



# Summary of Quarterly Financial Results Press Conference

Fiscal Year Ended March 31, 2019



2019/5/9  
CRESCO LTD.



1 Results main points



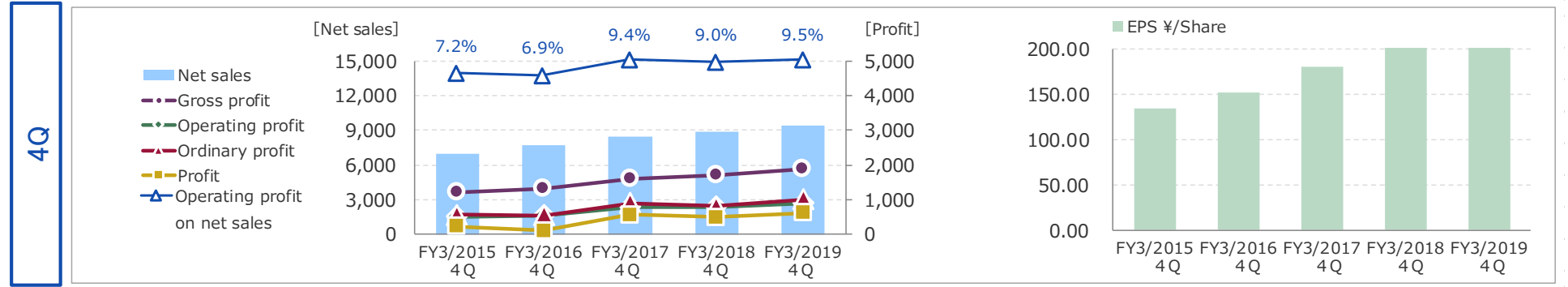
- **Business environment:** Overall, IT investment grew steadily although varied from client to client. Despite the existence of numerous matters of concern including the uncertainty in the business conditions arising from the overseas situation, trends in the foreign exchange market and the stock market and natural disasters, the business environment was backed by aggressive IT management and digital transformation (DX).
- In the second half of the fiscal year, we focused our efforts on recovery measures, but loss of financial contracts and unprofitable projects in the first half weighed down performance. Also, as impact from the shortage of human resources assigned to development (employees and business partners) was still significant, productivity improvement remains a top priority.

- ▣ **Net sales:** Increased for the ninth consecutive fiscal year as a result of revisions to the customer portfolio and the business structure including subsidiaries.
- ▣ **Profit:** Operating profit, ordinary profit and profit all increased (of which operating profit and ordinary profit increased for the ninth consecutive fiscal year).

Full year		FY3/2017	FY3/2018	FY3/2019	YoY	Full-year progress	FY3/2019 Forecast <small>&lt;Announced on May 9, 2017&gt;</small>	YoY
	Net sales		30,893	33,328	<b>35,230</b>	<b>105.7%</b>	<b>99.2%</b>	35,500
Gross profit		5,745 (18.6%)	6,308 (18.9%)	<b>6,673 (18.9%)</b>	<b>105.8%</b>			
Operating profit		2,707 (8.8%)	3,091 (9.3%)	<b>3,207 (9.1%)</b>	<b>103.7%</b>	<b>97.8%</b>	3,280 (9.2%)	106.1%
Ordinary profit		3,078 (10.0%)	3,492 (10.5%)	<b>3,658 (10.4%)</b>	<b>104.8%</b>	<b>102.2%</b>	3,580 (10.1%)	102.5%
Profit		2,042 (6.6%)	2,202 (6.6%)	<b>2,285 (6.5%)</b>	<b>103.8%</b>	<b>94.6%</b>	2,416 (6.8%)	109.7%
EPS ¥/Share		180.28	200.25	<b>208.92</b>			220.84	

Note: Respective profit ratios shown in parentheses.

(Unit: Amounts less than 1 million yen omitted)



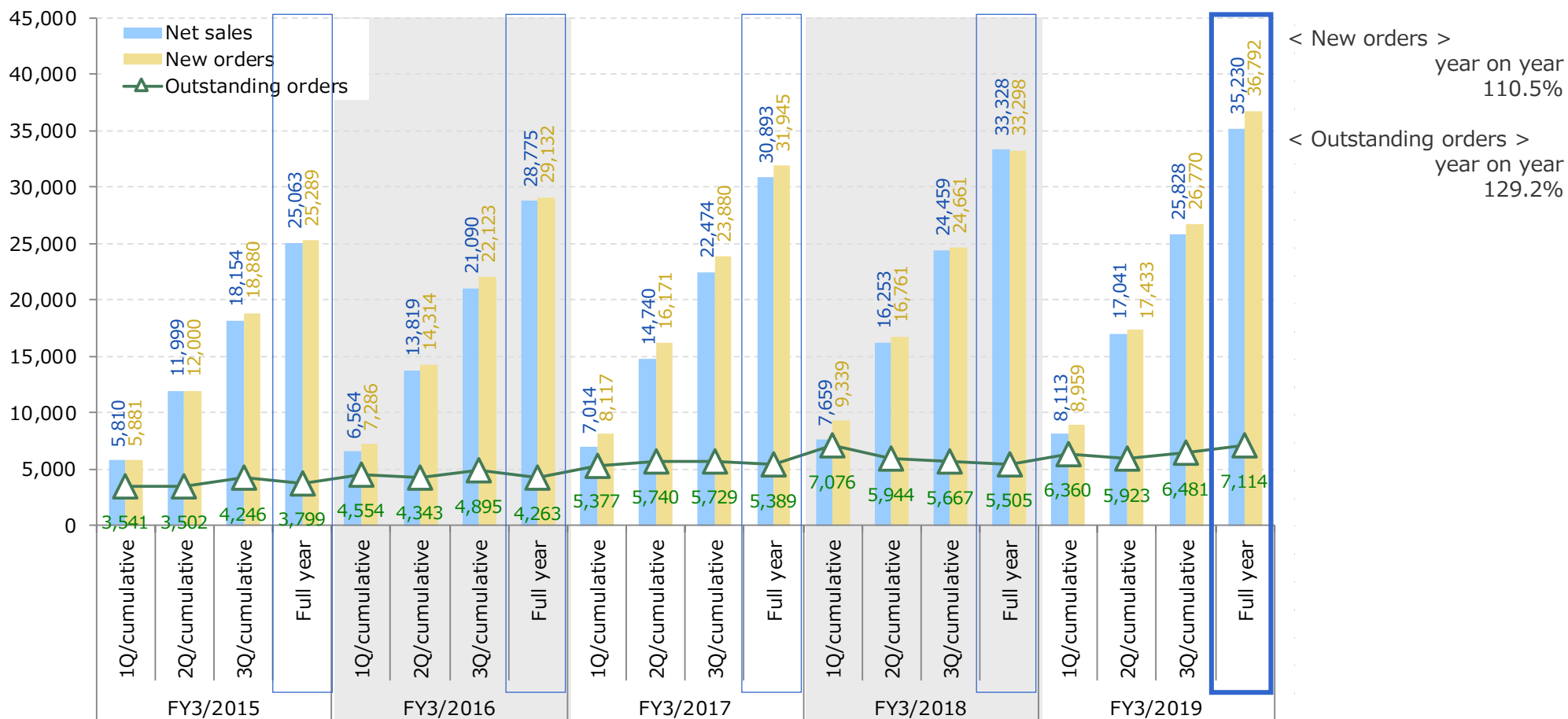
# 1.2. Consolidated quarterly net sales, new orders and outstanding orders



