



CRESCO LTD.

Financial Results Briefing for the Fiscal Year Ended March 2019

May 16, 2019

Event Summary

[Company Name]	CRESCO LTD.	
[Event Type]	Earnings Announcement	
[Event Name]	Financial Results Briefing for the Fiscal Year Ended March 2019	
[Fiscal Period]	FY2018 Annual	
[Date]	May 16, 2019	
[Number of Pages]	22	
[Time]	17:15 – 17:54 (Total: 39 minutes, Presentation: 23 minutes, Q&A: 16 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]	50	
[Number of Speakers]	2	
	Hiroyuki Nemoto	President
	Michiaki Yonezaki	Department Manager, Public Relations & IR Office
[Analyst Names]*	Makoto Ueno	Daiwa Securities Co., Ltd.

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

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Presentation

Moderator: We will start the financial results briefing for the fiscal year ended March 2019 for CRESCO LTD.

First of all, I would like to introduce two people we have welcomed from the company. Mr. Hiroyuki Nemoto, President and Mr. Michiaki Yonezaki, Department Manager, Public Relations & IR Office.

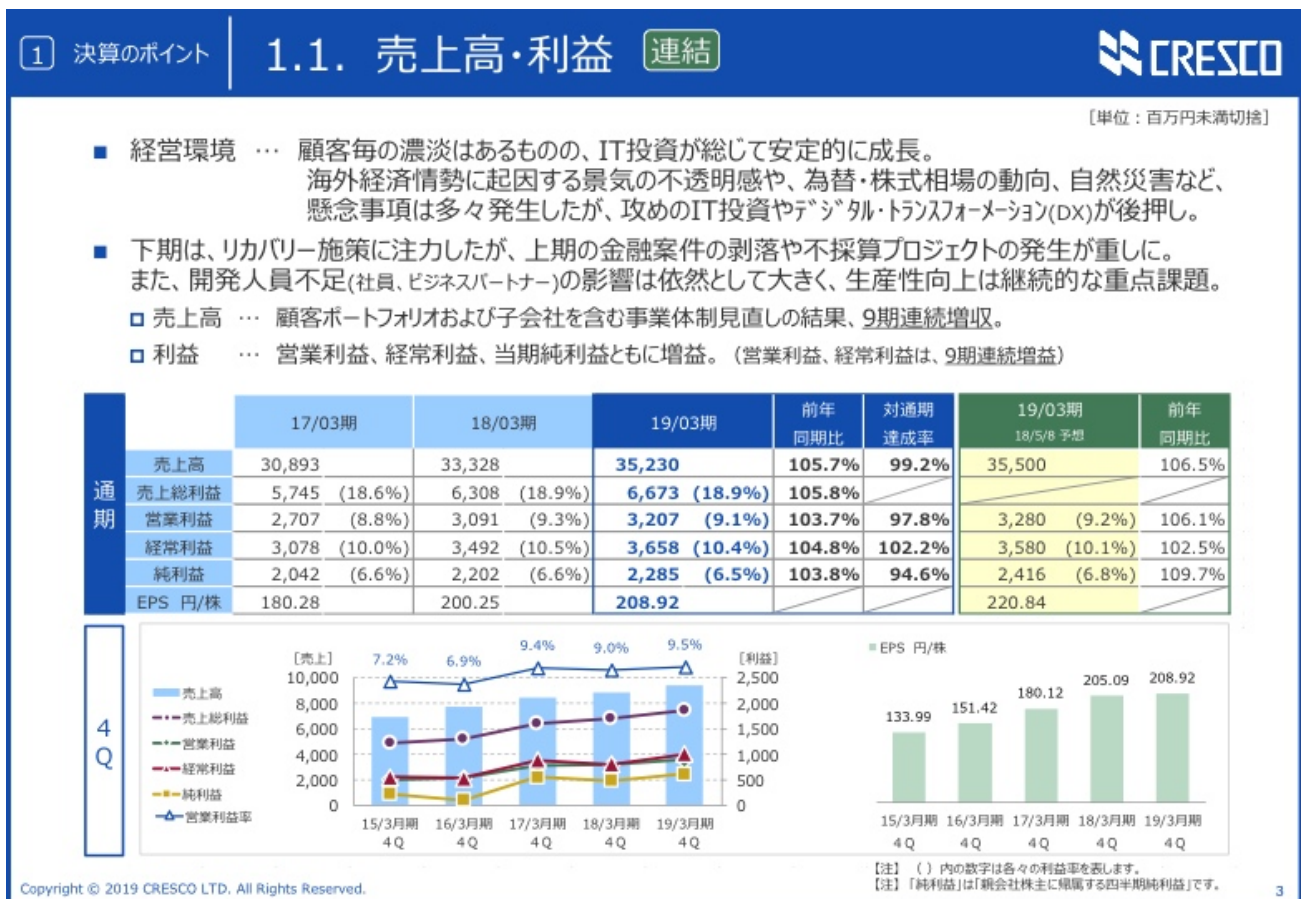
Today, Mr. Nemoto will give an explanation. Following his explanation, we will have time for a question and answer session.

