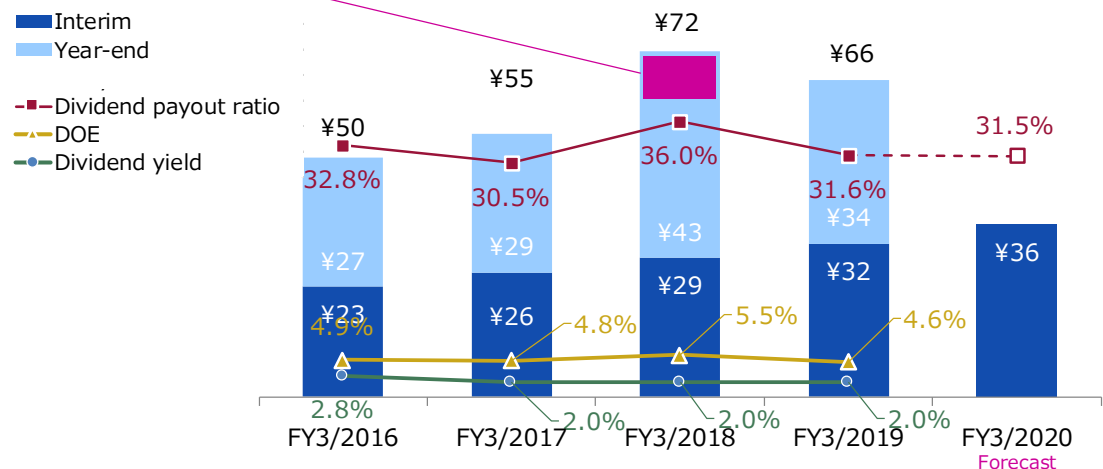
Shareholder return policy

- 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.
- 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 FY3/2016 interim dividend until the FY3/2020 interim dividend.
- The total forecast 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 business environment is steady, backed by the development of infrastructure related the Tokyo Olympic Games, the expansion of inbound demand and firm domestic demand.

- 2019年12月の日銀短観では、業況判断指数(DI)が大企業製造業、非製造業ともに悪化するなど、内外の先行き不透明感が継続。
- According to the “Corporate IT Trend Survey 2019” conducted by the Japan Users Association of Information Systems, 47.6% of corporate respondents plan to increase their budget again for FY2019 following an increase in the previous year.
- Capitalizing on the trend of “digital transformation,” which promotes the transformation of business models that utilize digital technology, in addition to more active IT investment under the backdrop of a cyclical improvement in performance of companies and “aggressive IT management,” we are certain to expect more demand for systems development.
- While IT services are becoming more of a commodity and prices are falling, the market for cloud-based systems will drive market growth, which, in combination with advanced technology trends such as IoT (Internet of Things), AI (Artificial Intelligence)/machine learning, and robotic process automation (RPA), will further increase investment appetite.
- The Company's current business conditions have also allowed us to confirm the customers' investment appetite and we are certain to expect further boost in demand.

- With the advent of “digital transformation,” areas expected to grow most from within the Company's mainstay segments: human resources, travel, logistics, automotive electronics, and information appliances are experiencing further expansion of the customer base and are expected to grow for the time being.
- We expect that promising business opportunities will arise from, among others, renewal of core systems, systems to support new services, embedded systems for new products, systems designed to address the needs for productivity improvements arising from manpower shortage (AI, RPA), and transition to the cloud for the purpose of reducing hardware operation cost.
- Across the CRESCO Group, we are active in various technical fields, and combined, our services can capture demand from mostly all of the world’s trends in these fields. As a partner of companies, organizations, and industries, we are expected to bring about a “digital transformation.”



- In the following period, we will utilize the lessons learned from the previous fiscal period (loss of 100 million yen due to 5 unprofitable projects) to gain a solid foothold centering on reinforcement of quality management and productivity improvement, while also stimulating growth.
- As a consequence of the expanding demand, we continue to face a human resource shortage. Accordingly, constant acquisition and development of human resources, productivity improvement, and strengthening of development systems are top priorities.
- In order to lead the “digital transformation” and to offer speedily realistic proposals which enable customers to realize their own growth through the innovation of their business model, we will reinforce our technology and quality aspects further in software development and embedded software development businesses, which constitute the pillar of our business.
- We will actively incorporate advanced technology and enrich services and solutions contributing to customers’ growth.
- Using the sales skills and experience that each Group company has acquired over many years, the CRESCO Group will quickly detect changes in the environment that its customers operate in; develop new, convenient services that support the business opportunities of its customers; and expand its business, including cooperation within the Group and alliance business with other companies.

