



Summary of Quarterly Financial Results Press Conference for the Six Months Ended September 30, 2019



2019/11/6
CRESCO LTD.

The background of the slide is a repeating pattern of blue and white waves, resembling a traditional Japanese 'nami' pattern. The waves are arranged in a grid, with each wave consisting of three concentric semi-circles. The top and bottom portions of the slide are filled with this pattern, while the middle portion is a solid white rectangle containing the text.

1 Results main points

■ **Business environment:** Despite the uncertainty of business confidence, the trend of positive growth in IT investment remains against the backdrop of firm domestic demand. Digital transformation (DX) boosted IT investment, which sought value creation and a competitive advantage.

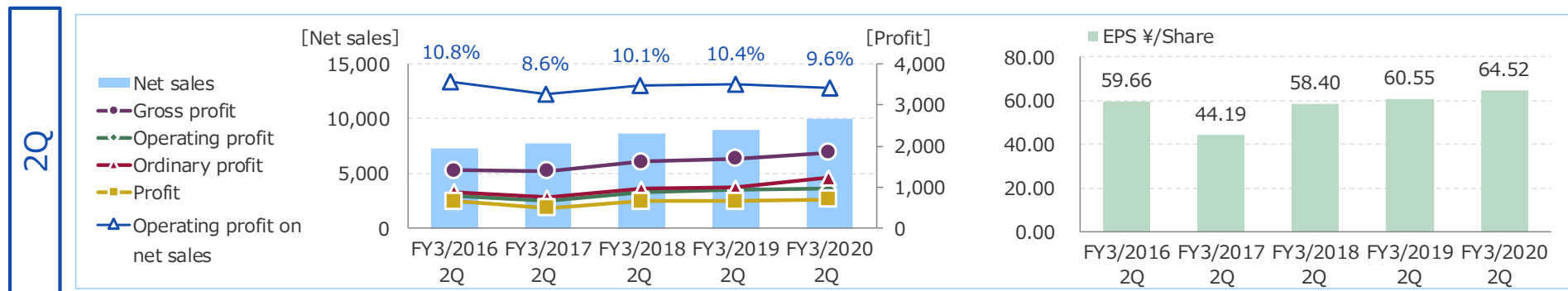
■ Using outstanding orders from the first quarter as a base, net sales in the second quarter saw double-digit growth. Sales and profit increased. Profitability improved without the occurrence of large unprofitable projects due to the reinforcement of the quality management system. Despite being unable to wipe out the effects of the shortage of human resources assigned to development, it was covered by nearshore and offshore development activities.

- **Net sales:** Increased 2,177 million yen (up 12.8% year on year) due to the customer portfolio that adapted to the changing market and effective business structure.
- **Operating profit:** Increased 320 million yen (up 22.8% year on year). Profit ratio improved "from 8.2% to 9.0%" by 0.8%.
- **Ordinary profit:** Increased 175 million yen (up 10.2% year on year).

2Q (cumulative)	FY3/2018	FY3/2019	FY3/2020	YoY	Half-year progress	FY3/2020 Forecast <Announced on May 9, 2019>	YoY
	Net sales	16,253	17,041	19,218	112.8%	104.1%	18,460
Gross profit	3,025 (18.6%)	3,067 (18.0%)	3,586 (18.7%)	116.9%			
Operating profit	1,469 (9.0%)	1,405 (8.2%)	1,726 (9.0%)	122.8%	115.1%	1,500 (8.1%)	106.7%
Ordinary profit	1,687 (10.4%)	1,720 (10.1%)	1,896 (9.9%)	110.2%	111.3%	1,704 (9.2%)	99.0%
Profit	1,157 (7.1%)	1,076 (6.3%)	1,139 (5.9%)	105.8%	102.0%	1,117 (6.1%)	103.8%
EPS ¥/Share	103.44	98.39	105.47			102.10	

Note: Respective profit ratios shown in parentheses.