Customer inquiries were generally steady against the backdrop of aggressive IT management and digital transformation (DX).

- Software development:** "Financial services" seems to be bottoming out, and although there are changes in the mix of customers, customer inquiries are on a favorable trend.
- Embedded software development:** Customer inquiries for "Car electronics" and "Information appliances & other" were strong, although varied from client to client.

Securing human resources assigned to development and improving productivity will be the key to raising orders.



< New orders >  
year on year  
110.5%

< Outstanding orders >  
year on year  
129.2%

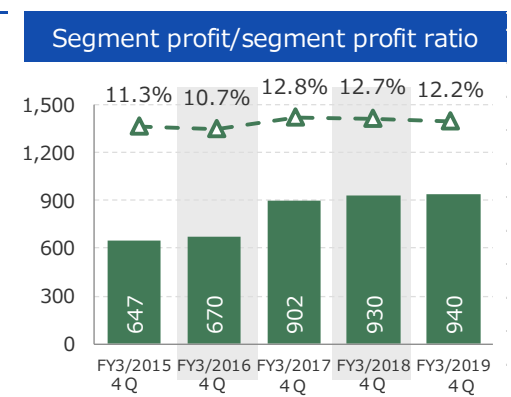
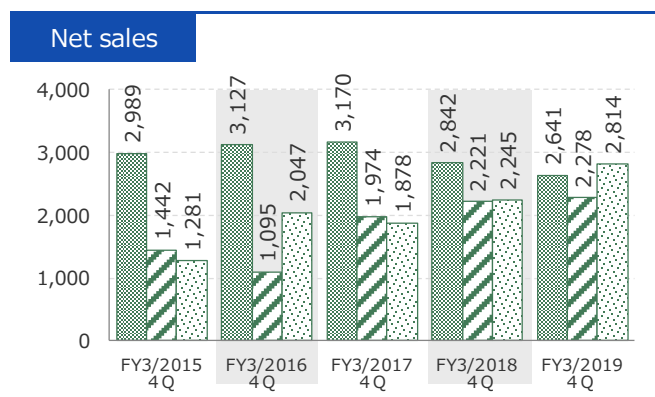
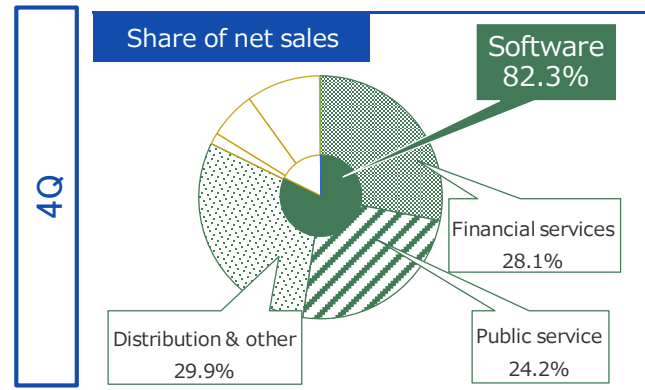
- Reviewed business portfolio and implemented the resource reallocation.
- Despite the focus on preventing reoccurrence of unprofitable projects and improving quality, there was an impact due to delays in the first half of the fiscal year.
- We received a positive boost as a consolidated effect of the 3 M&As carried out from January 2018 on (Nexus, e-techno, and ARS).

- Financial services:** Seem to be bottoming out, despite a significant year on year decrease in sales due to loss of major contracts with megabanks.
- Public service:** Sales were steady for travel and human resources projects.
- Distribution & other:** Consolidation of subsidiaries was effective.

(Unit: Amounts less than 1 million yen omitted)

		FY3/2017	FY3/2018	FY3/2019	YoY	
Full year	Software	Financial services	12,486	11,868	<b>10,438</b>	88.0%
		Public service	6,795	7,793	<b>8,545</b>	109.6%
		Distribution & other	6,293	8,062	<b>9,914</b>	123.0%
	Net sales		25,575	27,724	<b>28,898</b>	104.2%
	Segment profit		3,077 (12.0%)	3,431 (12.4%)	<b>3,254 (11.3%)</b>	94.8%

Note: Respective profit ratios shown in parentheses.



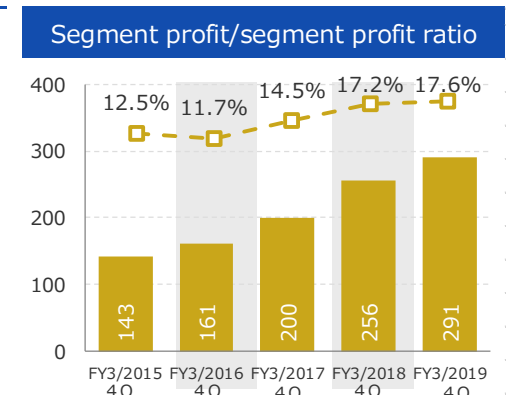
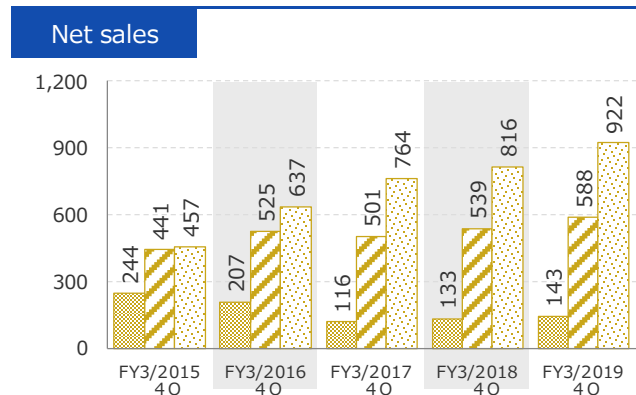
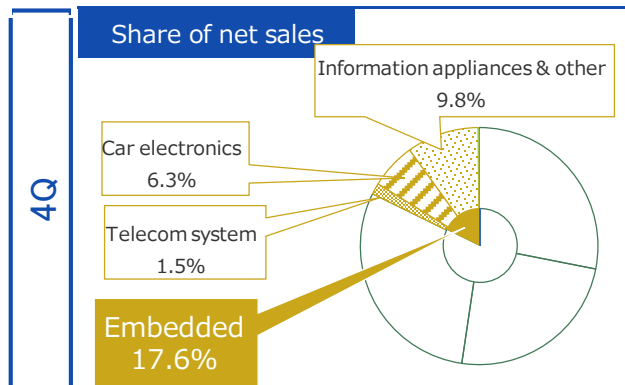
- Revision of unit price, productivity improvement efforts and the reinforcement of the development team, including nearshoring, were successful.