- Management in accordance with “CRESCO Ambition 2020”
- Qualitative growth through reinforcement of service quality
- Quantitative growth through reinforcement of resources and technological strategies
- Increase in growth speed through M&As

Five-year vision started in April 2016

CRESCO Ambition 2020
~ Lead the Digital Transformation ~

Ongoing issues according to the five-year vision

1. Providing ironclad quality
2. Pursuit of productivity
3. Strengthening of resource strategy
4. Hiring and development of human resources
5. Research and development of new technologies
6. Enhancing group-wide coordination
7. Strengthening sales structure and relationships with customers
8. Generating new businesses
9. Strengthening corporate governance
10. Promotion of health management and work style reform
11. Initiatives to promote diversity

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Overview of CRESCO LTD.

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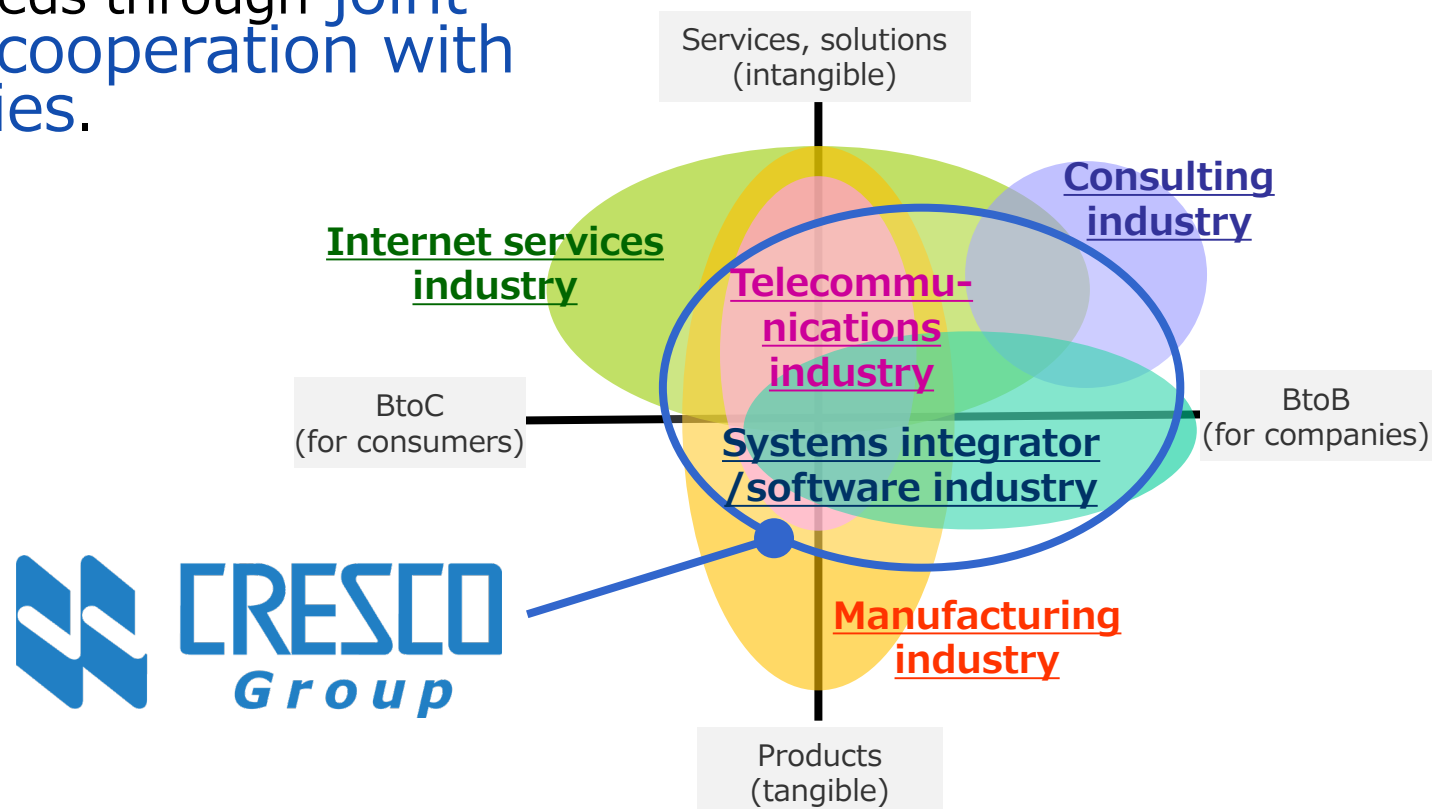
Profile