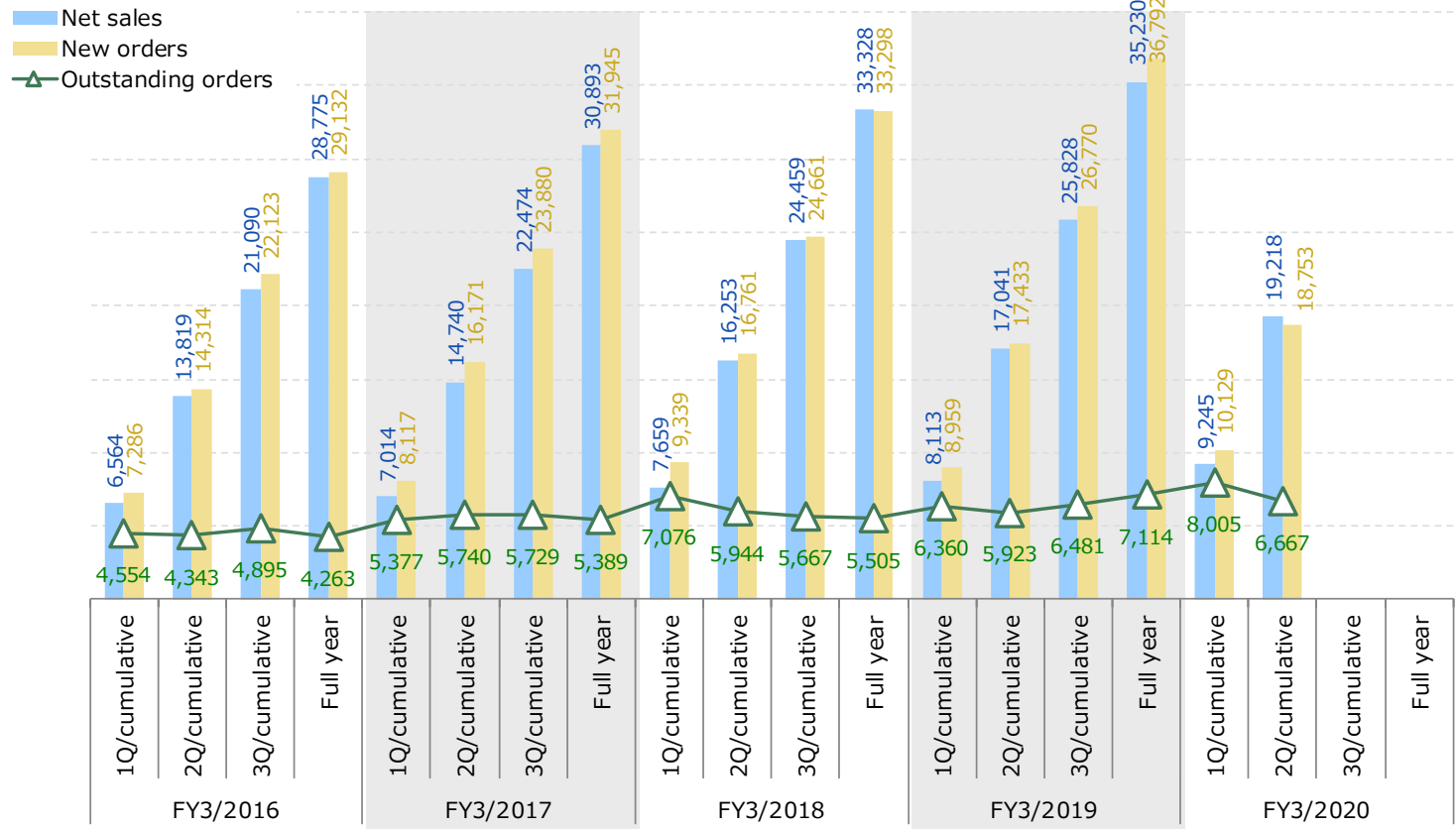
(Unit: Amounts less than 1 million yen omitted)



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



- Customer inquiries continued to be strong backed by aggressive IT investment and the continued digital transformation (DX).
 - Software development:** There was a slight increase in sales related to financial services, and increases in inquiries from existing customers (public service, distribution & other).
 - Embedded software development:** Orders from automobile related customers were partially recorded in October. Inquiries from major customers were steady.
- Sales from service business expanded, and orders of digital transformation (DX) projects increased. Reinforcement of the development team through group-wide coordination is one issue.



< New orders >
year on year
107.6%

< Outstanding orders >
year on year
112.6%

(Unit: Amounts less than 1 million yen omitted)

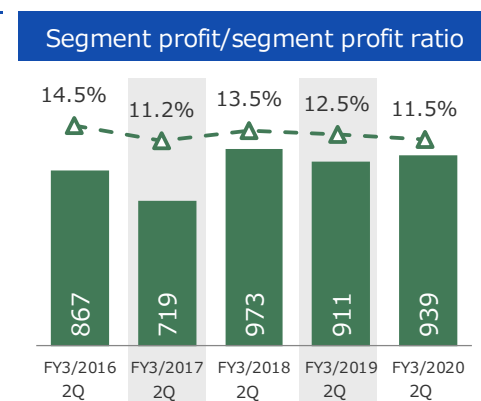
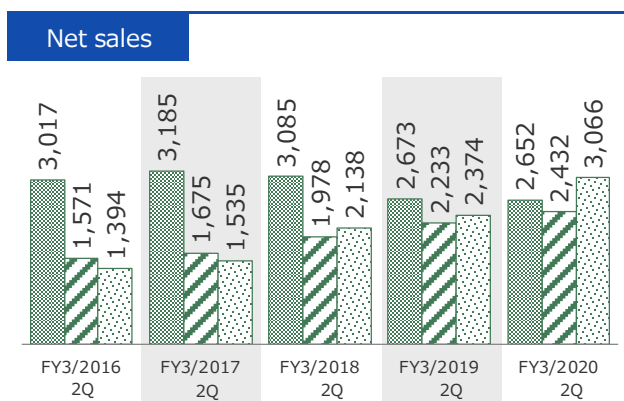
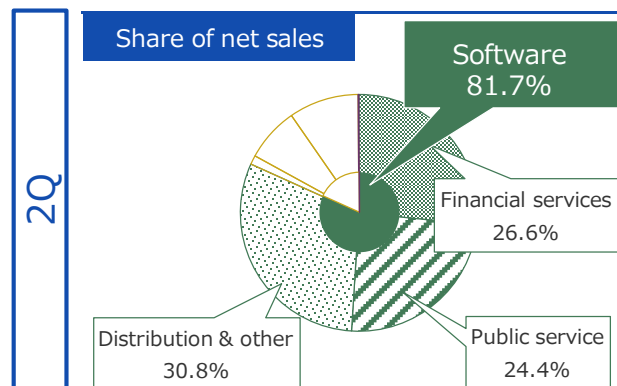
- Net sales increased 13.1% due to reinforcement of sales and the development team (including offshore), and thorough group-wide coordination.
- Profitability improved due to the effort to reinforce project management and quality management. Segment profit increased 22.2%.
- We received a positive boost as a consolidated effect of the M&As carried out in the previous year (ARS and e-techno).