I believe you have a questionnaire at your disposal. Please fill out the questionnaire when you have time and leave it on your desk when you leave this room.

Mr. Nemoto, please begin.

Nemoto: I am Nemoto of CRESCO LTD. Thank you very much for your visit today. I'm going to use this power-point presentation, which a copy was distributed to you. Based on this document, I would like to explain about 20 minutes to 25 minutes, and then we would like to take questions.

The highlight, here is the results for the previous fiscal year.



As written here, the business environment is very good for our industry. Our clients are making stable IT investments.

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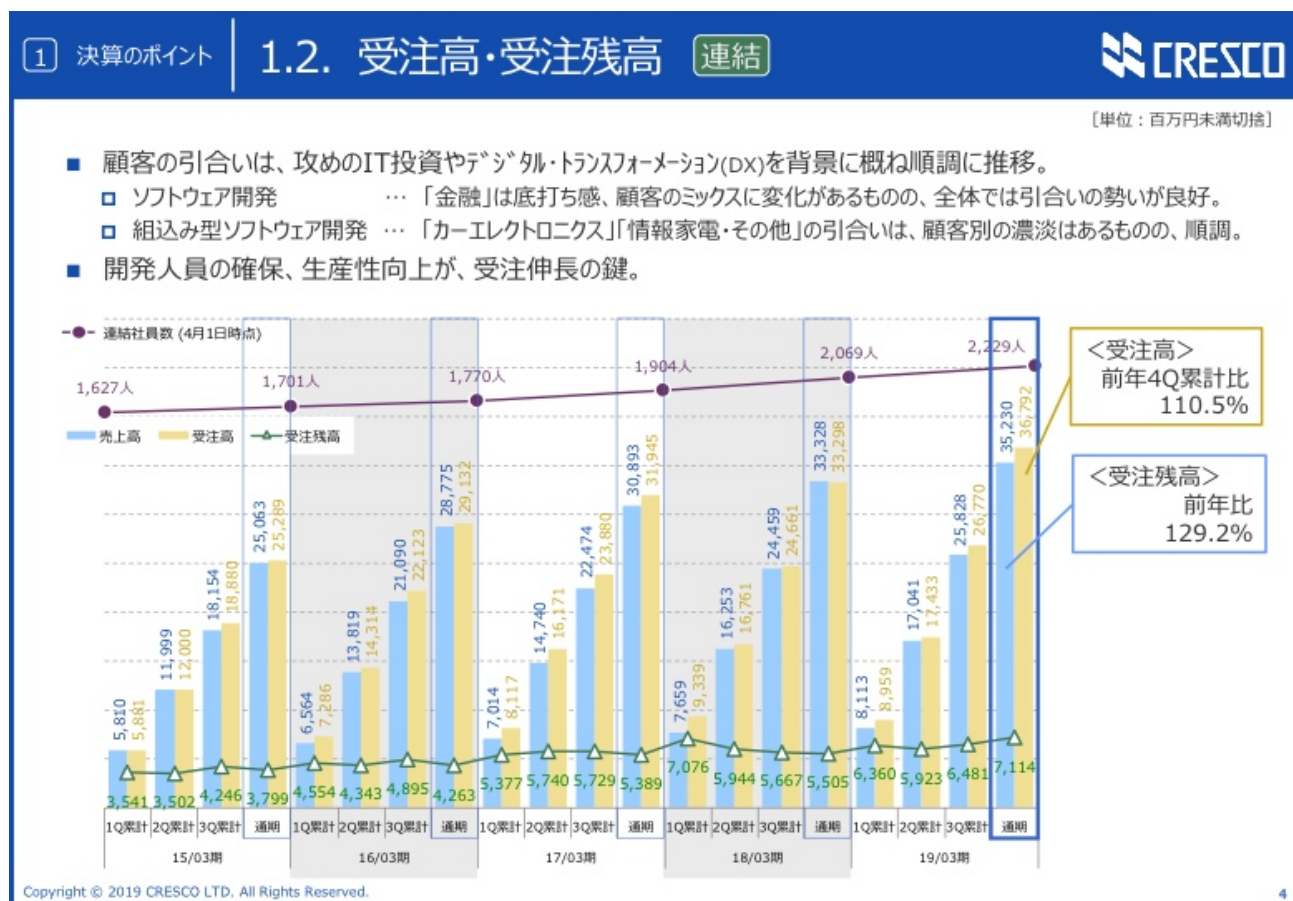
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Looking back on the last fiscal year, we saw a significant drop after go-live of a large-scale project of a financial company in the first half of the fiscal and due to unprofitable projects, both at the company and the subsidiaries. Therefore, 1Q and 2Q were behind schedule.

In the second half, we took a considerable recovery measure, and as a result, as shown in the middle column, net sales were 35.2 billion yen, an year-on-year increase of 5.7%, operating income was 3.2 billion yen, an year-on-year increase of 3.7%, ordinary profit was 3.658 billion yen, a year-on-year increase of 4.8% and net income was 2.285 billion yen, an increase of 3.8%. We were able to achieve increases in both sales and profits.

Nevertheless, only ordinary profit surpassed, but others were slightly below the target announced in advance.