CRESCO is a system/software development company providing “**order made**” solutions that match our customers’ needs.

Established	April 1, 1988
Representative	Chairman : Toshio Iwasaki President : Hiroyuki Nemoto
Number of employees [as of April 1, 2019]	Consolidated : 2,229 (Male : 1,754 Female : 475) Non-consolidated : 1,236 (Male : 968 Female : 268)
Traded on	Tokyo Stock Exchange (TSE) First Section
Securities code	4674
Listing date	Second Section of TSE : September 2000 First Section of TSE : September 2001
Business sector	Information & Communication
Market capitalization [as of April 1, 2019]	¥41,210 million



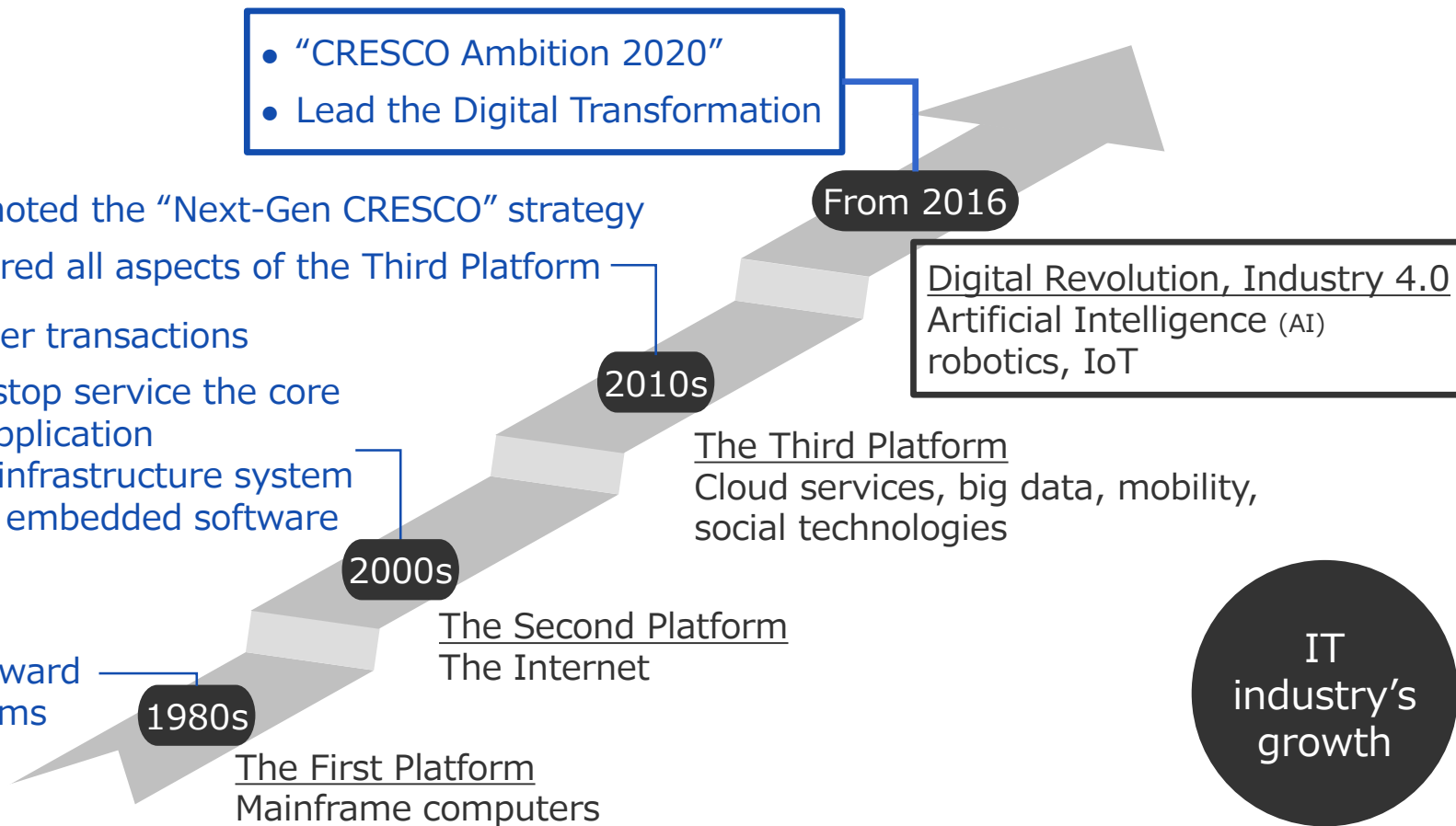
- We cover nearly the entire IT business domain spread predominantly across the BtoB axis.
- We are an **independent systems integrator** without a parent company that is a manufacturer or user corporation.
- We provide a wide range of solutions suiting client needs through **joint projects and cooperation with other industries.**