- ▣ **Financial services:** There was large variability between customers, and a slight increase in sales. There was an overall recovery trend. (sales increased 11 million yen year on year)
- ▣ **Public service:** IT investments from existing major customers (human resources, travel, transport) increased. (sales increased 402 million yen year on year)
- ▣ **Distribution & other:** Orders expanded at subsidiaries (IOS Co., Ltd.; CRESCO HOKURIKU. LTD.; Nexus Corporation). (sales increased 1,406 million yen year on year)

(Unit: Amounts less than 1 million yen omitted)

2Q (cumulative)		Software	Net sales	FY3/2018	FY3/2019	FY3/2020	YoY
				Financial services	6,083	5,224	5,235
	Public service	3,521	4,211	4,613	109.6%		
	Distribution & other	3,982	4,501	5,907	131.2%		
		13,586	13,937	15,756	113.1%		
	Segment profit	1,648 (12.1%)	1,419 (10.2%)	1,734 (11.0%)	122.2%		

Note: Respective profit ratios shown in parentheses.



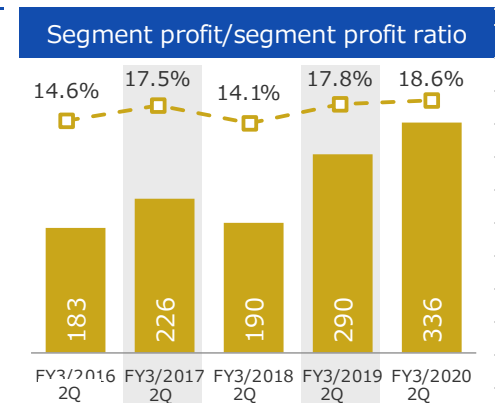
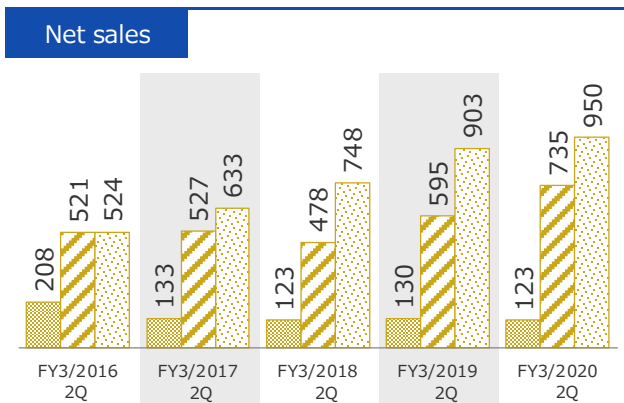
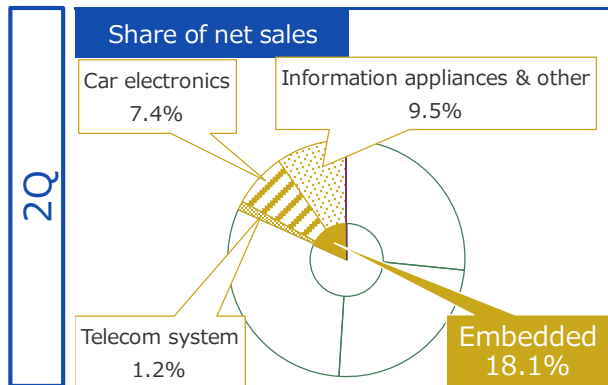
- Net sales increased 11.9% and segment profit increased 16.0% due to not only continued requests for additional staff from major customers and the review of basic contracts (conclusion of comprehensive agreements), but also initiatives for increased productivity and efforts, such as nearshoring, to reinforce the development team.