Next, concerning orders and order backlog, as I mentioned earlier, software development for the financial sector has come to an end, but we have received inquiries from various industries, which looks good.

The embedded software business has remained steady. As the slide shows, the amount of orders received and order backlog as of the end of March, it showed a year-on-year increase of 29%. These are for 1Q and 2Q tasks, and we have made a smooth start in 1Q of this fiscal year.

As listed in the second item, the key to promote more order is to secure development personnel and improve productivity.

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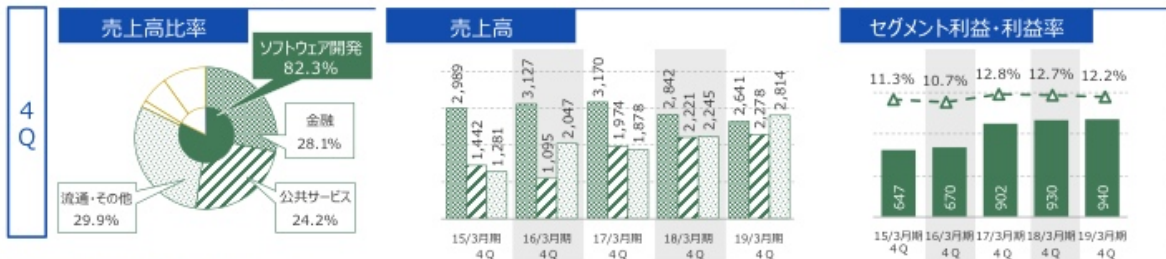


[単位：百万円未満切捨]

■ ソフトウェア開発

- ・ 事業ポートフォリオの見直し、リソースのシフトを実施。
- ・ 不採算プロジェクトの再発防止および品質の強化に注力するも、上期の出遅れが影響。
- ・ 2018年1月以降に実施した3件のM&A(ネクサス、イーテクノ、アルス)による連結効果は、プラス材料。
 - 金融 … メガバンクの大型案件剥落が影響し、前年対比では大きくマイナスになるも底打ち感あり。
 - 公共サービス … 旅行業および人材サービス向けの案件が堅調に推移。
 - 流通・その他 … 子会社の連結効果が奏功。

		17/03期	18/03期	19/03期	前年同期比	
通 期	ソ フ ト ウ ェ ア	金融	12,486	11,868	10,438	88.0%
		公共サービス	6,795	7,793	8,545	109.6%
		流通・その他	6,293	8,062	9,914	123.0%
	セグメント利益(率)		3,077 (12.0%)	3,431 (12.4%)	3,254 (11.3%)	94.8%



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Regarding software development by segment, in the financial sector, it was 88% compared to the previous year due to the aforementioned reason. This led to growth in public services, distribution and other areas. In addition, M&A deals made a positive effect on sales.

Unfortunately, segment profit fell below the previous year's level and the profit margin ratio fell around 1%. As I mentioned earlier, most of the unprofitable projects that occurred in the first half of the fiscal year were software development.

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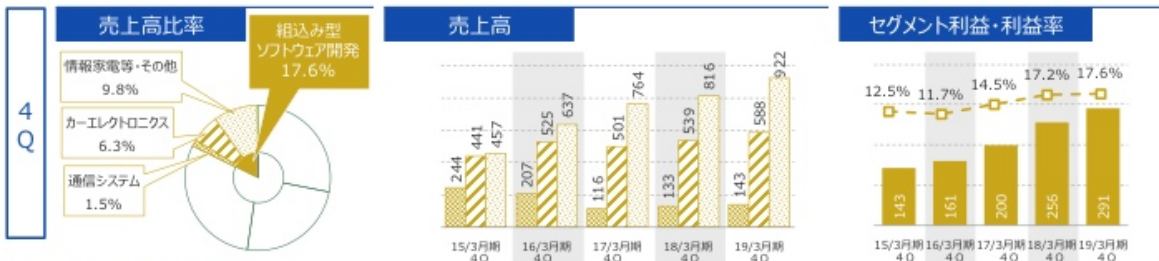
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■ **組み込み型ソフトウェア開発**

・ 受注単価の見直しや生産性改善の取組み、ニアショアを含む開発体制の強化が奏功。

- 通信システム … スマートフォン関連のプロジェクトが微増。現体制を維持。
- カーエレクトロニクス … 主力のインフォテインメント系、表示系が堅調。
- 情報家電等・その他 … テレビ、カメラ、AIスピーカー等のデジタル情報家電のほか、子会社「シースリー」の制御系開発が堅調に推移。

		17/03期	18/03期	19/03期	前年同期比	
通 期	組 込 み 型	通信システム	518	510	526	103.2%
		カーエレクトロニクス	2,090	2,041	2,390	117.1%
		情報家電等・その他	2,635	2,906	3,368	115.9%
	売上高		5,244	5,458	6,285	115.2%
	セグメント利益(率)		827 (15.8%)	905 (16.6%)	1,146 (18.2%)	126.6%



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Concerning embedded software development for smart devices and smartphones, telecommunications systems sector remained flat, but automotive electronics and information appliances grew. Overall sales achieved 115%. Profit was 126%, an increase of around 1.5%. We enjoyed a very good year.