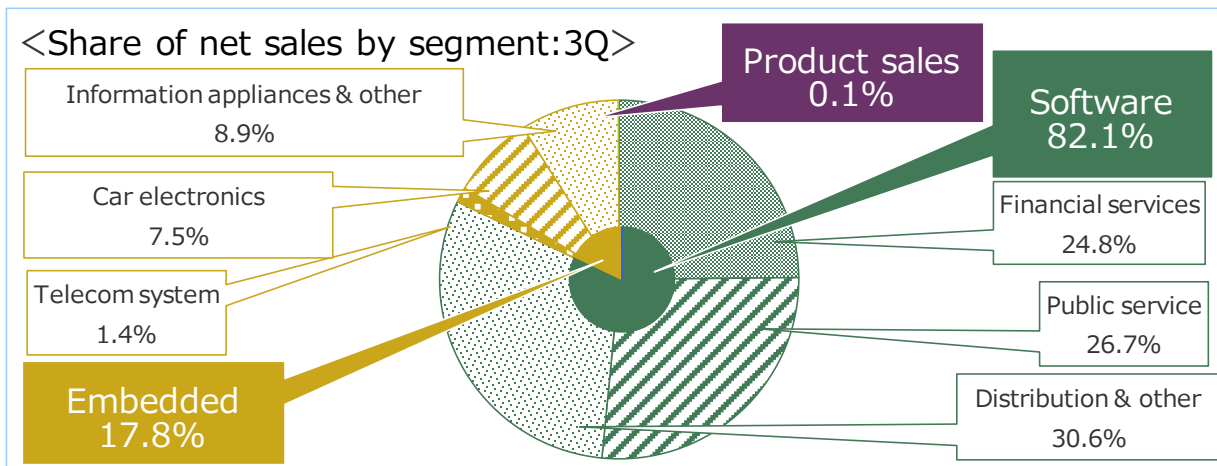
- We are proposing services suited to the changes in IT platforms.
- Technology Laboratory handles advanced technologies with sights fixed firmly on several years in the future.

CRESCO 's step-by-step progress

- Promoted the "Next-Gen CRESCO" strategy
- Covered all aspects of the Third Platform
- Expanded end-user transactions
- Provided as one-stop service the core technologies of application development, IT infrastructure system architecture, and embedded software development
- Founded in 1988 anticipating trend toward open-system platforms

