



Summary of Quarterly Financial Results Press Conference for the Nine Months Ended December 31, 2018



2019/2/5
CRESCO LTD.



1 Results main points



- The business environment remained positive in the third quarter. The business environment continued to show signs of recovery, in spite of multiple concerns, such as economic uncertainty arising from overseas economies, trends in the foreign exchange market and the stock market, and natural disasters.
- Net sales: Increased as a result of revisions to the customer portfolio and business structure including subsidiaries.

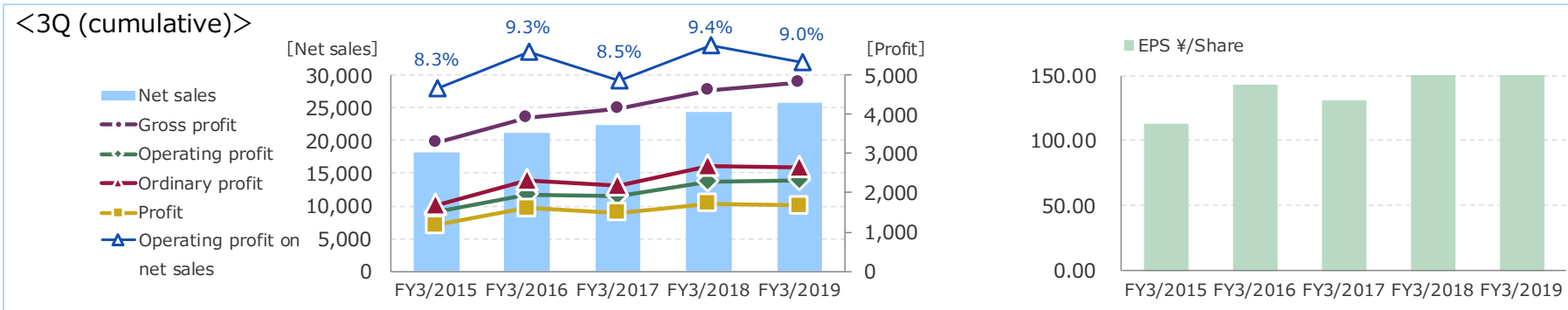
Profit: Ordinary profit and profit both declined in spite of operating profit entering the black.

- The impact of the loss of financial contracts and efforts to deal with unprofitable projects in the first half, as well as the sluggish results of some subsidiaries, weighed down performance. Also, the shortage of human resources assigned to development (employees and business partners) continued to have a large impact.
- The main causes of the increase in ordinary profit were the increase in loss on valuation of securities and the decline in gain on sales of securities.

3Q (cumulative)							Full year			
		FY3/2017		FY3/2018		FY3/2019	YoY	Full-year progress	FY3/2019 Forecast	YoY
		<Announced on May 9, 2017>								
	Net sales	22,474	24,459	25,828	105.6%	72.8%		35,500	106.5%	
	Gross profit	4,139 (18.4%)	4,605 (18.8%)	4,809 (18.6%)	104.4%					
	Operating profit	1,919 (8.5%)	2,297 (9.4%)	2,316 (9.0%)	100.8%	70.6%		3,280 (9.2%)	106.1%	
	Ordinary profit	2,190 (9.7%)	2,683 (11.0%)	2,654 (10.3%)	98.9%	74.1%		3,580 (10.1%)	102.5%	
	Profit	1,486 (6.6%)	1,720 (7.0%)	1,673 (6.5%)	97.3%	69.3%		2,416 (6.8%)	109.7%	
	EPS ¥/Share	131.25	155.80	152.98				220.84		

Note: Respective profit ratios shown in parentheses.

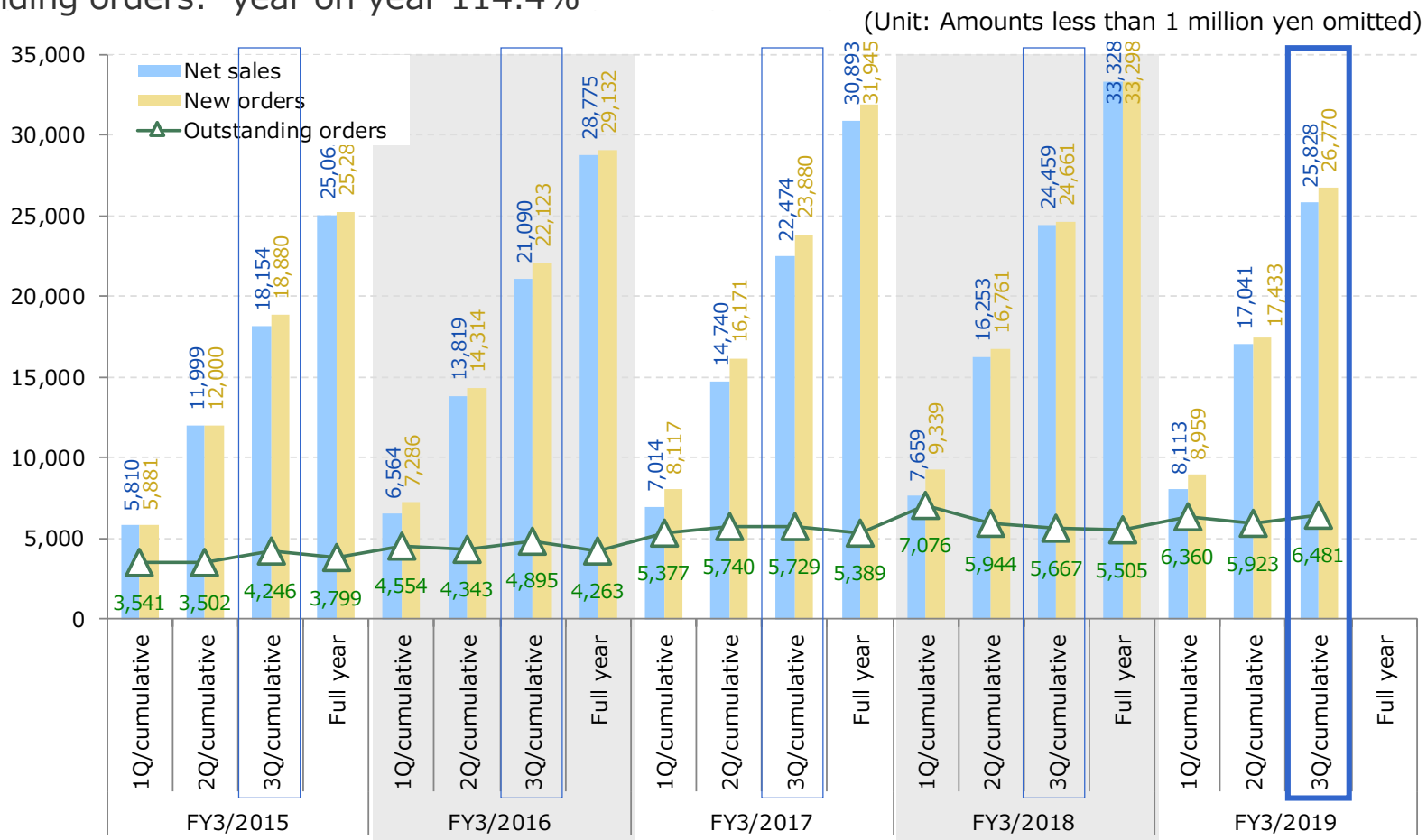
(Unit: Amounts less than 1 million yen omitted)