I would like to talk about the outlook for the current fiscal year.

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2 Q 累 計	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	17,300	106.4%	17,041	104.8%	98.5%	18,460
売上総利益			3,067 (18.0%)	101.4%			
営業利益	1,480 (8.6%)	100.7%	1,405 (8.2%)	95.6%	95.0%	1,500 (8.1%)	106.7%
経常利益	1,620 (9.4%)	96.0%	1,720 (10.1%)	102.0%	106.2%	1,704 (9.2%)	99.0%
純利益	1,096 (6.3%)	94.7%	1,076 (6.3%)	93.0%	98.2%	1,117 (6.1%)	103.8%
EPS 円/株	100.18		98.39			102.1	

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	106.5%	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%
EPS 円/株	220.84		208.92			220.84	

【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。

We announced our financial statement for the current fiscal year last week. According to the forecast officially announced on May 9, the full year's sales are 37.880 billion, a year-on-year increase of 7.5%, operating income is 3.4 billion yen, a year-on-year increase of 6.0%, ordinary profit is 3,813 million yen, a year-on-year increase of 4.2% and net income is 2,416 million yen, a year-on-year increase of 5.7%.

The key figure here is sales. We believe that net sales will be the key. The environment is preferable for orders, but how to secure our development system and other factors to convert orders to sales is very important. We aim to increase sales by 7.5%. If we can do this, these numbers including profits such as operating income are achievable without difficulties.

As I mentioned earlier, 1Q has made steady progress, and there are no problems such as unprofitable projects.

We believe that in order to steadily increase sales, we must also change the way we work. Just responding to requests from our customers to send our staff members (with skills they need for their requested period) is not realistic due to the shortage of human resources today.

So, establishing a better system, making use of offshore or quickly nurturing young people to assign tasks, these are required. In some cases, it is difficult to increase sales without adjusting the delivery date or the project start date when we receive an order. We will make efforts while asking our customers to understand the situation we are facing.

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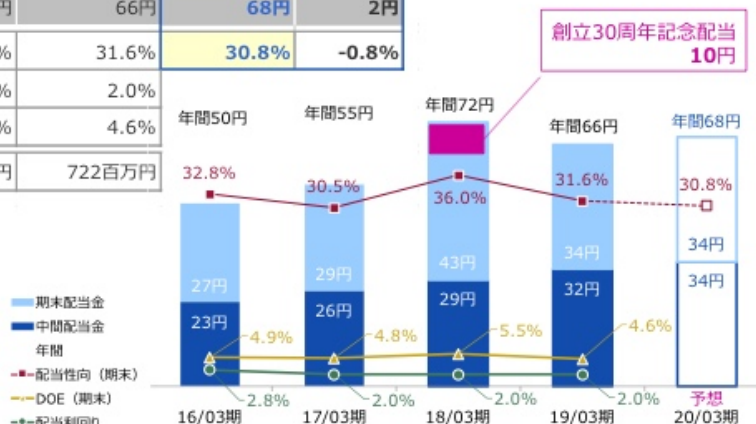
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	17/03期	18/03期	19/03期	20/03期	
	実績	実績	実績	19/5/9 予想	増減
中間	26円	29円	32円	34円	2円
期末	29円	* 43円	34円	34円	0円
年間	55円	72円	66円	68円	2円
配当性向	30.5%	36.0%	31.6%	30.8%	-0.8%
配当利回り	2.0%	2.0%	2.0%		
DOE	4.8%	5.5%	4.6%		
配当金の総額	623百万円	781百万円	722百万円		

※2018年3月期の期末配当は、創業30周年記念配当含む



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しており、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、当社(単体)の経常利益を基に、特別損益を零とした場合に算出される当期純利益の40%相当を目的に継続的に実現することを目指してまいります。

Regarding the dividend forecast, we plan to increase the dividend by 2 yen from 66 yen of the previous fiscal year to 68 yen for the current fiscal year. This is calculated based on our dividend standards. The dividend payout ratio is more than 30%.

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- 情報システムを含む設備投資は、全体では、昨年来の勢いを継続。
 - 「攻めのIT投資」を主眼としたデジタル変革や、
2020年開催の東京オリンピック、インバウンドへの対応などが下支え。
 - 需要の拡大に伴い、人材の不足感は依然否めず。
- ◆ 3月の日銀短観におけるIT投資の見通し
企業規模や業種、業態によって濃淡があるが、クラウドやAI等の技術を利用した新しい製品やサービスにより、事業の変革を図り、価値創出や競争優位を確立するトレンドに大きな変化はなく、引合いは、引続き増加する見込み。
 - ◆ 日本情報システム・ユーザー協会が実施の「企業IT動向調査2019」
47.6%の企業が2019年度の予算を昨年度に引続き「増やす」と回答。
 - ◆ 企業の循環的な業績改善や「攻めのIT経営」を背景としたIT投資の活発化に加え、デジタル技術を活用したビジネスモデルの革新を推進する「デジタル変革」の潮流に乗り、システム開発の需要が確実。
 - ◆ ITサービスのコモディティ化と低価格化が進む中、クラウドを活用したシステムを中心に市場は拡大し、IoT(Internet of Things)、AI(人工知能)/機械学習、運用自動化(RPA)といった先端技術のトレンドと相まって、投資意欲は一層拡大。
 - ◆ 当社の足許の営業状況からも、お客様の投資意欲を窺うことができ、需要の更なる押上げを実感。

As I mentioned earlier, about the trends of our surroundings, the capital investment in information systems is continuing to show momentum.