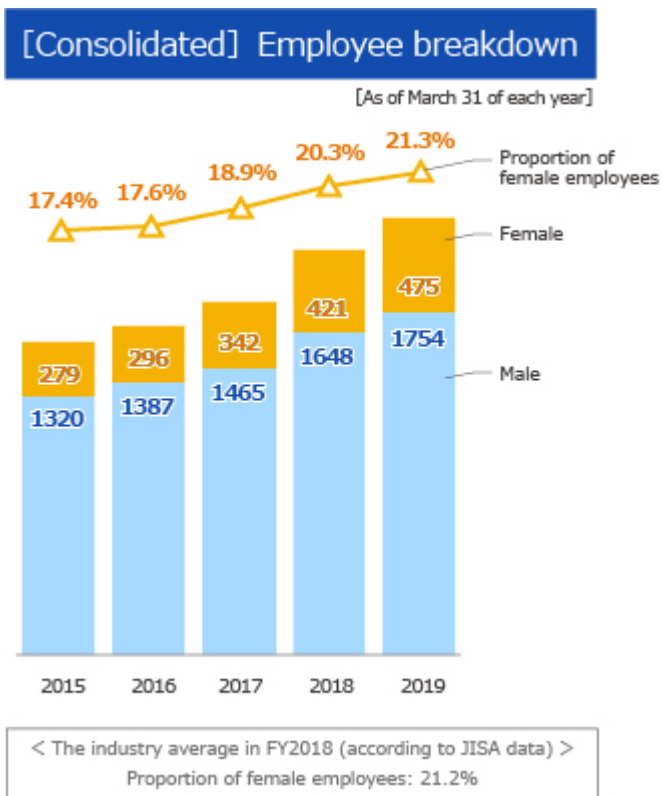


IT industry's growth



Segment	Business	Area
Software development	<ul style="list-style-type: none"> • Business application development • IT infrastructure system architecture • Original products and services 	<ul style="list-style-type: none"> • Financial services (Banking, insurance, payment card, securities, etc.) • Public service (Travel, human resources, airline, railway, electric power, broadcast, medical, etc.) • Distribution & other (Transport, retail, etc.)
Embedded software development	<ul style="list-style-type: none"> • Embedded software development 	<ul style="list-style-type: none"> • Telecom system (Mobile devices, etc.) • Car electronics (Digital meters, center displays, etc.) • Information appliances Other (Digital home appliances, medical equipment, control systems, etc.)
Product sales	<ul style="list-style-type: none"> • Product sales of a subsidiary "CRESCO Wireless, Inc." 	

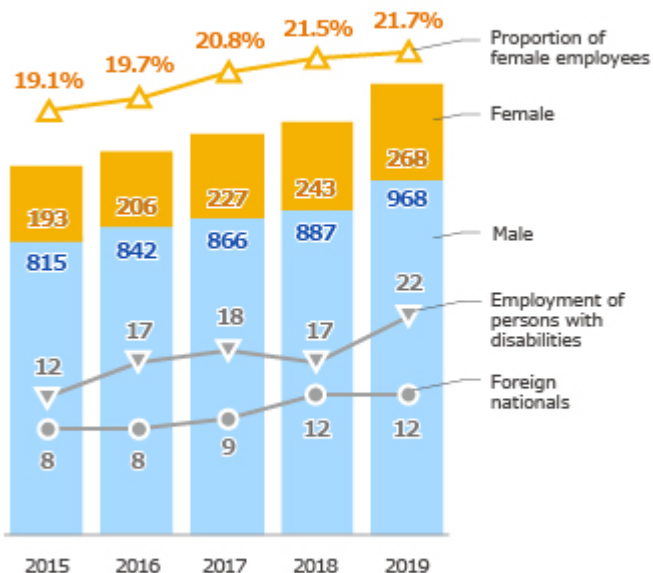
(Unit: Persons)



(Unit: Persons)

Employee breakdown

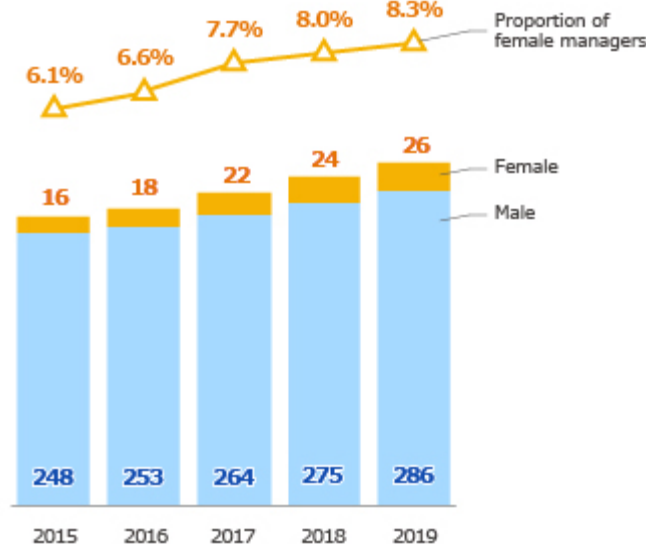
[As of March 31 of each year]