- Telecom system:** There was a slight increase in smartphone-related projects. The current structure is maintained.
- Car electronics:** Sales were steady in our mainstay areas of infotainment and display.
- Information appliances & other:** Digital information appliances such as TVs, cameras and AI speakers, as well as the development of control systems handled by the subsidiary C3, were steady.

(Unit: Amounts less than 1 million yen omitted)

		FY3/2017		FY3/2018		FY3/2019		YoY	
		Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Full year	Embedded	Telecom system	518		510		<b>526</b>		103.2%
		Car electronics	2,090		2,041		<b>2,390</b>		117.1%
		Information appliances & other	2,635		2,906		<b>3,368</b>		115.9%
		<b>Net sales</b>	<b>5,244</b>		<b>5,458</b>		<b>6,285</b>		<b>115.2%</b>
	<b>Segment profit</b>	<b>827</b>	<b>(15.8%)</b>	<b>905</b>	<b>(16.6%)</b>	<b>1,146</b>	<b>(18.2%)</b>	<b>126.6%</b>	

Note: Respective profit ratios shown in parentheses.





## 2 Future outlook



2Q (cumulative)	FY3/2019				FY3/2020		
	Forecast <Announced on May 9, 2017>		YoY	Actual	YoY	Forecast <Announced on May 8, 2018>	
	Net sales	17,300	106.4%	17,041	104.8%	<b>18,460</b>	<b>108.3%</b>
Gross profit			3,067 (18.0%)	101.4%			
Operating profit	1,480 (8.6%)	100.7%	1,405 (8.2%)	95.6%	<b>1,500 (8.1%)</b>	<b>106.7%</b>	
Ordinary profit	1,620 (9.4%)	96.0%	1,720 (10.1%)	102.0%	<b>1,704 (9.2%)</b>	<b>99.0%</b>	
Profit	1,096 (6.3%)	94.7%	1,076 (6.3%)	93.0%	<b>1,117 (6.1%)</b>	<b>103.8%</b>	
EPS ¥/share	100.18		98.39		<b>102.1</b>		

Full Year	FY3/2019				FY3/2020		
	Forecast <Announced on May 9, 2017>		YoY	Actual	YoY	Forecast <Announced on May 8, 2018>	
	Net sales	35,500	106.5%	35,230	105.7%	<b>37,880</b>	<b>107.5%</b>
Gross profit			6,673 (18.9%)	105.8%			
Operating profit	3,280 (9.2%)	106.1%	3,207 (9.1%)	103.7%	<b>3,400 (9.0%)</b>	<b>106.0%</b>	
Ordinary profit	3,580 (10.1%)	102.5%	3,658 (10.4%)	104.8%	<b>3,813 (10.1%)</b>	<b>104.2%</b>	
Profit	2,416 (6.8%)	109.7%	2,285 (6.5%)	103.8%	<b>2,416 (6.4%)</b>	<b>105.7%</b>	
EPS ¥/share	220.84		208.92		<b>220.84</b>		

Note: Respective profit ratios shown in parentheses.

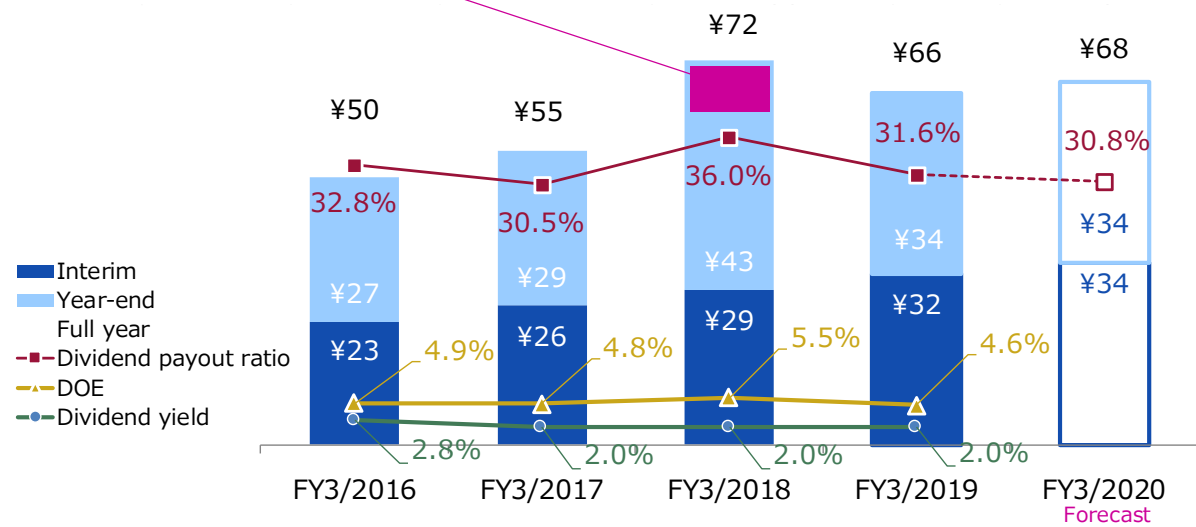


	FY3/2017	FY3/2018	FY3/2019	FY3/2020	
	Actual	Actual	Actual	<Announced on May 8, 2018>	Change
Interim	26 yen	29 yen	32 yen	<b>34 yen</b>	<b>2 yen</b>
Year-end	29 yen	* 43 yen	34 yen	<b>34 yen</b>	<b>0 yen</b>
Full year	55 yen	72 yen	66 yen	<b>68 yen</b>	<b>2 yen</b>
Dividend payout ratio	30.5%	36.0%	31.6%	<b>30.8%</b>	<b>-0.8%</b>
Dividend yield	2.0%	2.0%	2.0%		
DOE	4.8%	5.5%	4.6%		
Total dividend payments	623 Millions of yen	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.**
- CRESCO aims to continually realize a dividend payment **equivalent to 40% of calculated profit** based on actual ordinary profit (**non-consolidated**), assuming no extraordinary income or losses.