- Telecom system:** There was a slight increase in smartphone-related sales. (sales increased 4 million yen year on year)
- Car electronics:** Sales were steady in our mainstay area of infotainment. (sales increased 262 million yen year on year)
- Information appliances & other:** Sales of digital information appliances were steady. (sales increased 99 million yen year on year)

(Unit: Amounts less than 1 million yen omitted)

		FY3/2018	FY3/2019	FY3/2020	YoY	
2Q (cumulative)	Embedded	Telecom system	240	251	256	101.8%
		Car electronics	998	1,188	1,451	122.1%
		Information appliances & other	1,379	1,637	1,736	106.1%
	Net sales		2,619	3,077	3,443	111.9%
	Segment profit		401 (15.3%)	556 (18.1%)	645 (18.7%)	116.0%

Note: Respective profit ratios shown in parentheses.



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2 Future outlook

- Regarding the economic environment in the second half of FY2019, IT investment is projected to retain its momentum, supported by digital transformation (DX) centered on “aggressive IT management,” and in response to the Tokyo Olympic Games, as well as to inbound tourism, despite various concerns such as the worsening of the economic dispute between the U.S. and China and of the relationship between Japan and South Korea, the slowdown of the global economy, and the consumption tax hike in October.
- Due to financial results in the first half and current business circumstances, there are currently no changes to the year-end forecast, 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 collaborating with industries and universities, and are aiming for qualitative and quantitative growth.
- We leave our financial forecasts unchanged from the initial figures (announced on May 9, 2019).

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%
EPS ¥/share	220.84		208.92		228.55	

Note: Respective profit ratios shown in parentheses.

2.2. Forecast of cash dividends

- Made changes in dividend policy on May 27, 2019.
- On 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), for a total of 72 yen (an increase of 4 yen) for the full year dividend.

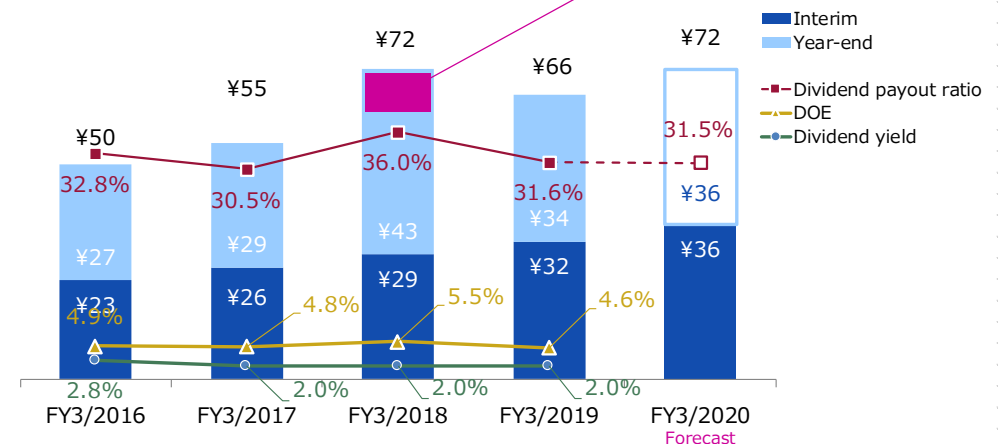
	Previous forecast <Announced on May 9, 2019>	Current forecast <Announced on May 9, 2019>	Change
Interim	34 yen	36 yen	2 yen
Year-end	34 yen	36 yen	2 yen
Full year	68 yen	72 yen	4 yen
Dividend payout ratio	30.8%	31.5%	0.7%

	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	—	36 yen	2 yen
Full year	72 yen	66 yen	—	72 yen	6 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	—	—	—

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.

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



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.

- The BOJ Tankan survey published in September 2019
The business environment itself is projected to stay mostly favorable, supported by digital transformation centered on “aggressive IT management,” and in response to the Tokyo Olympic Games to be held in 2020, as well as to inbound tourism, despite a growing sense of uncertainty both in Japan and abroad due to factors such as deterioration of business confidence, mainly in large companies in the manufacturing industry. Regarding an outlook for IT investment, the trend of trying to reform business, create value and establish a competitive advantage by introducing products and services using technology such as cloud computing and AI continues, although the strength of such a trend varies by the scales of companies, types of industries, and modes of business. Interest in our products and services is thus expected to increase.
- 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.

Overview of CRESCO LTD.