We believe that the continuous shortage of human resources is a serious problem and a challenge.

As the second bullet point mentions, last year a survey conducted by the Japan Users Association of Information Systems revealed that 47.6% of companies will increase their investment in IT this fiscal year. As we feel, our customers will actually invest in IT.

The bullet-point one before the last explains a trend, use of cloud, IoT, AI, RPA, automating operations, and so on. We feel that there is a great deal of demands for such things to drive use of IT and digital transformation.

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- 当社の主要セグメントにおいて特に成長が見込まれる、人材、旅行、物流、カーエレクトロニクス、情報家電の各分野は、「デジタル変革」の到来により、お客様層の裾野が更に拡大する局面にあり、当面の成長を見込む。
- 基幹系のシステム更改、新規サービス対応システム、新商品の組込みシステム、人材不足に起因する生産性向上を目的とするシステム(AI、RPA)、ハードウェア、運用のコスト削減を目的とするクラウドへの移行などは、有望なビジネスになると見込む。
- 当社グループがご提供するサービスは幅広い技術領域を有し、世の中のトレンドを概ね取込めるポジションにあり、あらゆる企業、団体、産業から「デジタル変革」のパートナーとして期待されている。



- 前期の教訓(不採算プロジェクト5件発生による約1億円の損失)を活かし、品質管理強化と生産性向上を軸に足固めをしつつ、成長に弾みをつける時期。
- 需要の拡大に伴い、人材の不足感は依然否めず、継続的な人材の獲得・育成、生産性向上、開発体制の強化は、優先課題。
- 「デジタル変革」をリードし、顧客がビジネスモデルの革新を通じて自らの成長を実感できる現実的な提案をスピーディに行うため、事業の柱であるソフトウェア開発事業、組込型ソフトウェア開発事業では、技術および品質の面から更に強化。
- 先端技術を積極的に取込み、顧客の成長に寄与するサービスおよびソリューションを充実。
- クレスコグループ各社が長年培ってきた営業力と経験を活かし、顧客の環境変化をいち早くとらえ、顧客のビジネスチャンスを支援する新規性と利便性を備えたサービスを開発するとともに、グループ内協業や他社とのアライアンスを含めた事業を展開。

In terms of business development, there has been no significant change from the previous fiscal year, but with the lesson we learnt from the large losses due to unprofitable projects during the last fiscal years as explained in the middle of the slide, we will tighten our quality control.

We have upgraded our quality control team to the headquarters level and appointed a full-time director to strengthen our auditing functions.

I would like to skip the other points.

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- 「CRESCO Ambition 2020」、に沿った経営
- サービス品質の強化による質的成長
- リソースおよび技術戦略の強化による量的成長
- M&Aによる成長スピードの拡大

2016年4月始動の5ヶ年ビジョン

4年目

CRESCO Ambition 2020

Lead the Digital Transformation
～『クレスコグループ』はデジタル変革をリードします。～

挑戦する企業集団

洗練された技術力と確かな品質

ひとりひとりが輝く **クレスコ**

As for our management policy, we made the five-year vision starting from 2016, CRESCO Ambition 2020. This year is the fourth year. Based on this policy, we will basically implement measures, but in addition, we will strengthen our service quality. We've got a lot of quality problems last year, so we should grow our business also in terms of quality.

We will then enforce our resources and technology strategies to achieve quantitative growth. We would like to pursue quantitative growth as well in order to properly receive orders and increase sales.

There were two M&A deals last year. We have conducted one and a subsidiary handled one, and we intend to continue M&A.

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5ヶ年ビジョンによる継続課題

1. 鉄板品質の提供
2. 生産性の追求
3. リソース戦略の強化
4. 人材の採用と育成
5. 新技術の研究・開発
6. グループ連携の強化
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
8. 新規ビジネスの組成
9. コーポレートガバナンスの推進
10. 健康管理と働き方改革の推進
11. ダイバーシティへの取組み

These are our challenges around the five-year vision. Regarding the current situation, I would like to comment in more detail.

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※4Qの対応状況は口頭でご説明し、後日、「要旨」を当社サイトで公開いたします。

1 鉄板品質の提供

- 3Q時
- ・当初予定との差異が発生した場合、どのように顧客と調整していくかが弱く、顧客との調整力の強化が必要。
 - ・来期は品質管理の組織を強化し、専任役員を置く予定である。

2 生産性の追求

- 3Q時
- ・クレスコ本体の基幹系システムを刷新中。10月のサービスインを目指す。
 - ・社内プロセスを簡素化。
 - ・予算は3年先まで見えるようにし、陳腐化しているセグメンテーションは見直し。

3 リソース戦略の強化

- 3Q時
- ・2019年4月1日に、連結子会社である「クレスコ九州」を本体に統合して、ニアショア拠点として強化

2019年4月1日開示資料参照

As for the provision of robust quality, we already mentioned at the time of 3Q. As I mentioned earlier, we have strengthened our Quality Control Department and appointed a dedicated director in April.