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



- Although customer inquiries were generally steady against a backdrop of digital transformation trends, lack of human resources assigned to development exerted downward pressure on orders.
 - Software development: "Financial services" seems to be rebounding after bottoming out, with all sectors gradually recovering vigor. New subsidiaries are also contributing.
 - Embedded software development: Customer inquiries for "Car electronics," "Information appliances & other" remained firm, although there was some variability between individual customers.
- New orders: year on year 108.6%
Outstanding orders: year on year 114.4%



- We placed emphasis on measures to deal with unprofitable projects (projects that are in the red) and to prevent recurrence. We revised the business portfolio and implemented the resource reallocation. Otherwise, the consolidated impact of the subsidiary, ARS, (from October onwards) was positive.

■ Financial services

Sales decreased year on year primarily due to the loss of major contracts with megabanks.

■ Public & service

Sales increased year on year due to increases in orders related to ravel and human resources.

■ Distribution & other

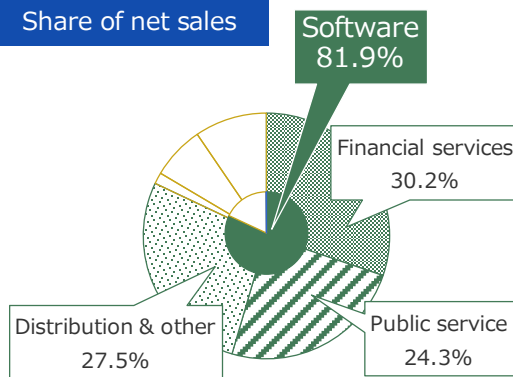
Sales increased year on year due to increased orders received by the subsidiary, IOS, and the effects of the Nexus consolidation.

(Unit: Amounts less than 1 million yen omitted)

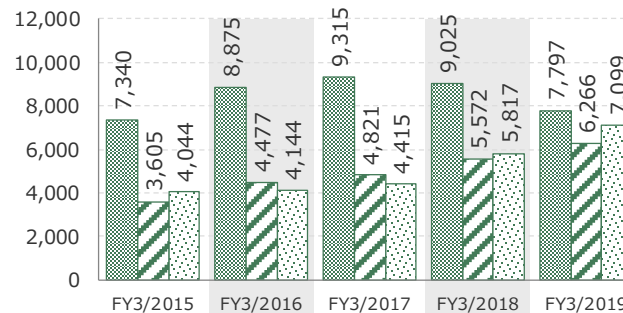
3Q (cumulative)		Software		FY3/2017		FY3/2018		FY3/2019		YoY	
				Net sales	Segment profit	Net sales	Segment profit	Net sales	Segment profit	Net sales	Segment profit
3Q (cumulative)	Software	Net sales	Financial services	9,315	9,025	7,797	86.4%				
			Public service	4,821	5,572	6,266	112.5%				
			Distribution & other	4,415	5,817	7,099	122.0%				
	Total Net sales			18,552	20,415	21,163	103.7%				
	Segment profit			2,175 (11.7%)	2,500 (12.3%)	2,313 (10.9%)	92.5%				

Note: Respective profit ratios shown in parentheses.

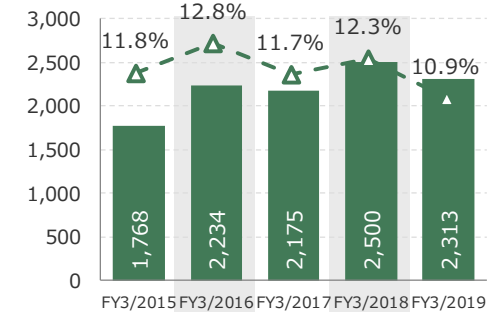
Share of net sales



Net sales



Segment profit/segment profit ratio



- The revision of unit price, productivity improvement efforts, and the reinforcement of the development team were successful.
- **Telecom system**
There was a slight increase in smartphone-related projects. The current structure is maintained.
- **Car electronics**
Sales were firm, particularly 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 (railways, electronics) handled by the subsidiary, C3, were firm.