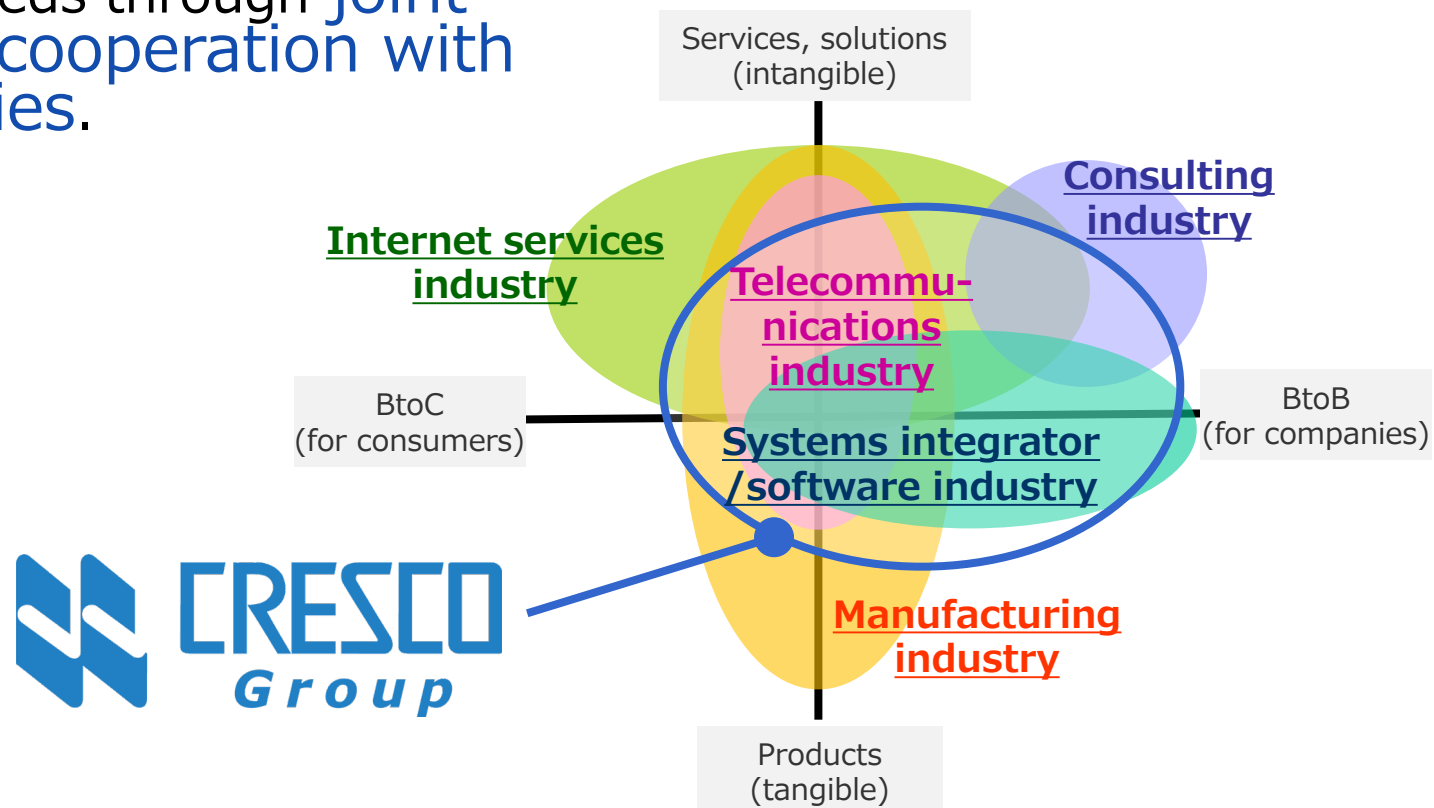
Profile

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.**



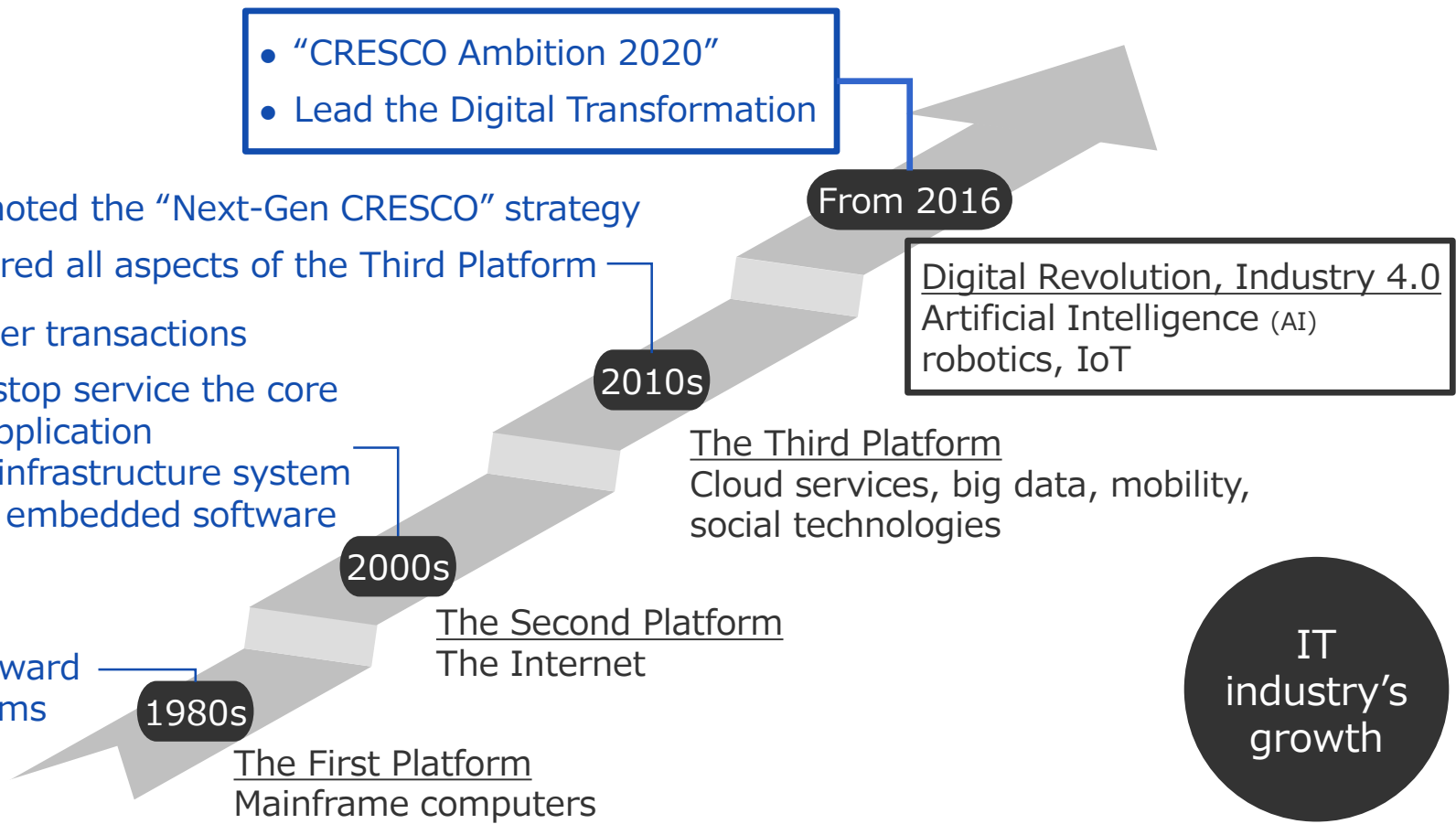
- We are proposing services suited to the changes in IT platforms.