Every week, the director reports whether or not there is a problematic project to me, and if there is a problem, this director reports what kind of project and what kind of problems there are, so that all executives can share it. So far, we have no reports on problematic projects.

In pursuit of productivity, we are currently working on renewing the core systems of CRESCO LTD. This went live at the end of October and it is proceeding steadily. This will simplify internal processes and improve productivity. As announced today, our segmentation seems to not match the present changing situation at all.

With this system, we will review our segmentation, and see the outlook for the future three years from now.

Concerning strengthening our resource strategy, we merged our subsidiary with 50 employees, Cresco KYUSHU Co., Ltd. last year and took it into the parent company on April 1. We aim to actively and in large quantities do our work that occurred in Tokyo, in Kyushu. It currently works well.

As our offshore base, we are working on development systems in Vietnam. Currently, we constantly ask them to handle a task requiring about 50 to 60 people. We have two Japanese employees stationed at our representative office, and we hope to double the number of local staff members to 100 by the end of this fiscal year. We are considering the possibility to convert it to a local subsidiary.

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※4Qの対応状況は口頭でご説明し、後日、「要旨」を当社サイトで公開いたします。

4 人材の採用と育成

- 3Q時
- ・採用は、新卒はできているが、中途は予定の半分しか採用できていない。
 - ・育成は、クラウドとAIが照準。
クラウド移行に必要なセキュリティ、ポリシー、ガイドライン作成などの
コンサルティング業務の要請があり、上流に対応する人材を育成する必要あり。

5 新技術の研究・開発

- 3Q時
- ・2Qから大きな変化なし。
 - ・直ぐには売上・利益に直結しないものが多く、
先々に化けるような、将来に向けた種まきを行っているところ。

2019年4月15日開示資料参照

6 グループ連携の強化

- 3Q時
- ・クロスセルやさまざまな技術交流を中心に実施。
 - ・各社が自前で顧客を持ち、親会社に頼らず自分の足で立つことが基本方針。

In terms of recruitment and training of human resources, we are currently working on hiring new graduates for 2020. We feel that it is difficult because it is a seller's market. The situation on the mid-career recruitment looks even more tough.

We use cloud and AI as our standard for training. Future development activities will take place on the cloud. Instead of doing on-premises with our own computers, they should be done on cloud systems on Amazon, Google, and so on. As system control became the mainstream, we need to increase the number of cloud engineers even more.

Concerning AI, compared to the cloud, it is less trendy. But quite a few customers are looking at AI. We anticipate it would become a task and a project in the future.

With regard to cloud and AI, as a non-consolidated attempt, we have asked since October last year, more than 1,000 of our engineers to acquire cloud and AI skills until 2020. The program has already taken place, such as online training and online exams. Therefore, our staff entry-level education will be completed by 2020.

Of course, we will continue to train personnel at higher levels.

In addition, with regard to research and development of new technologies, AI is now accounting for 80%.

We released a news release on April 15 concerning our AI technology for ophthalmic diagnosis. We made AI learn images to assist doctors for diagnosis. This AI technology will finally be put to practical use, and an Aichi-based company, Nidek has announced a device powered by our AI technology, and this product will be launched in 40 countries around the world.

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This technology was completed two years ago, and we provided it to Nidek two years ago. However, it took two years to commercialize it, as there seemed to be a variety of pharmaceutical laws and various other procedures to be followed in such a way as to comply with the laws and regulations of the Ministry of Health, Labor and Welfare. We had talks at academic conferences, so several joint research ophthalmology projects are also proceeding.

Image recognition AI can be used in a variety of fields. There are many other industries conducting visual inspection. I can't tell you about details, but there are several companies that are conducting joint research with us.

Although it may take time, we believe that these projects will contribute to profits and raise our brand value in the future.

There has been no particular change in the strengthening of group collaboration.

2
来期の方針
・見直し

2.7. 対処すべき課題の対応状況③

連結

CRESCO

※4Qの対応状況は口頭でご説明し、後日、「要旨」を当社サイトで公開いたします。

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

3Q時

- ・ 包括契約の話が進行中。
- ・ 顧客が顧客自身で案件化するリソースが不足しており、昨年12月ごろから顧客の来年度の予算づくりを支援。引き合いが多い。顧客の中でシステム化する計画を立て、顧客の立場でITの企画・推進を行う人材派遣、出向要請。

8

新規ビジネスの組成

3Q時

- ・ 新規顧客開拓につなげるために、2Qからセミナービジネスを開始。無料・有償セミナーを月2回程、話題性のあるテーマ。座学だけでなく実践的なハンズオンセミナー。

9

コーポレートガバナンスの推進

3Q時

- ・ 特に言及することなし。

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In terms of strengthening our sales system and relationships with customers, we talked about a comprehensive contract last time. One company has signed a contract in April, and the other company is currently in progress. Customers know that there is a shortage of staff, so we can conclude a contract with a certain number of people, which involves more than 100 staff members.