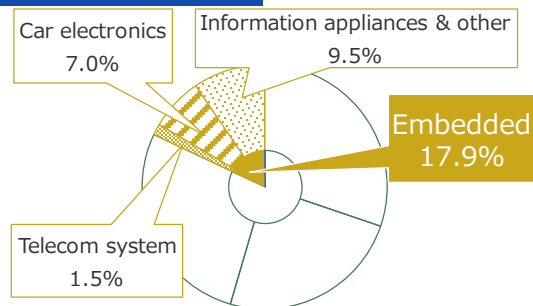
(Unit: Amounts less than 1 million yen omitted)

3Q (cumulative)		3Q (cumulative)		FY3/2017		FY3/2018		FY3/2019		YoY	
				Net sales	Segment profit	Net sales	Segment profit	Net sales	Segment profit	Net sales	Segment profit
Embedded	Net sales	Telecom system		402		376		383		101.8%	
		Car electronics		1,589		1,501		1,801		120.0%	
		Information appliances & other		1,870		2,090		2,446		117.0%	
	Total Net sales			3,861		3,968		4,631		116.7%	
	Segment profit			627 (16.2%)		649 (16.4%)		855 (18.5%)		131.7%	

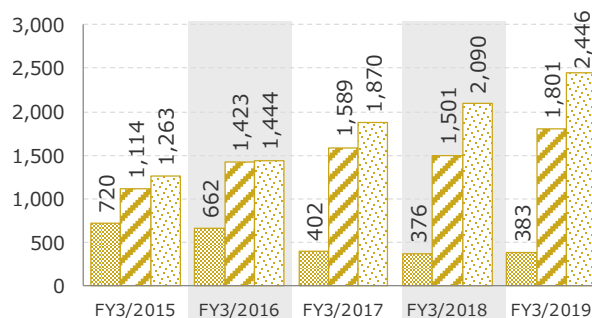
Note: Respective profit ratios shown in parentheses.

3Q (cumulative)

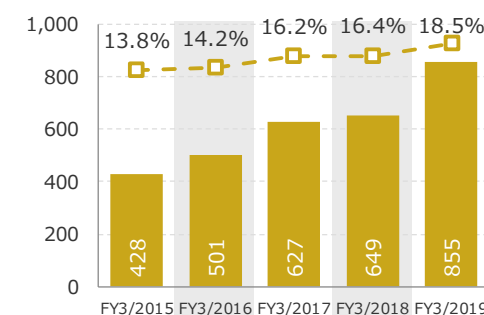
Share of net sales



Net sales



Segment profit/segment profit ratio





② Future outlook



- Despite some variability by sector/industry, customers' motivation for IT investment is strong.
- Despite some concerns over downsizing of orders and a shortage of human resources assigned to development, we will devote ourselves to achieving solid results in the fourth quarter, focusing on our priority areas of human resources, travel, distribution, car electronics and information appliances.
- In light of our ability to meet results forecasts up to the third quarter and the status of orders received, we leave our financial forecasts unchanged from the initial figures announced on May 8, 2018.

(Unit: Amounts less than 1 million yen omitted)

Full Year	FY3/2018				FY3/2019	
	Forecast	YoY	Actual	YoY	Forecast	YoY
	<Announced on May 9, 2016>				<Announced on May 9, 2017>	
Net sales	31,100	100.7%	33,328	107.9%	35,500	106.5%
Gross profit			6,308 (18.9%)	109.8%		
Operating profit	2,750 (8.8%)	101.6%	3,091 (9.3%)	114.2%	3,280 (9.2%)	106.1%
Ordinary profit	3,000 (9.6%)	97.5%	3,492 (10.5%)	113.4%	3,580 (10.1%)	102.5%
Profit	2,000 (6.4%)	97.9%	2,202 (6.6%)	107.8%	2,416 (6.8%)	109.7%
EPS ¥/share	176.36		200.25		220.84	

Note: Respective profit ratios shown in parentheses.

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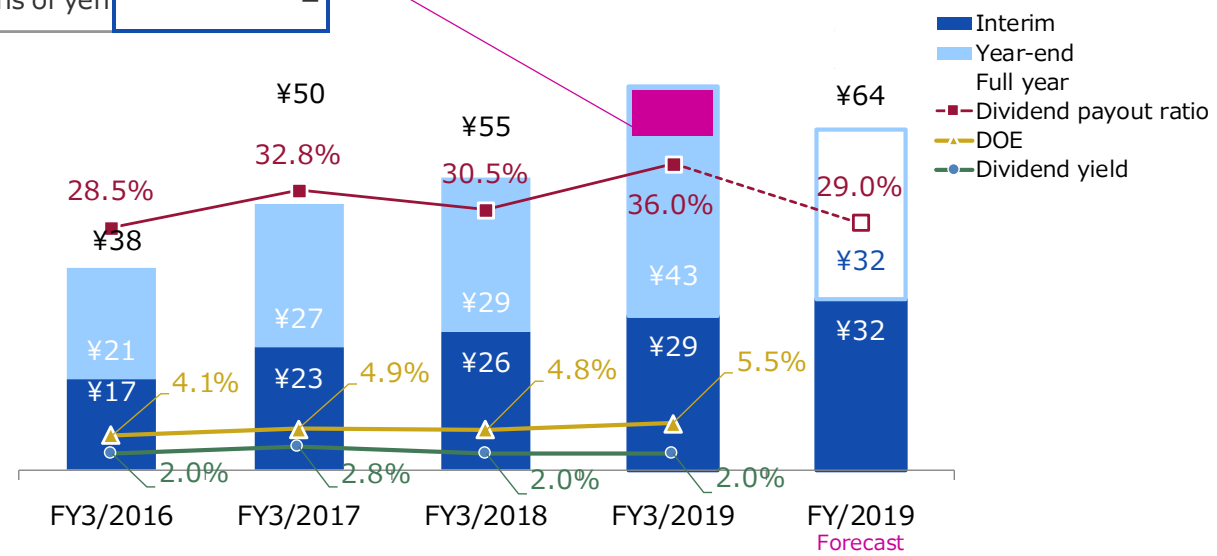
- The initial dividend forecast of 64 yen (interim 32 yen, year-end 32 yen) announced on May 8, 2018 has been left unchanged.