- Technology Laboratory handles advanced technologies with sights fixed firmly on several years in the future.

CRESCO 's
step-by-step
progress

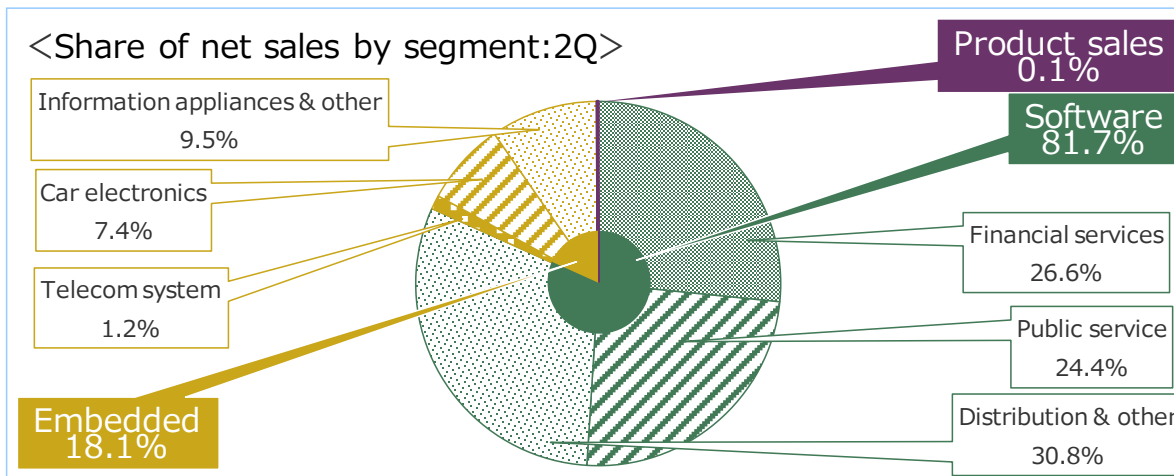
- Promoted the "Next-Gen CRESCO" strategy
- Covered all aspects of the Third Platform