We do not have to think so much about up and down, so we can secure a certain amount of resources, and the same engineers can serve without changing a certain period of time, so they will become technically familiar with it. We think this is a very good offer for our customers because of higher level of proficiency. We receive increased number of inquiries for such a contract from our customers.

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In addition, in terms of the generation of new businesses, we mentioned our free and paid seminars last time. The seminars covering trendy and cutting-edge technology like AI, RPA, and cloud. So far, we enjoy good reputations.

Our seminar is not just practical, but also offers hands-on activities. Since we have received multiple specific inquiries and consultations after these seminars. Seminar itself is not a business, but we believe it is a very good sales tool.

2 来期の方針
・見通し

2.7. 対処すべき課題の対応状況④

連結



※4Qの対応状況は口頭でご説明し、後日、「要旨」を当社サイトで公開いたします。

10 健康管理と働き方改革の推進

3Q時

- ・「働き方改革」でマネジメントが難しい。
- ・繁忙でも時間管理は厳しくする必要があるので、法令順守で取り組む。

11 ダイバーシティへの取組み

3Q時

- ・障がい者や外国人の採用を、さらに拡大していく。
- ・4月に2人の外国人の新入社員が入社。

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Lastly, in terms of diversity initiatives, we are working on hiring foreign people. In the past, we had hired two foreign students each year. Now, we have job interviews overseas, and we are hiring Korean students who are studying Japanese and IT. Currently, our recruitment members are visiting Korea. We aim to hire five to six people on a trial basis.

The relationship between two countries currently is not good, but there are good, honest students who are studying Japanese. We are currently working on recruitment for next year. This is all for my explanation.

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Question & Answer

Moderator: Thank you for your explanation.

We will now begin a question-and-answer session. The content of this IR Meeting, including the question-and-answer section, will be disclosed in a written document. If you say your name and company name when posing questions, they will be disclosed, too. If you wish to be anonymous, please do not say your name and company name before posing questions.

So, if you have any questions, please raise your hand. Thank you very much.

Participant: You mentioned a comprehensive contract. Could you explain the mechanism?

Nemoto: Yes. Clients, for example, have somewhat fixed personnel.

Participant: At clients?

Nemoto: Yes. Clients accept 100 staff members at once.

Participant: They are IT people.

Nemoto: Yes. So, in fact, there's a lot of work to do. If there are 10 tasks, we will make decisions with our client on how to assign these staff members.

We fix minimum number of staffs, and then dispatch additional people if needed. However, once we fix the number to 100, 100 staff members will stay at the client.

Participant: 100 employees of your company stay at your client.

Nemoto: Yes.

Participant: They handle tasks at your client company.

Nemoto: Yes.

Participant: If the client has additional tasks, you send additional people.

Nemoto: Yes.

Participant: What changes compared to the previous?

Nemoto: In the past, we send staff on a project basis.

Participant: On a project basis.

Nemoto: Yes. There were ups and downs. Once a project is completed, the staff members who were involved must leave for another project. Then, the client has to release those who have business know-how.

Once released, if another project starts in three months, they cannot come back to the client even if the client wishes.

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Participant: Because they are engaging in another project.

Nemoto: Yes. So, we have to send new people, or we cannot procure anyone due to a lack of human resources, and we have to give up some projects.

Participant: But instead, you may face a shortage of your own staff members. However, when these hundred people should stay.

Nemoto: Stay.

Participant: And they don't handle another task.

Nemoto: No, in principle. So, of course, we can propose a cycle, like switch new people in 3 years, but basically, they will stay at one client company. By doing so, we don't have to find other tasks for them during quiet period.

Participant: They are paid.

Nemoto: Yes. So, we will plan staff management such as how to assign these people to projects at our client company.

Clients keep our staff members, which will increase their productivity, as they accumulate expertise, skills and knowledge on operations.

Participant: However, they have to pay more.

Nemoto: Yes.

Participant: Even if they need only 90 people after completion of one project, they have to pay you for 100 people.

Nemoto: Yes. That is the way.

Participant: Why would clients decide to go for such a contract?

Nemoto: Our clients want our team since we have some know-how. They know the lack of talents in the out there, so they look to a comprehensive and fixed contract with a company with know-how.

Participant: But for CRESCO LTD., you may face further staff shortage. Because 100 people are fixed at one client, you cannot allocate 10 people to another company when the client is not so busy. This is not possible.

Nemoto: No, it is impossible. That's why this contract is offered to only a few special customers, not for everyone.

Participant: What are positive effects for CRESCO? Business stability?

Nemoto: Yes, and the unit price is a little higher.

Participant: The unit price is higher?

Nemoto: Yes. That is why I think it is good.

Participant: Instead, if you have to find more people to take other projects.

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Nemoto: Yes. There are a few cases in which customers are eager to do so.

Participant: It is only for a few customers.

Nemoto: Yes, they are only part of our clients that are really seriously engaged.

Moderator: Are there any other questions? Yes, please.

Ueno: Thank you for your explanation. I am Ueno of Daiwa Securities. I have two things.