Capital expenditures, including for information systems, will generally retain their momentum from last year, under the backdrop of 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. However, as a consequence of the expanding demand, we continue to face a human resource shortage.

- Outlook for IT investment according to the BOJ Tankan survey published in March 2019  
There is no significant change in the trend of trying to reform business, create value and establish a competitive advantage by new products and services using technology such as cloud computing and AI, 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 continue 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



Overview of CRESCO LTD.



Overview of CRESCO LTD.

# Profile

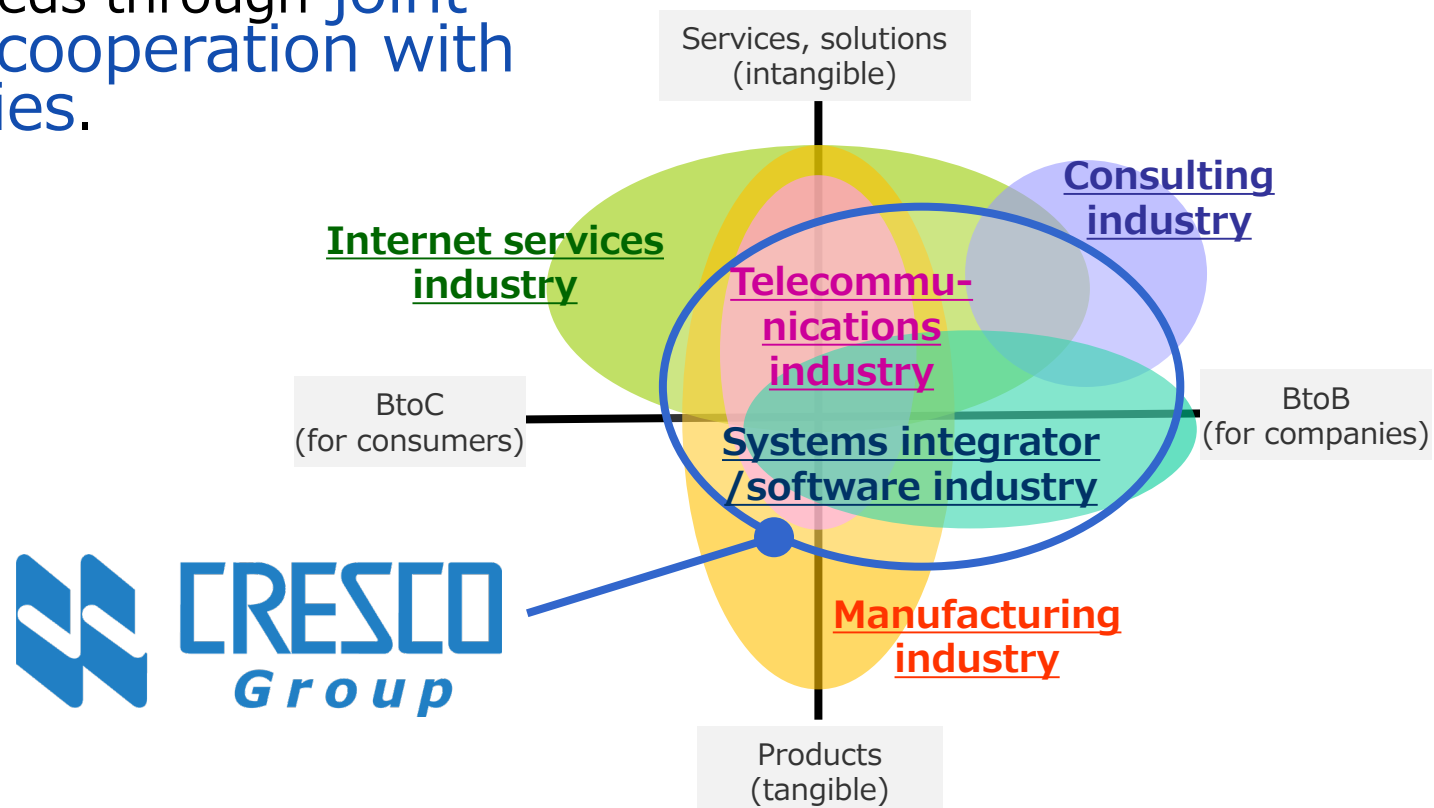
CRESCO is a system/software development company providing  
**“order made”**  
solutions that match our  
customers' needs.