- 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

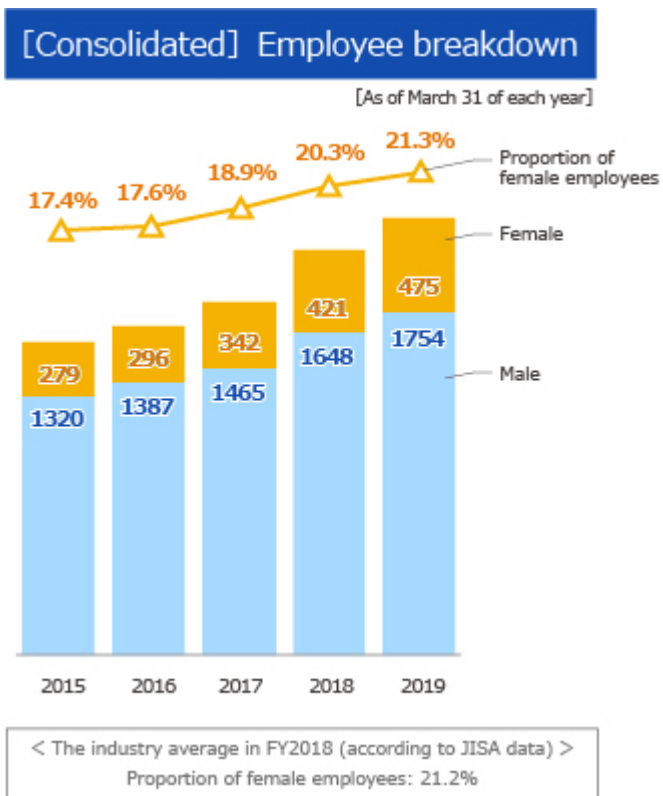


Segment	Business	Area
Software development	<ul style="list-style-type: none"> • Business application development • IT infrastructure system architecture • Original products and services 	<ul style="list-style-type: none"> • Financial services (Banking, insurance, payment card, securities, etc.) • Public 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." 	

		Software development						Embedded software development		Product sales		
		Business application	IT infrastructure construction	Network	Security	Cloud	Consulting	Web creation	Embedded	Control	Near-field wireless technology	Near-field wireless technology
CRESCO LTD.			●	●			●	●	●		●	
Subsidiaries	IOS Co.,Ltd.		●	●								
	CRESCO e-Solution Co.,Ltd.		●				●	●				
	CREATIVE JAPAN, LTD.		●	●	●	●						
	CRESCO HOKURIKU. LTD.		●									
	N-System Corporation		●	●				●				
	C3 Co.Ltd.								●	●		
	Mexess Co.,Ltd.		●	●				●			●	
	ARS Corporation Ltd.		●					●				
	Nexus Corporation		●	●				●				
	CRESCO Wireless, Inc.										●	●

* In order of sales for Six Months Ended Sep 30, 2019

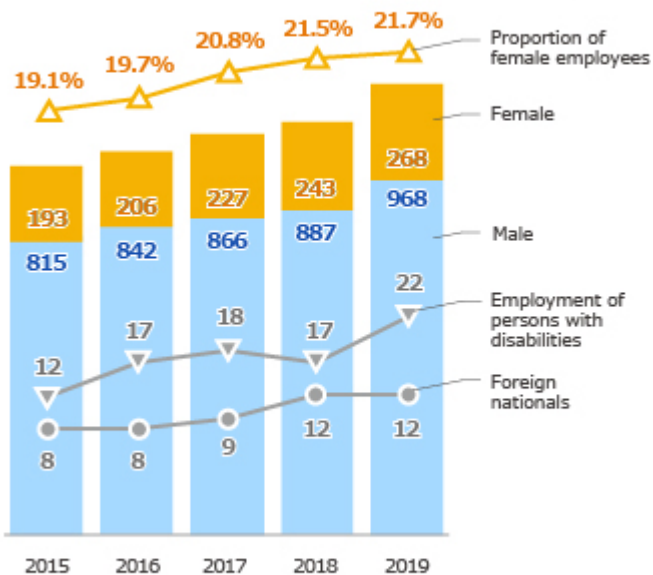
(Unit: Persons)



(Unit: Persons)

Employee breakdown

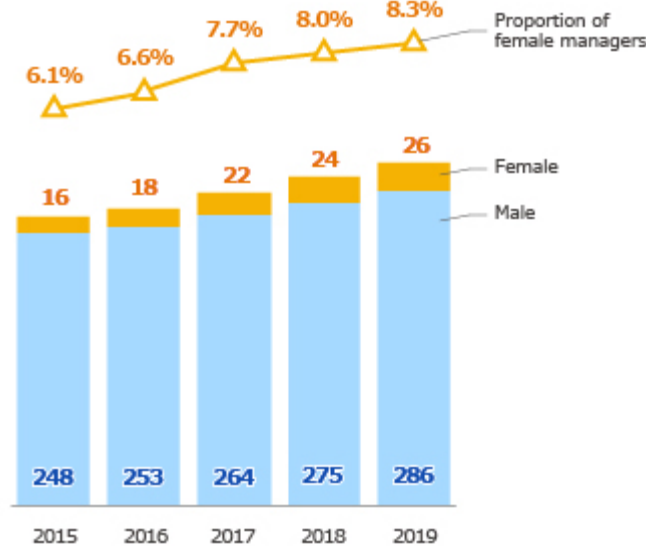
[As of March 31 of each year]