	FY3/2017	FY3/2018	FY3/2019 Forecast		
	Actual	Actual	Actual	<Announced on May 9, 2017>	Change
Interim	26 yen	29 yen	32 yen	32 yen	3 yen
Year-end	29 yen	* 43 yen	—	32 yen	-11 yen
Full year	55 yen	72 yen	32 yen	64 yen	-8 yen
Dividend payout ratio	30.5%	36.0%	—	29.0%	-7.0%
Dividend yield	2.0%	2.0%	—		
DOE	4.8%	5.5%	—		
Total dividend payments	623 Millions of yen	781 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.



■ Trend of the information service industry

- 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.
- According to the “Corporate IT Trend Survey 2018” conducted by the Japan Users Association of Information Systems, 40.7% of corporate respondents plan to increase their budget again for FY2018 following an increase in the previous year.
- Recent business conditions give insight into customers’ motivation for investment and indicate that demand will continue to increase.
- 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, will further increase investment appetite.

- 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.
- With the advent of “digital transformation,” human resources, travel, logistics, automotive electronics, and information appliances are areas experiencing further expansion of 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 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.



Overview of CRESCO LTD.



Overview of CRESCO LTD.

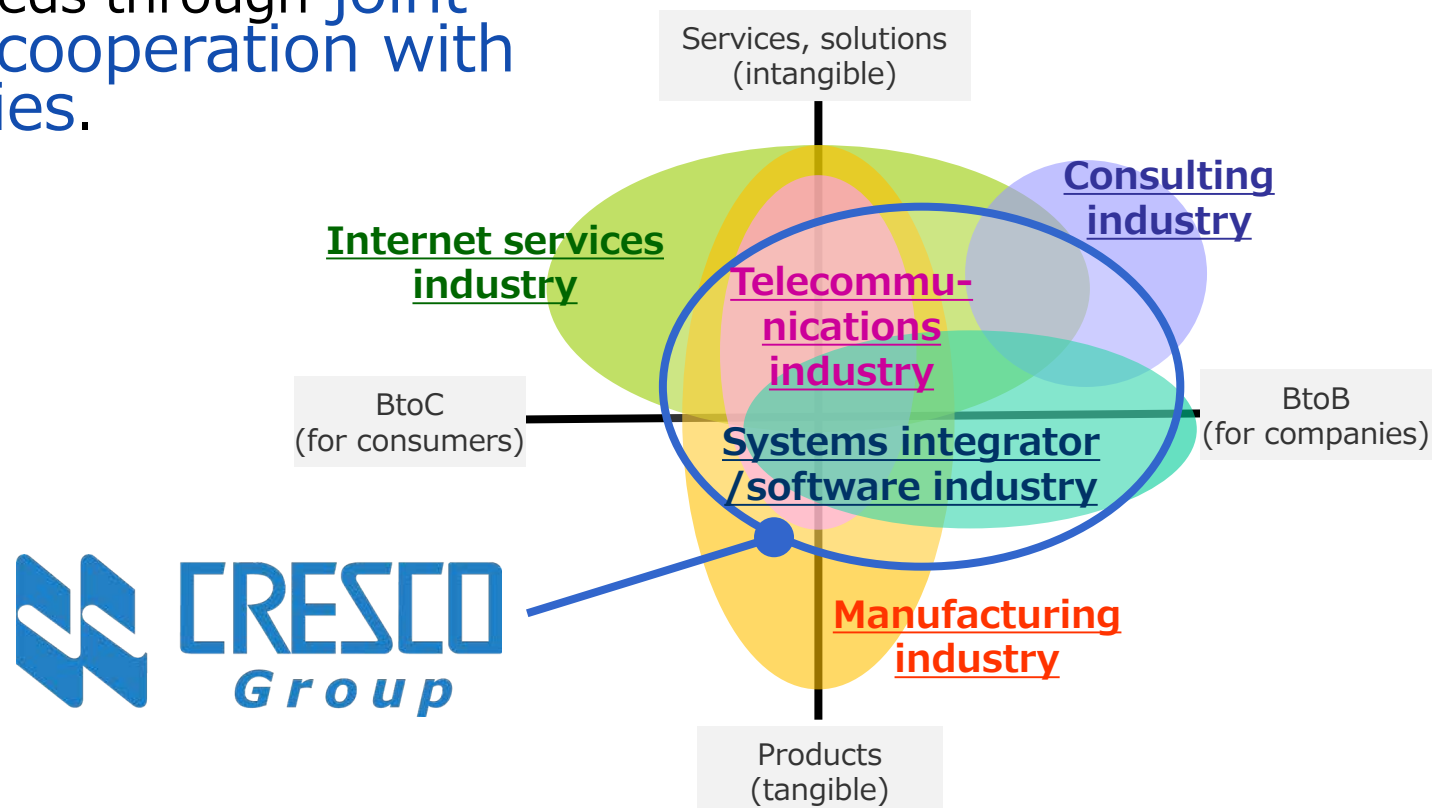
Profile

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, 2018]	Consolidated : 2,069 (Male : 1,648 Female : 421) Non-consolidated : 1,130 (Male : 887 Female : 2)
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 May 8, 2018]	¥45,840 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.**