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



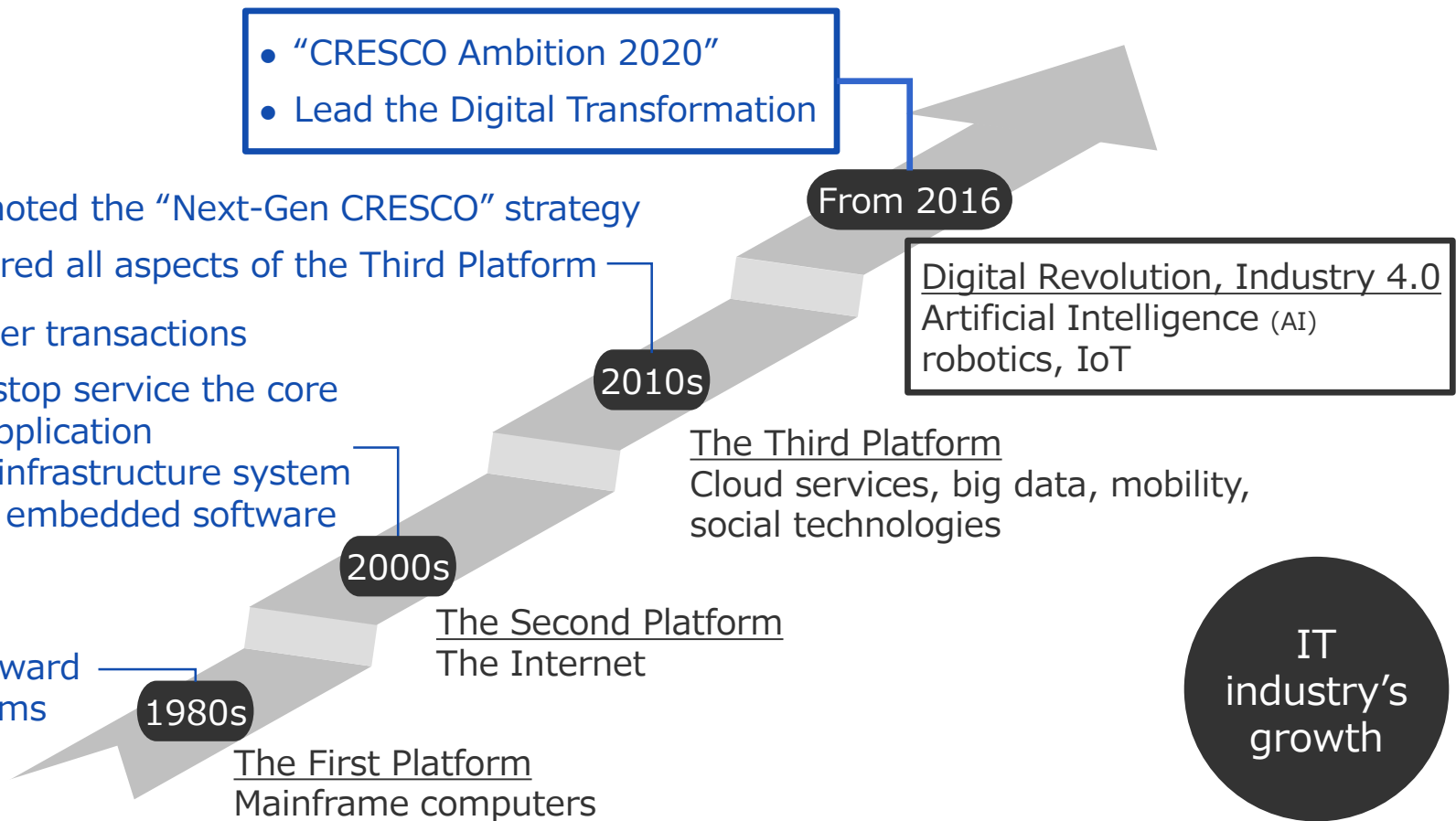
- We cover nearly the entire IT business domain spread predominantly across the BtoB axis.
- We are an **independent systems integrator** without a parent company that is a manufacturer or user corporation.
- We provide a wide range of solutions suiting client needs through **joint projects and cooperation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



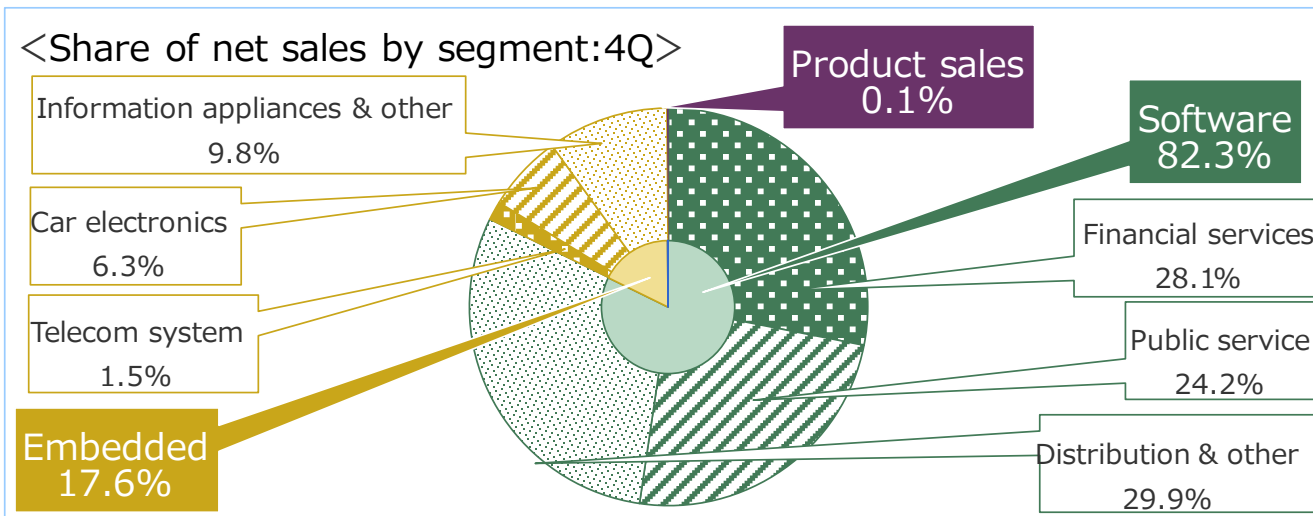
- We are proposing services suited to the changes in IT platforms.
- Technology Laboratory handles advanced technologies with sights fixed firmly on several years in the future.

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

\* In order of sales for the fiscal year ended March 31, 2019

		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
<b>CRESCO LTD.</b>			●	●			●	●	●		●	
Subsidiaries	IOS Co.,Ltd.		●	●								
	CREATIVE JAPAN, LTD.		●	●	●	●						
	CRESCO e-Solution Co.,Ltd.		●				●	●				
	C3 Co.Ltd.								●	●		
	CRESCO HOKURIKU. LTD.		●									
	N-System Corporation		●	●				●				
	Mexess Co.,Ltd.		●	●				●	●			
	Nexus Corporation		●	●				●				
	CRESCO KYUSHU Co.Ltd.		●									
	ARS Corporation Ltd.		●					●				
CRESCO Wireless, Inc.										●	●	

\* Nexus Corporation became a subsidiary effective January 12, 2018.

\* Media Magic Co., Ltd. was renamed Mexess Co., Ltd. effective March 12, 2018.