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

Manager breakdown

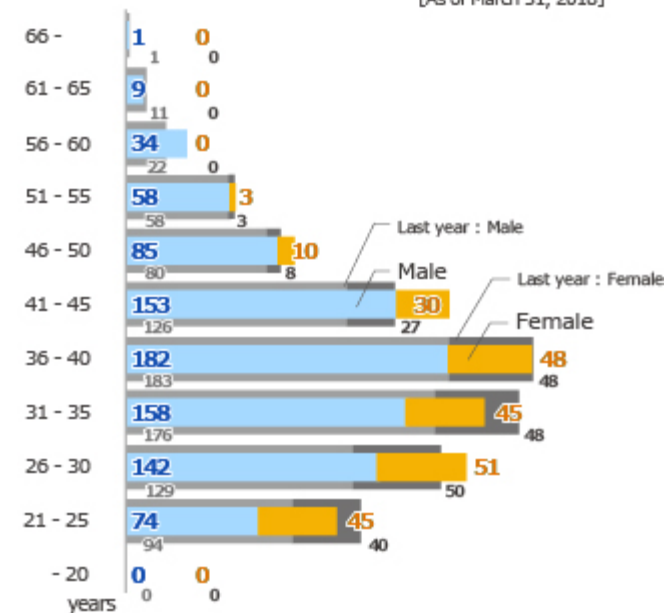
[As of April 1 of each year]



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

Employee breakdown by age

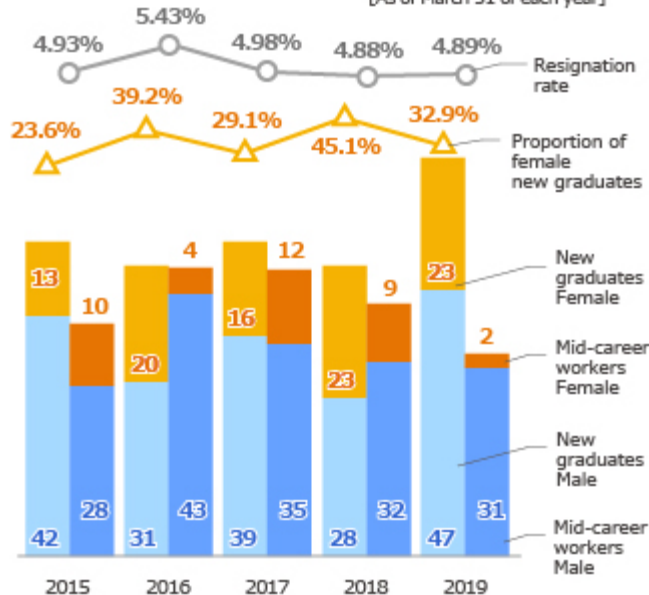
[As of March 31, 2018]



(Unit: Persons)

New employee breakdown and resignation rate

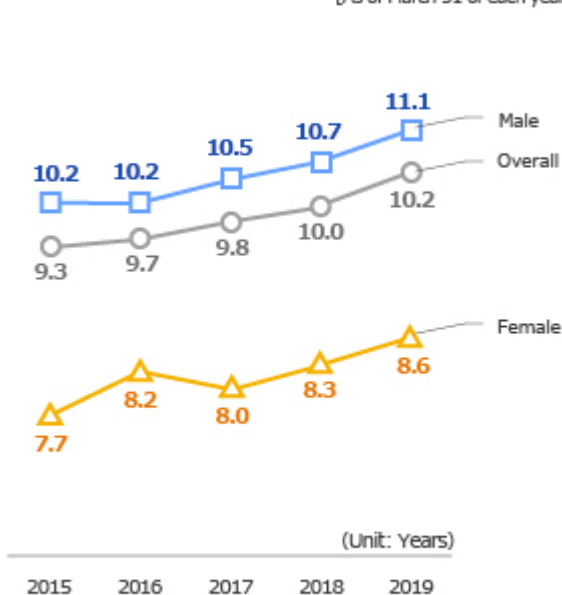
[As of March 31 of each year]



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

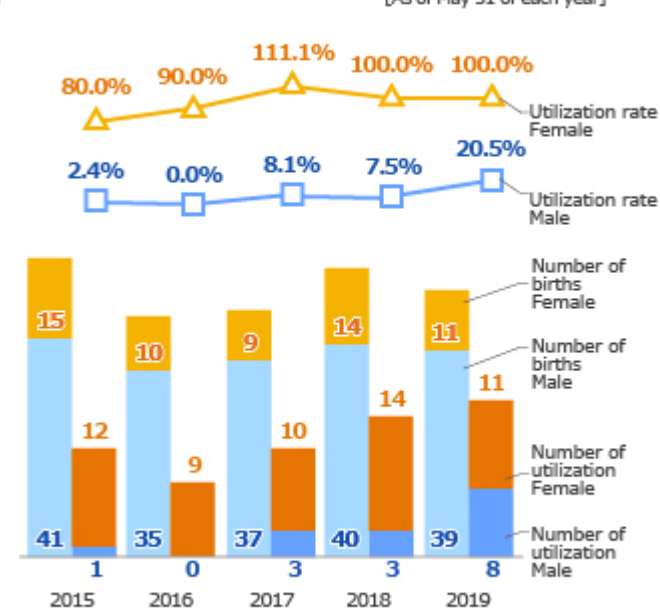
Average service years

[As of March 31 of each year]



Taking the childcare leave

[As of May 31 of each year]





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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