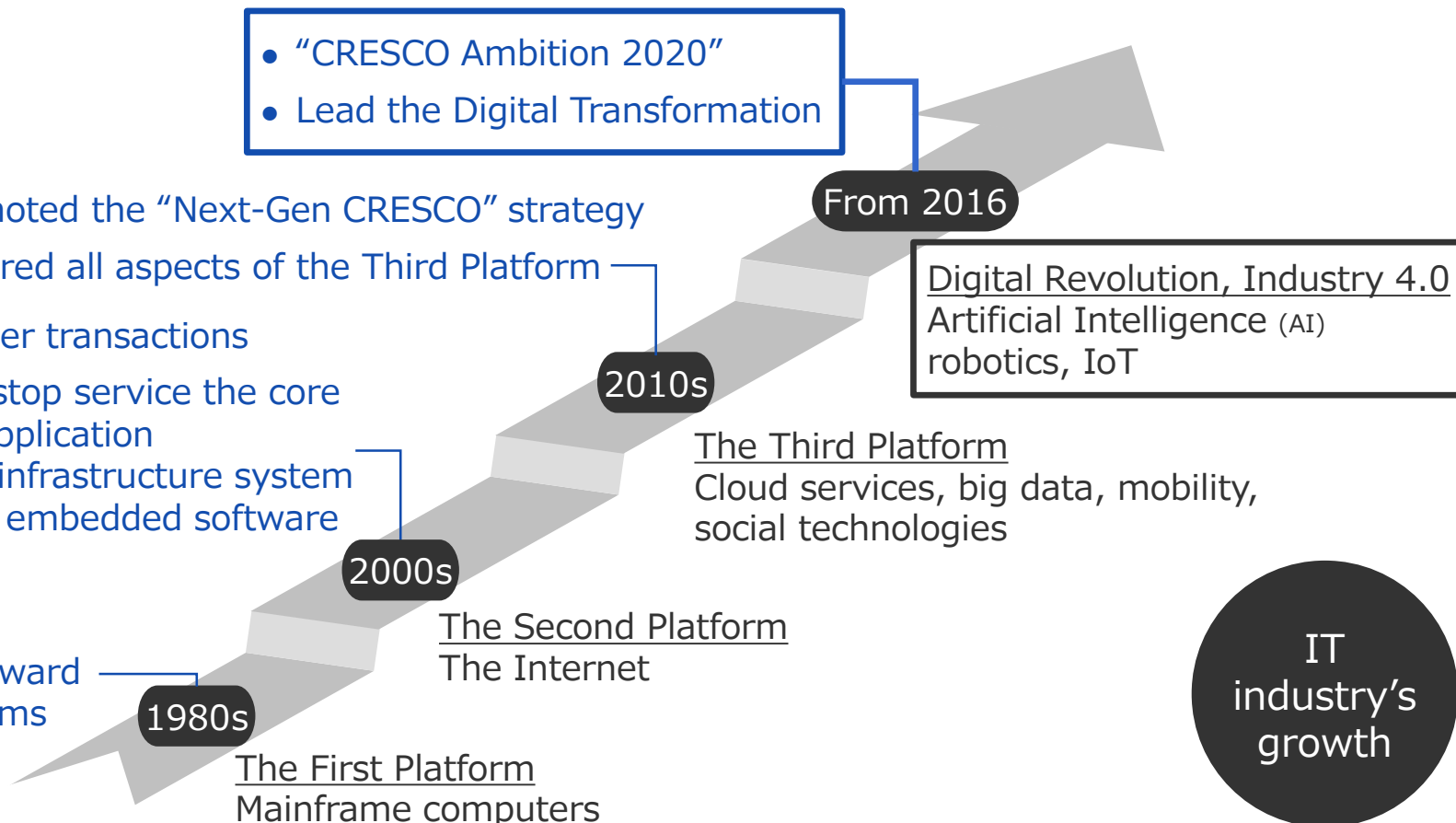
- We are proposing services suited to the changes in IT platforms.
- Technology Laboratory handles advanced technologies with sights fixed firmly on several years in the future.

CRESCO 's
step-by-step
progress

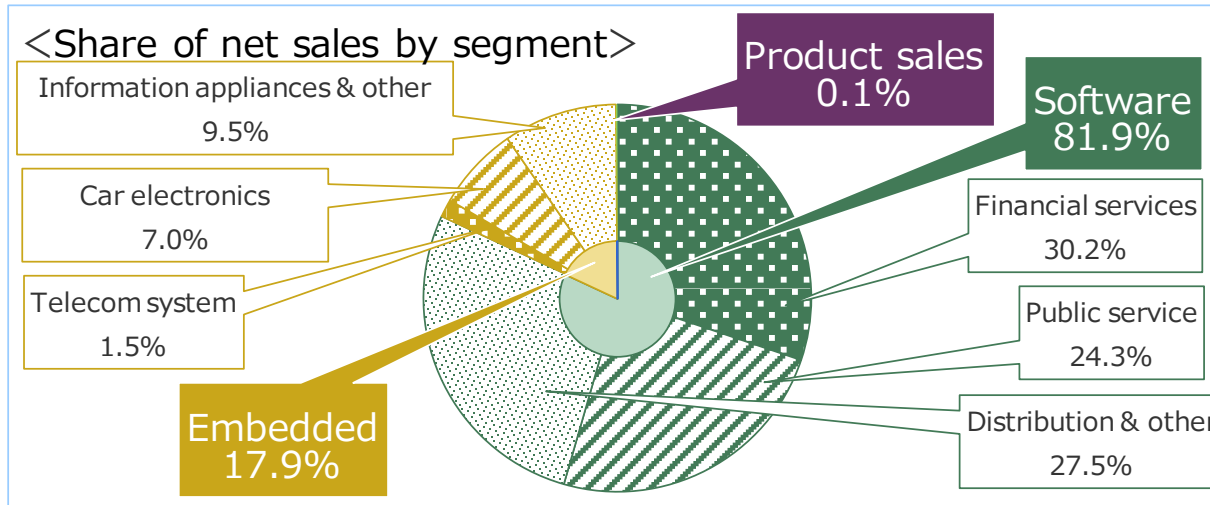
- Promoted the "Next-Gen CRESCO" strategy
- Covered all aspects of the Third Platform

- 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." 	