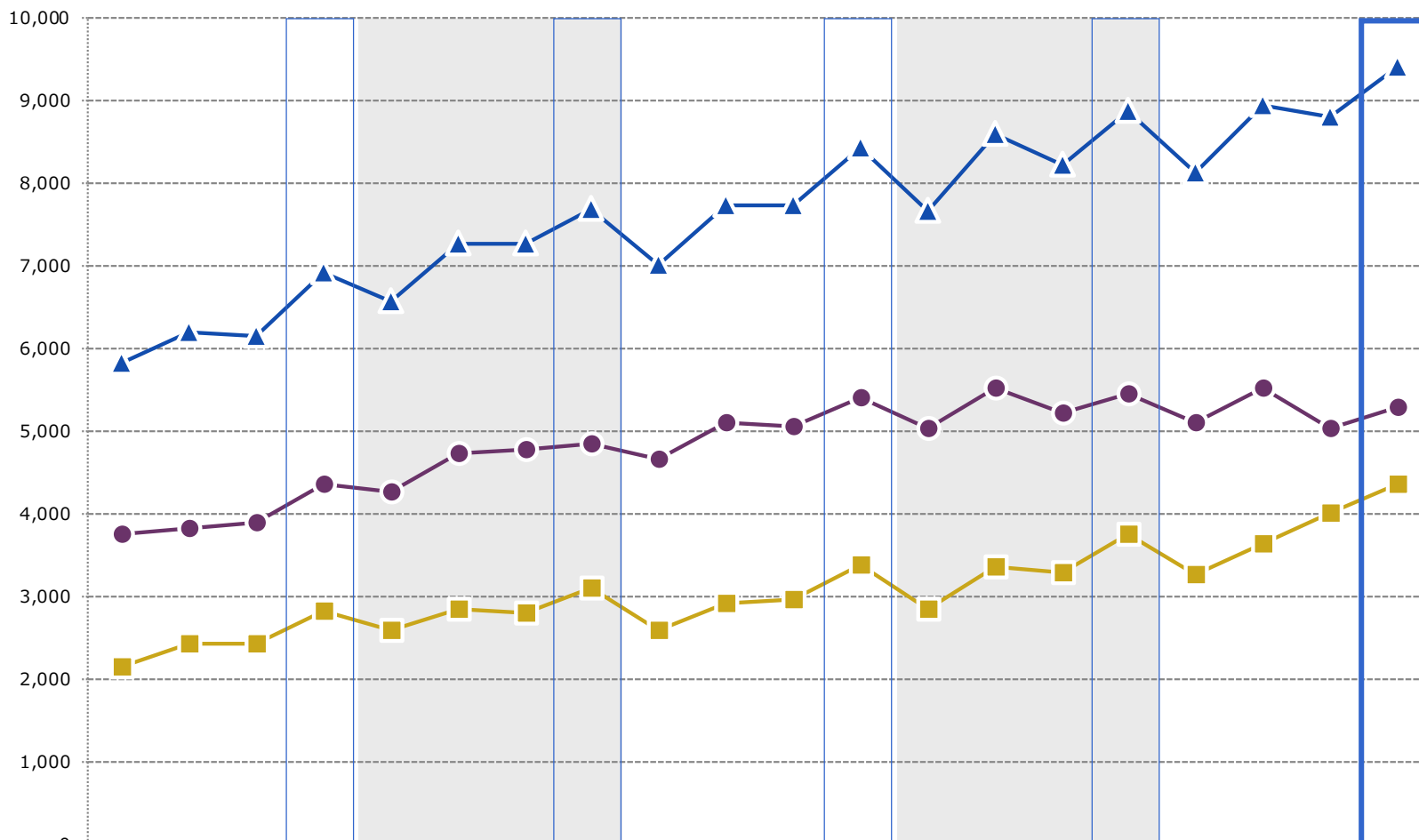
\* The Kansai Office of IOS Co., Ltd. was integrated into Mexess Co., Ltd. effective April 1, 2018.

\* ARS Corporation Ltd. became a subsidiary effective October 1, 2018.

# Non-consolidated net sales and consolidated subsidiaries sales [quarterly]



(Unit: Amounts less than 1 million yen omitted)