< The industry average in FY2018 (according to JISA data) >
Proportion of female employees: 21.2%

Manager breakdown

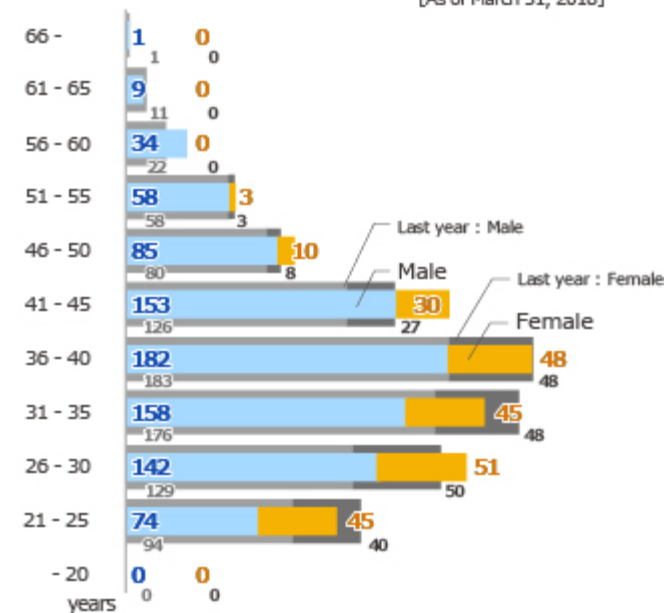
[As of April 1 of each year]



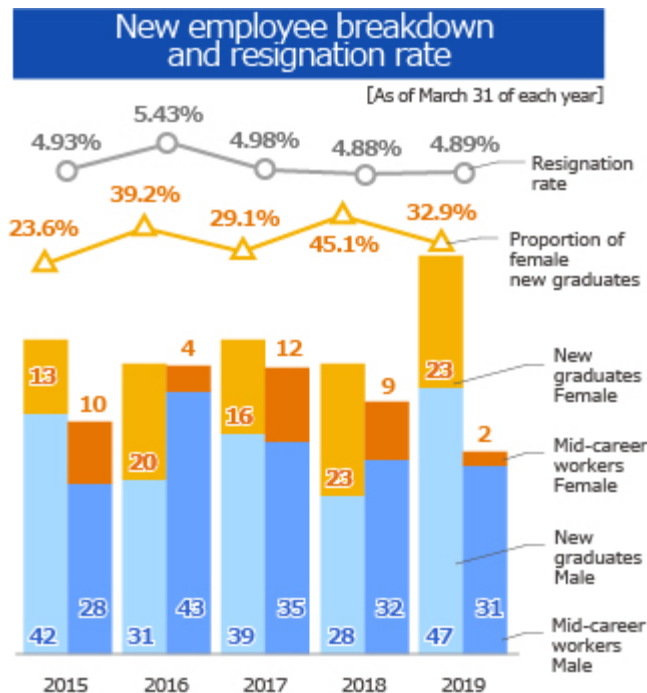
< The industry average in FY2018 (according to JISA data) >
Proportion of female managers: 5.6%