* In order of sales for the Nine Months Ended December 31, 2018

		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.		●	●								
	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.

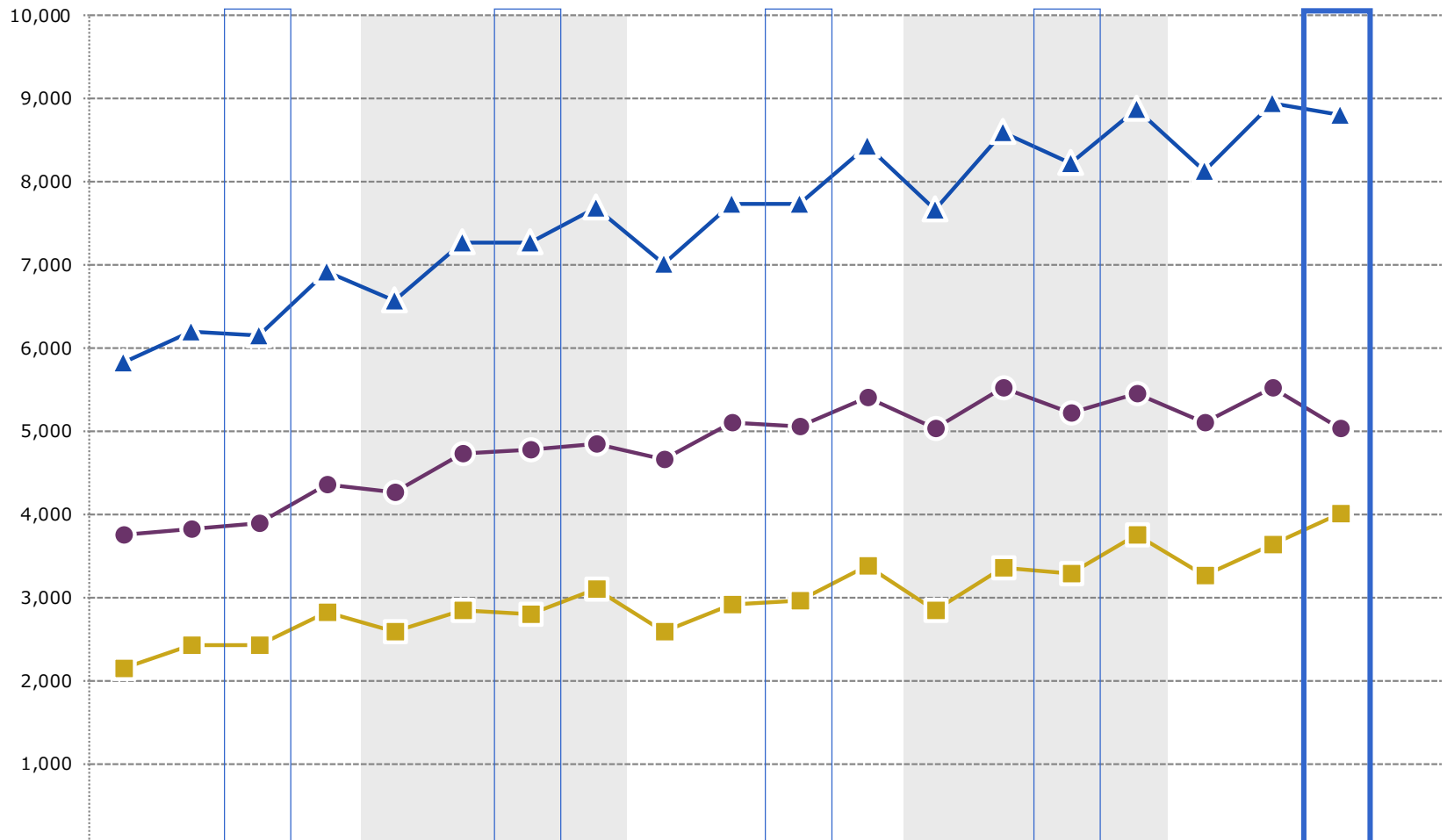
* The Kansai Office of IOS Co., Ltd. was integrated into Mexess Co., Ltd. effective April 1, 2018.

* 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)