Concerning sales for the current fiscal year, which was included in your explanation. The order backlog is abundant and there would be no problem with inquiries. On the other hand, you are concerned about how to secure resources. You qualitatively explained, but how severe is it?

Give me examples. Like, the number of newly hired staff members in April this year. Your recruitment plan for the next fiscal year and the latest status. Like, you need 100 people, but the fulfillment rate would be, say, 50%.

Nemoto: The number of new graduates is 70 on a non-consolidated basis. I think we have hired about 130 people on a consolidated basis. Under the talent shortage situation, we train young people about half a year to assign to some tasks.

The human resources are not enough. For example, if there is a project in which we expect to see the growth requiring 30 or 40 staff members in the future, we send two or three people at first.

Then, as the process progresses, if we are asked to send additional 10 people, and 10 more in the following month, it is difficult to secure the number. We end up sending only five people.

So, there are extreme cases in which the sales become half compared to our forecast. Sometimes, we ask our customer to ask other companies to fill the gap, unfortunately.

Ueno: At this point in time, this company plan is within a range that can be adopted with the recruitment for this and the next fiscal years?

Nemoto: Yes. However, handling tasks require certain skills. We have to assign right people with skills. We have to consider this point along with conducting trainings.

Ueno: Okay. you said that mid-career recruitment would be difficult, but if you were able to secure a certain amount of people, would you have more leeway to expand sales?

Nemoto: It may.

Ueno: It depends how resources are [Inaudible] from the currently fixed part.

Nemoto: Yes. It depends on firm task assignment.

Ueno: About possibility, but what efforts are you making and what is your outlook?

Nemoto: From a sales perspective, we will obtain customer information as soon as possible and make a proposal. So far, for example, we ask customers to talk about the outlook and the investment plan at the earliest possible opportunity. We encourage our customers.

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Also, we try not to send one specialist to dedicate one project, but the specialist supervises multiple projects, like sharing among clients. It depends on negotiation with our clients. Also, we make a proposal on utilization of offshore.

I believe that we must change our way of business in terms of making proposals, taking orders, etc.

Ueno: This is my second question, which may be related to the previous question.

Summarizing your explanation, there was idle time in the past because your business was operated on a project basis. For the comprehensive contract, we may expect outcomes in a surprisingly short period of time.

For example, in the previous fiscal year, what percentage of idle time did you normally have for a customer, say 200 days a year?

Nemoto: I think it is a low single-digit percentage now.

Ueno: Yes. Please tell me the number.

Nemoto: Well.

Ueno: 2-3%?

Nemoto: 2-3% or so.

Ueno: During idle time, you cannot generate any money, however, operating margins of 2% to 3% are high for [Inaudible] customers.

Nemoto: Yes, it rises.

Ueno: How much is the percentage of these customers?

Nemoto: Which customers?

Ueno: Customers for the comprehensive contract.

Nemoto: Now we have one company. As explained, they have to accept 100 staff members, so they should be considerably large companies, but we would like to have at least 2 more companies for such contract.

Ueno: If, for example, you get three to four or five companies, the sales amount is large, so it accounts for about 20% and 30% of the total.

Nemoto: I think it would be.

Ueno: Improvement of 20 to 30% would result in a profit margin increase of 3%, so just under 1% increase overall.

Nemoto: Yes, that's right. We made a contract with one company, and the profit margin has already improved compared to last year at the budget stage.

Ueno: To eliminate unprofitable 100 million yen in this fiscal year, this will improve profitability. Also, it may get on the upside.

Nemoto: Yes. I think it creates a positive profit.

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Not only good things though. I am also a member of the project, and the customer's expectations are very high. That's why they pay more money and are taking the risk. So, we must produce more results than ever before. I am telling our staff members to roll up their sleeves.

Ueno: I understand. Thank you very much.

Moderator: Do you have any other questions?

Participant: The operating profit margin for the current fiscal year is planned to decline. The unprofitable projects were settled in the previous fiscal year, if the current comprehensive contract progresses, I think it will be improved. Do you have any reason for this? Are you expecting personnel expenses to rise?

Nemoto: Personnel expenses are also rising due to a shortage of personnel. It's a few % increase which is more than average. And, the depreciation of core systems began in April. It's just non-consolidated, but it's a burden.

Given these factors, our estimation is rather conservative.

Participant: What are the specific effects of rolling-out a core system in October? Is it easier to manage your projects?

Nemoto: Yes. Project management becomes easy. In the past, auditing firms and other organizations pointed out some issues like use of Excel for management. Some people said it's not very good. That issue was addressed.

As I mentioned earlier, for example, we prepare our financial outlook on a half year basis. We are looking at a budget for semi-annual periods. Even if budgeting is on a semi-annual basis, the status of projects is managed in a long range in which the order backlog is expected for three years from now. So, we can see the midterm status of the company's orders. I think that is very advantageous.

Currently, it was implemented on a non-consolidated basis in October, but we plan to expand it to all group companies over the next one to two years.

Participant: Thank you very much.

Moderator: Do you have any other questions? Do you have anything to add to your explanation?

Nemoto: Nothing in particular.

Moderator: I don't see any more questions, so we'll finish the briefing. Thank you very much.

Nemoto: Thank you very much.

[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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