Employee breakdown by age

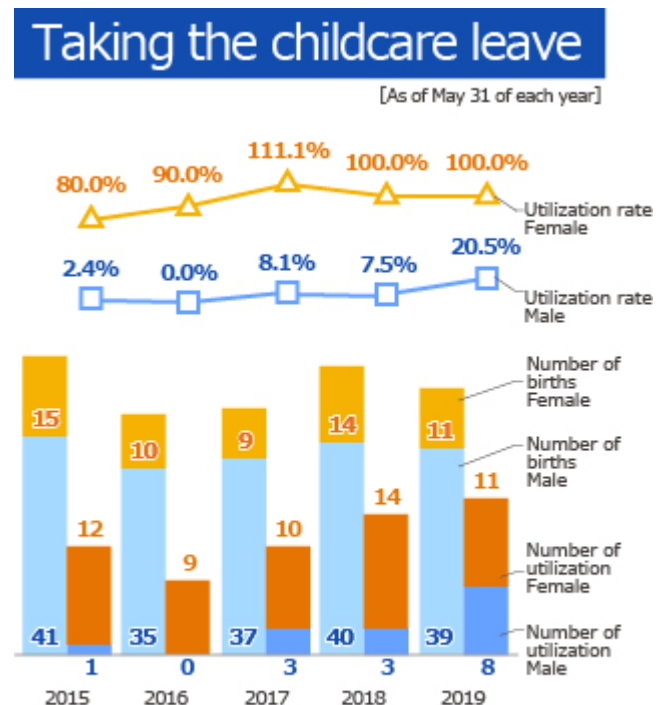
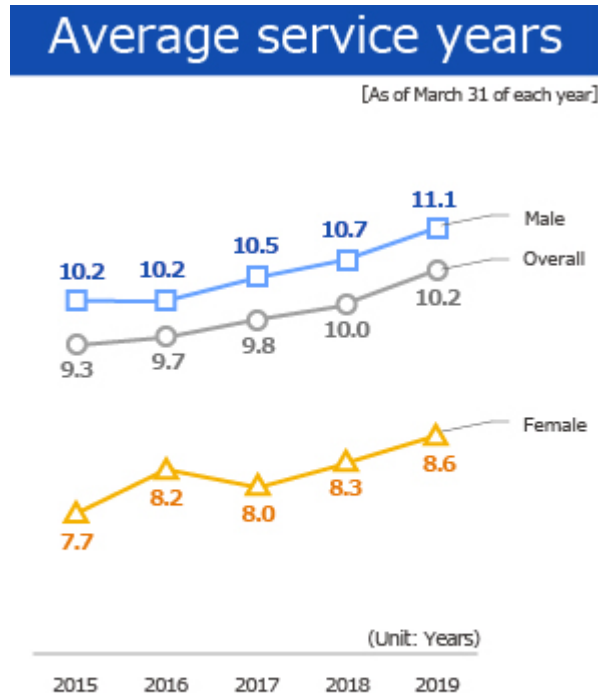
[As of March 31, 2018]



(Unit: Persons)



< The industry average in FY2018 (according to JISA data) >
 Proportion of female new graduates: 32.9%





Overview of CRESCO LTD.

Business indicators and shareholder return

	FY3/2016		FY3/2017		FY3/2018		FY3/2019		FY3/2020	
	Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end
ROA	–	9.2%	–	10.2%	–	9.8%	–	9.2%	–	–
ROE	–	14.8%	–	15.7%	–	15.2%	–	14.6%	–	–
Ordinary profit on total assets	15.6%	15.4%	13.4%	15.4%	16.2%	15.6%	14.3%	14.8%	14.9%	–
Ordinary profit on net sales	10.2%	9.9%	8.7%	10.0%	10.4%	10.5%	10.1%	10.4%	9.9%	–
Operating profit on net sales	8.7%	8.6%	7.7%	8.8%	9.0%	9.3%	8.2%	9.1%	9.0%	–
Turnover of total capital used (Times)	–	1.6	–	1.5	–	1.5	–	1.4	–	–
Financial leverage (Times)	–	2.6	–	2.9	–	2.8	–	2.8	–	–
Current ratio	–	59.2%	–	54.7%	–	57.9%	–	56.3%	–	–
Fixed assets ratio	–	57.9%	–	49.5%	–	59.8%	–	57.2%	–	–
Leverage ratio	–	63.3%	–	66.9%	–	62.5%	–	63.6%	–	–
Equity ratio	–	157.9%	–	153.4%	–	154.9%	–	158.5%	–	–
Debt-to-equity ratio	–	1.8%	–	1.5%	–	9.0%	–	6.1%	–	–
Interest coverage ratio (Times)	–	1264.8	–	2537.7	–	851.7	–	796.4	–	–
Cash flows from operating activities (Millions of yen)	277	1,543	(40)	1,144	960	2,174	351	1,824	1,690	–
Cash flows from investing activities (Millions of yen)	(469)	(1,287)	(381)	(505)	(482)	(179)	(466)	(1,238)	(742)	–
Cash flows from financing activities (Millions of yen)	20	(286)	(273)	(604)	(866)	(606)	(683)	(1,278)	(374)	–
Free cash flow (Millions of yen)	(192)	256	(422)	638	477	1,995	(115)	586	948	–
EPS (Yen)	91.54	152.26	76.64	180.28	103.44	200.25	98.39	208.92	105.47	–
PER (Times)	–	11.9	–	15.4	–	17.8	–	15.9	–	–
DOE		4.9%		4.8%		5.5%		4.6%		–

Disclaimer

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