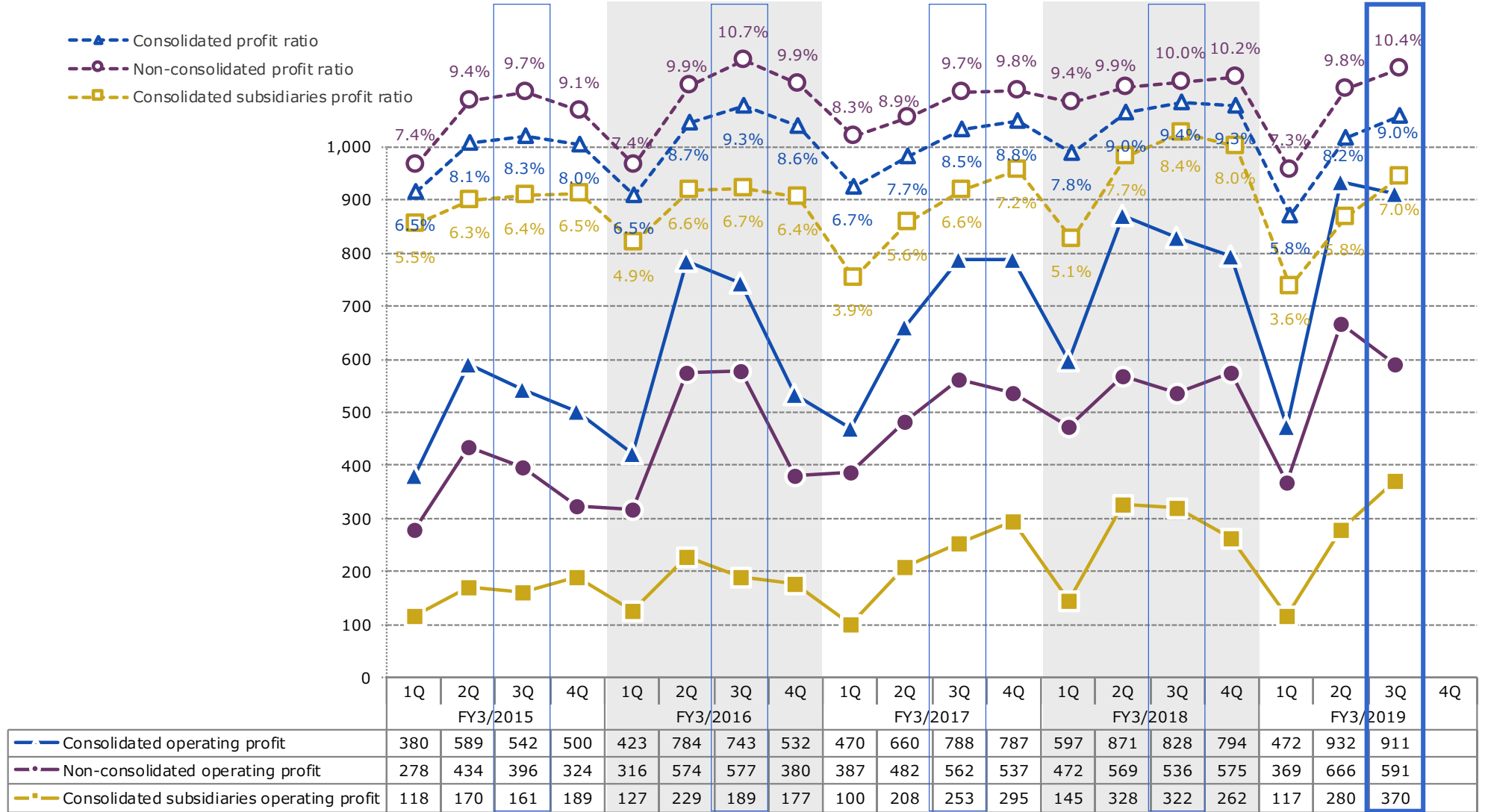


	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	FY3/2015				FY3/2016				FY3/2017				FY3/2018				FY3/2019			
Consolidated net sales	5,810	6,189	6,155	6,909	6,564	7,255	7,270	7,684	7,014	7,725	7,733	8,419	7,659	8,594	8,206	8,868	8,113	8,928	8,786	
Non-consolidated net sales	3,745	3,817	3,881	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	
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	

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



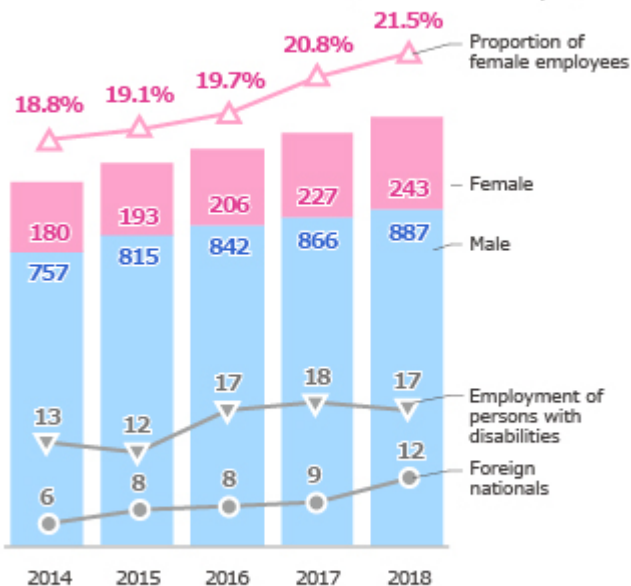
(Unit: Amounts less than 1 million yen omitted)



(Unit: Persons)

Employee breakdown

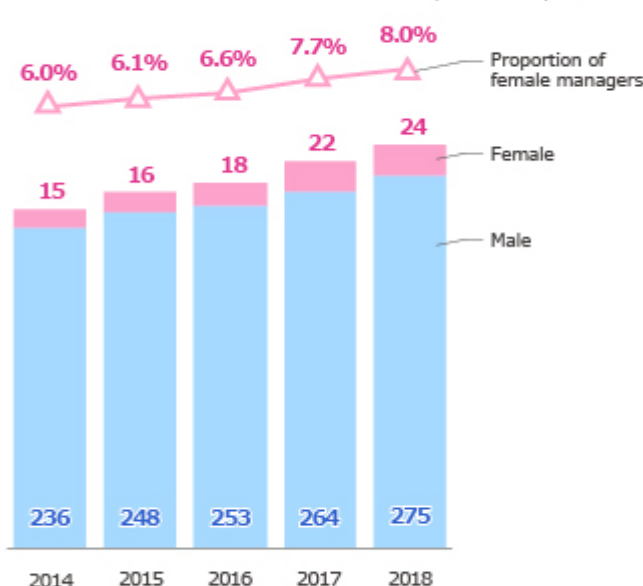
[As of March 31 of each year]