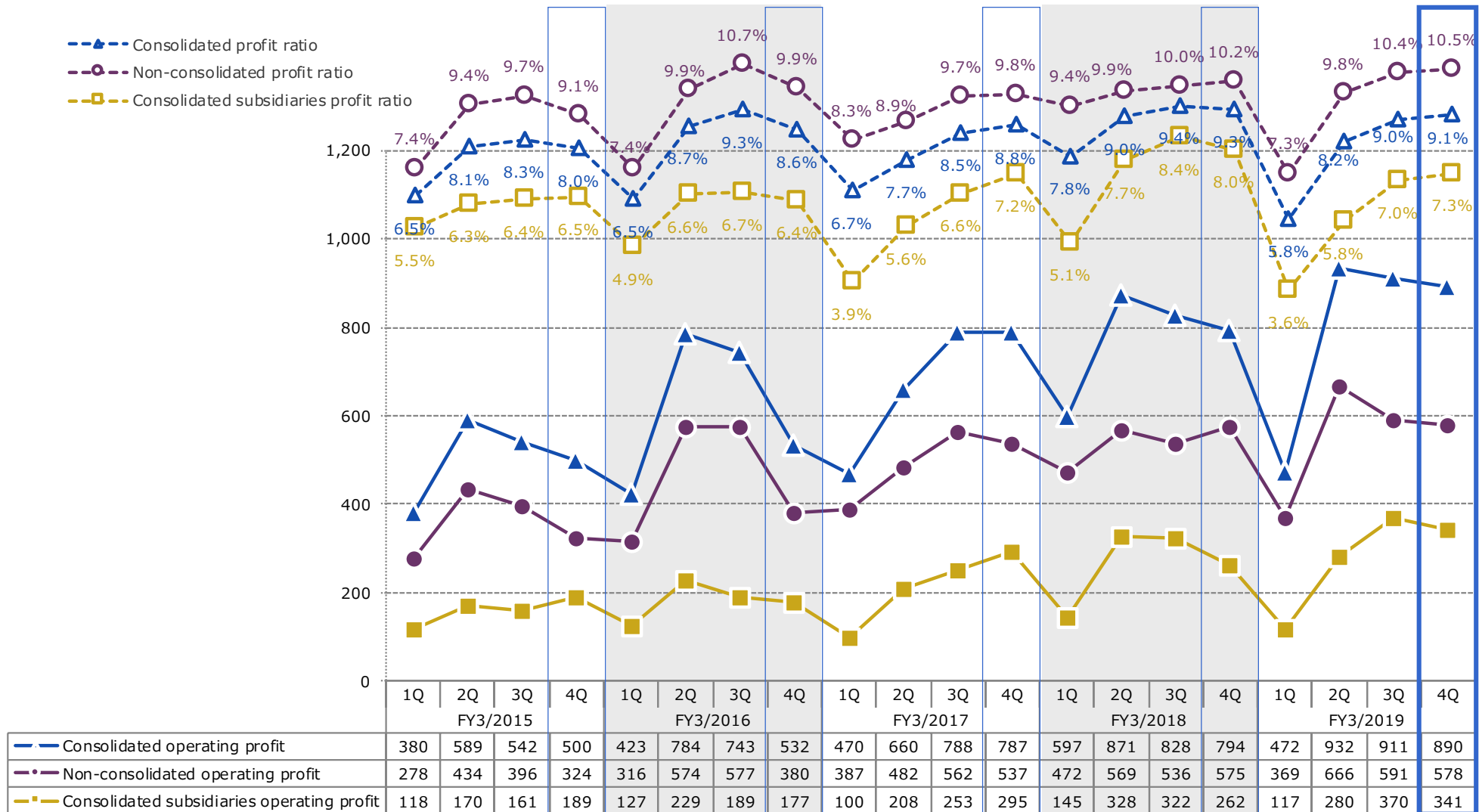


	FY3/2015				FY3/2016				FY3/2017				FY3/2018				FY3/2019			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Consolidated net sales	5,810	6,189	6,155	6,909	6,564	7,255	7,270	7,684	7,014	7,725	7,733	8,419	7,659	8,594	8,206	8,868	8,113	8,928	8,786	9,401
Non-consolidated net sales	3,745	3,817	3,881	4,350	4,269	4,721	4,760	4,850	4,659	5,090	5,045	5,402	5,028	5,515	5,205	5,448	5,087	5,524	5,024	5,289
Consolidated subsidiaries sales	2,145	2,431	2,412	2,823	2,573	2,836	2,788	3,097	2,595	2,916	2,966	3,366	2,850	3,343	3,276	3,745	3,267	3,627	4,009	4,348

# Non-consolidated operating profit and consolidated subsidiaries operating profit [quarterly]



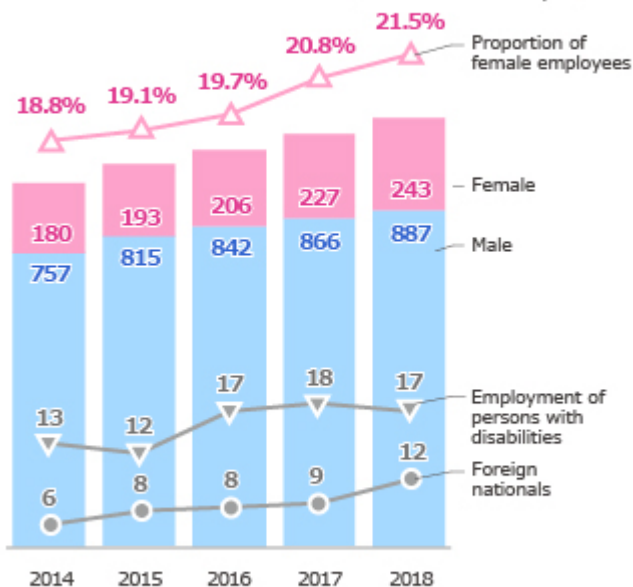
(Unit: Amounts less than 1 million yen omitted)



(Unit: Persons)

## Employee breakdown

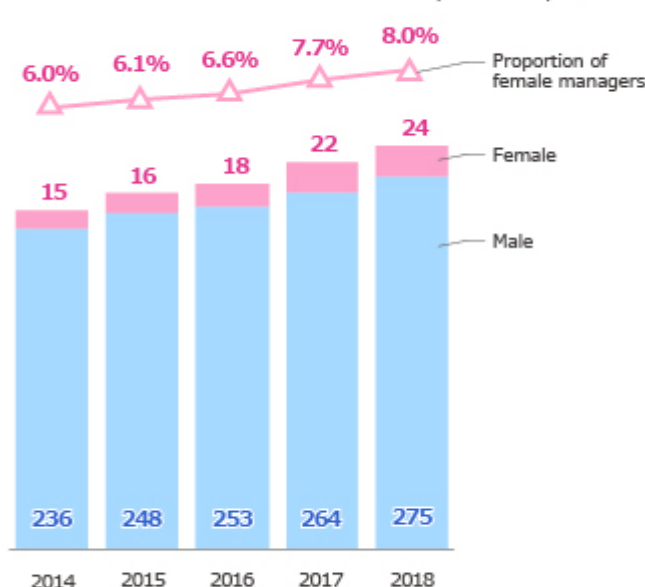
[As of March 31 of each year]



< The industry average in FY2017 (according to JISA data) >  
Proportion of female employees: 21.0%

## Manager breakdown

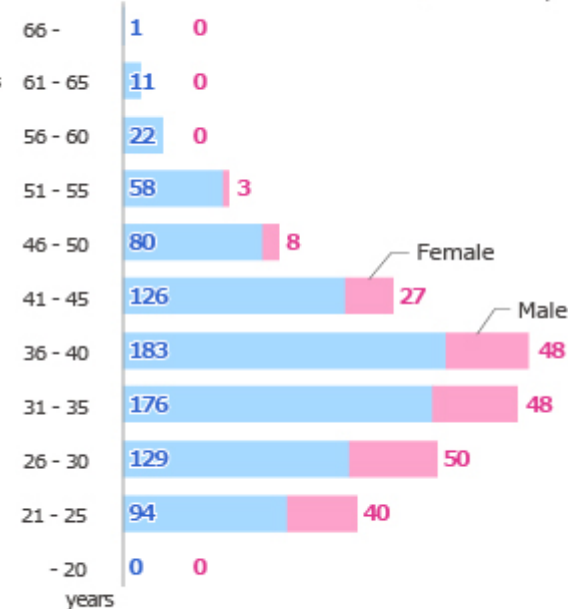
[As of April 1 of each year]



< JThe industry average in FY2017 (according to JISA data) >  
Proportion of female managers: 5.4%

## Employee breakdown by age

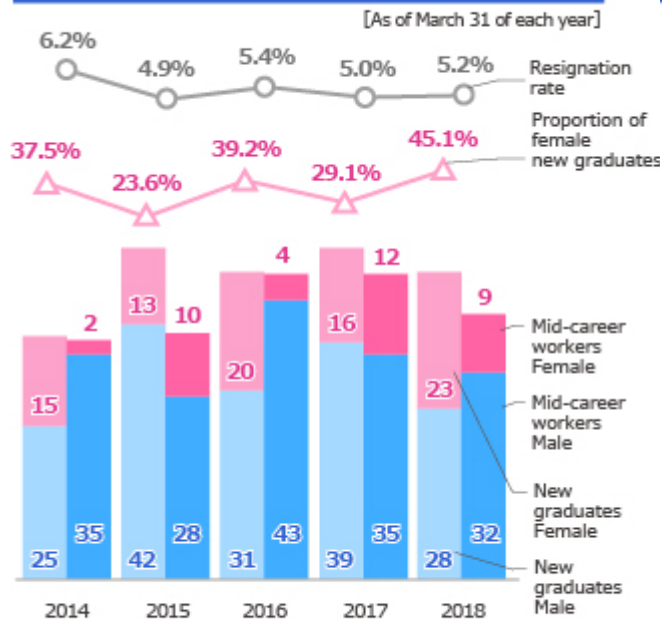
[As of March 31, 2018]