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

Manager breakdown

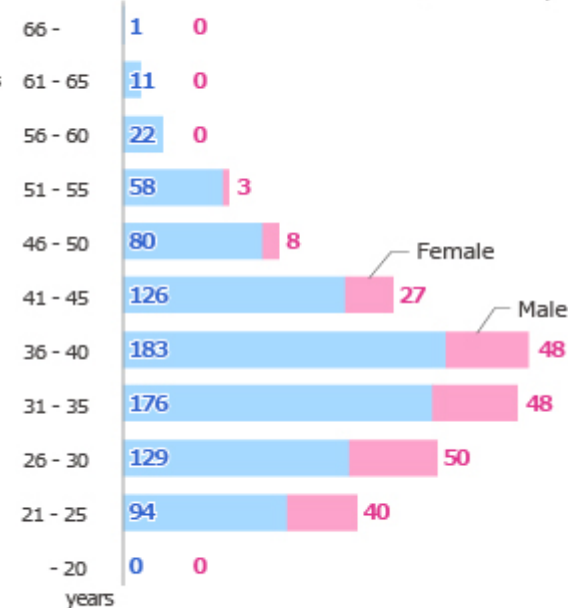
[As of April 1 of each year]



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

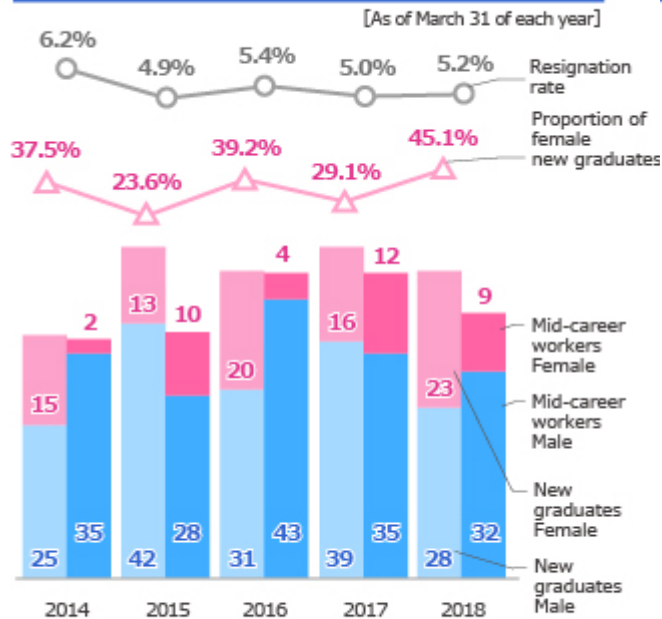
Employee breakdown by age

[As of March 31, 2018]



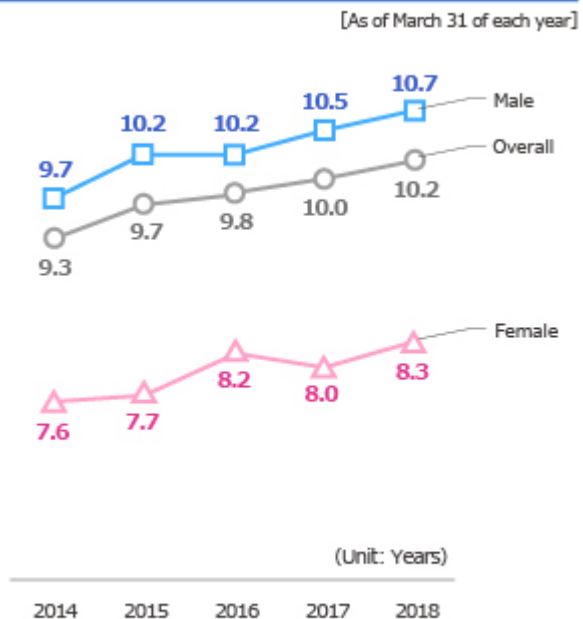
(Unit: Persons)

New employee breakdown and resignation rate

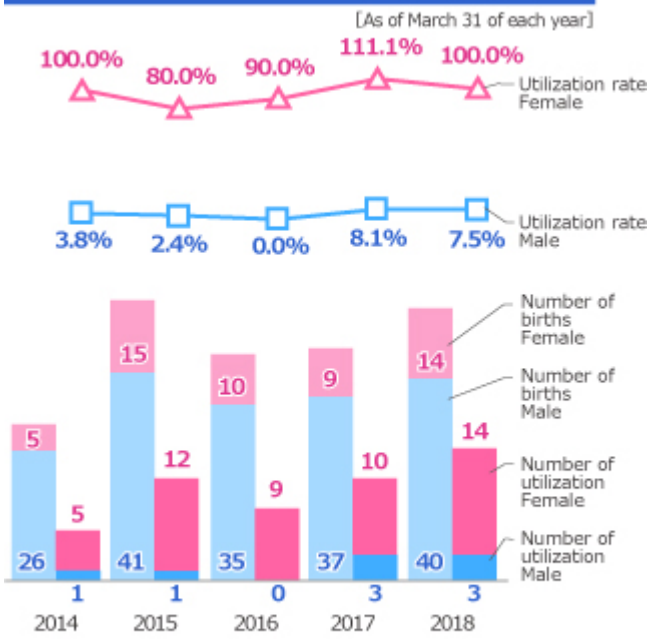


< The industry average in FY2017 (according to JISA data) >
 Proportion of female new graduates: 31.5%

Average service years



Taking the childcare leave



Initiatives for fiscal year ending March 31, 2019

- Management in accordance with “CRESCO Ambition 2020”
- Steady growth based on business quality and rising productivity
- Expansion of the size of group business through M&As

Five-year vision started in April 2016

CRESCO Ambition 2020


~ Lead the Digital Transformation ~

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.

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

Disclaimer

- ❖ Although CRESCO takes considerable care with respect to the content of this material, it does not bear any responsibility with regard to problems caused by information errors.
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