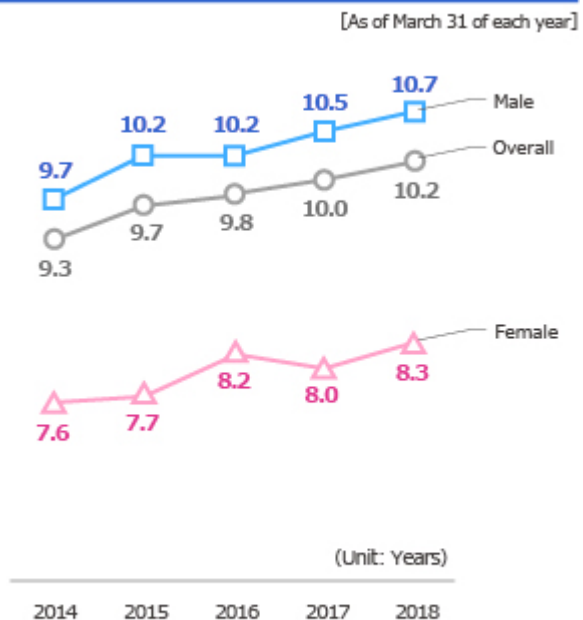
(Unit: Persons)

## New employee breakdown and resignation rate

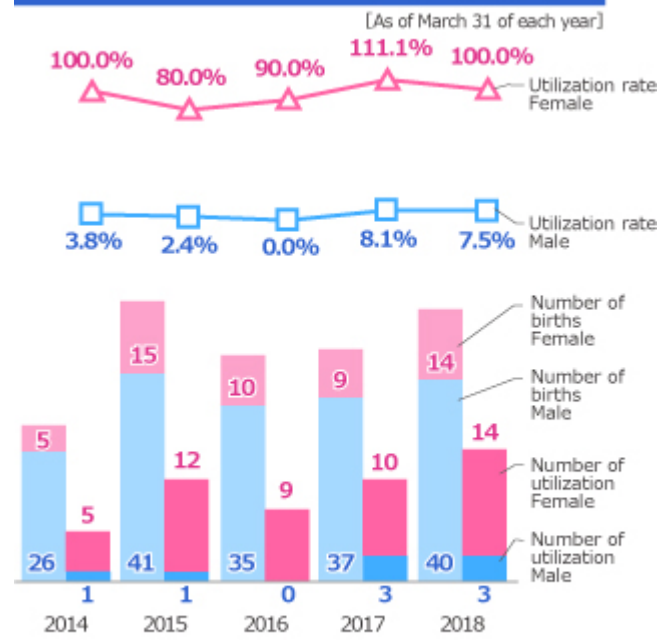


< The industry average in FY2017 (according to JISA data) >  
 Proportion of female new graduates: 31.5%

## Average service years



## Taking the childcare leave



# Business indicators and shareholder return

	FY3/2015		FY3/2016		FY3/2017		FY3/2018		FY3/2019	
	Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end
ROA	10.1%	8.5%	11.2%	9.2%	9.0%	10.2%	11.1%	9.8%	8.9%	<b>9.2%</b>
ROE	16.6%	14.1%	17.8%	14.8%	13.9%	15.7%	17.3%	15.2%	13.9%	<b>14.6%</b>
Ordinary profit on total assets	14.1%	13.6%	15.6%	15.4%	13.4%	15.4%	16.2%	15.6%	14.3%	<b>14.8%</b>
Ordinary profit on net sales	9.0%	8.9%	10.2%	9.9%	8.7%	10.0%	10.4%	10.5%	10.1%	<b>10.4%</b>
Operating profit on net sales	8.1%	8.0%	8.7%	8.6%	7.7%	8.8%	9.0%	9.3%	8.2%	<b>9.1%</b>
Turnover of total capital used (Times)	1.5	2.8	0.8	1.6	0.8	1.5	0.8	1.5	0.7	<b>1.4</b>
Financial leverage (Times)	2.4	2.4	2.7	2.6	2.8	2.9	3.0	2.8	3.2	<b>2.8</b>
Current ratio	67.1%	59.6%	57.5%	59.2%	61.8%	54.7%	55.9%	57.9%	54.7%	<b>56.3%</b>
Fixed assets ratio	62.0%	63.8%	52.9%	57.9%	51.1%	49.5%	62.1%	59.8%	52.2%	<b>57.2%</b>
Leverage ratio	61.4%	60.8%	65.4%	63.3%	66.2%	66.9%	61.7%	62.5%	65.7%	<b>63.6%</b>
Equity ratio	162.8%	164.4%	157.3%	160.9%	152.0%	153.4%	156.7%	154.9%	156.7%	<b>158.5%</b>
Debt-to-equity ratio	4.6%	2.9%	1.7%	1.8%	1.9%	1.5%	11.1%	9.0%	7.3%	<b>6.1%</b>
Interest coverage ratio (Times)	561.5	631.2	1171.5	1264.8	2288.3	2537.7	1684.1	851.7	665.4	<b>796.4</b>
Cash flows from operating activities (Millions of yen)	653	1,681	277	1,543	(40)	1,144	960	2,174	351	<b>1,824</b>
Cash flows from investing activities (Millions of yen)	99	178	(469)	(1,287)	(381)	(505)	(482)	(179)	(466)	<b>(1,238)</b>
Cash flows from financing activities (Millions of yen)	(491)	8	20	(286)	(273)	(604)	(866)	(606)	(683)	<b>(1,278)</b>
Free cash flow (Millions of yen)	752	1,860	(192)	256	(422)	638	477	1,995	(115)	<b>586</b>
EPS (Yen)	73.38	133.12	91.54	152.26	76.64	180.28	103.44	200.25	98.39	<b>208.92</b>
PER (Times)	19.6	14.4	18.5	11.9	33.1	15.4	40.8	17.8	34.6	<b>15.9</b>
DOE		4.1%		4.9%		4.8%		5.5%		<b>4.6%</b>

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**IR inquiries: Public Relations & IR Office**

Mail : [ir@cresco.co.jp](mailto:ir@cresco.co.jp)