



# Summary of Quarterly Financial Results Press Conference

for the Six Months Ended September 30, 2018



2018/11/6  
CRESCO LTD.



1 Results main points

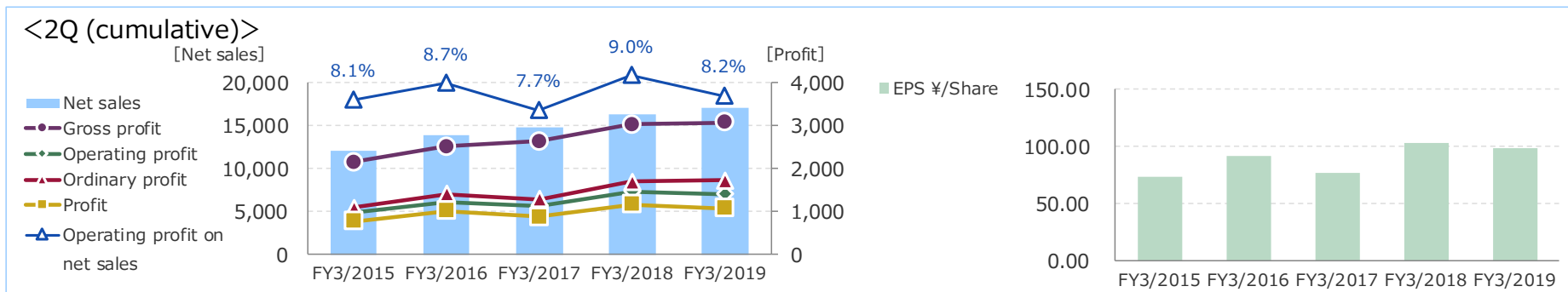


- The business environment itself in the second quarter has not significantly changed. Despite some variability by sector/industry, the demand for strategic IT investment in pursuit of productivity improvement and enhancement of competitiveness is ongoing.
- Net sales: Increased due to a review of the customer portfolio and business structure, and a shift in human resources.  
Profit: Decreased due to delays in the first quarter, though the year-on-year decline was less significant.
  - The impact of the loss of financial contracts and efforts to deal with unprofitable projects in the first quarter weighed down performance.  
Also, the impact of the shortage of human resources assigned to development continued to have a large impact on performance.
  - Ordinary profit increased mainly owing to gain on valuation of securities and gain on sales of securities (foreign stocks).

2Q (cumulative)	FY3/2017	FY3/2018	FY3/2019	YoY	Half-year progress	FY3/2019 Forecast <Announced on May 9, 2017>	YoY
	Net sales	14,740	16,253	<b>17,041</b>	<b>104.8%</b>	<b>98.5%</b>	17,300
Gross profit	2,631 (17.8%)	3,025 (18.6%)	<b>3,067 (18.0%)</b>	<b>101.4%</b>			
Operating profit	1,131 (7.7%)	1,469 (9.0%)	<b>1,405 (8.2%)</b>	<b>95.6%</b>	<b>95.0%</b>	1,480 (8.6%)	100.7%
Ordinary profit	1,284 (8.7%)	1,687 (10.4%)	<b>1,720 (10.1%)</b>	<b>102.0%</b>	<b>106.2%</b>	1,620 (9.4%)	96.0%
Profit	867 (5.9%)	1,157 (7.1%)	<b>1,076 (6.3%)</b>	<b>93.0%</b>	<b>98.2%</b>	1,096 (6.3%)	94.7%
EPS ¥/Share	76.64	103.44	<b>98.39</b>			100.18	

Note: Respective profit ratios shown in parentheses.

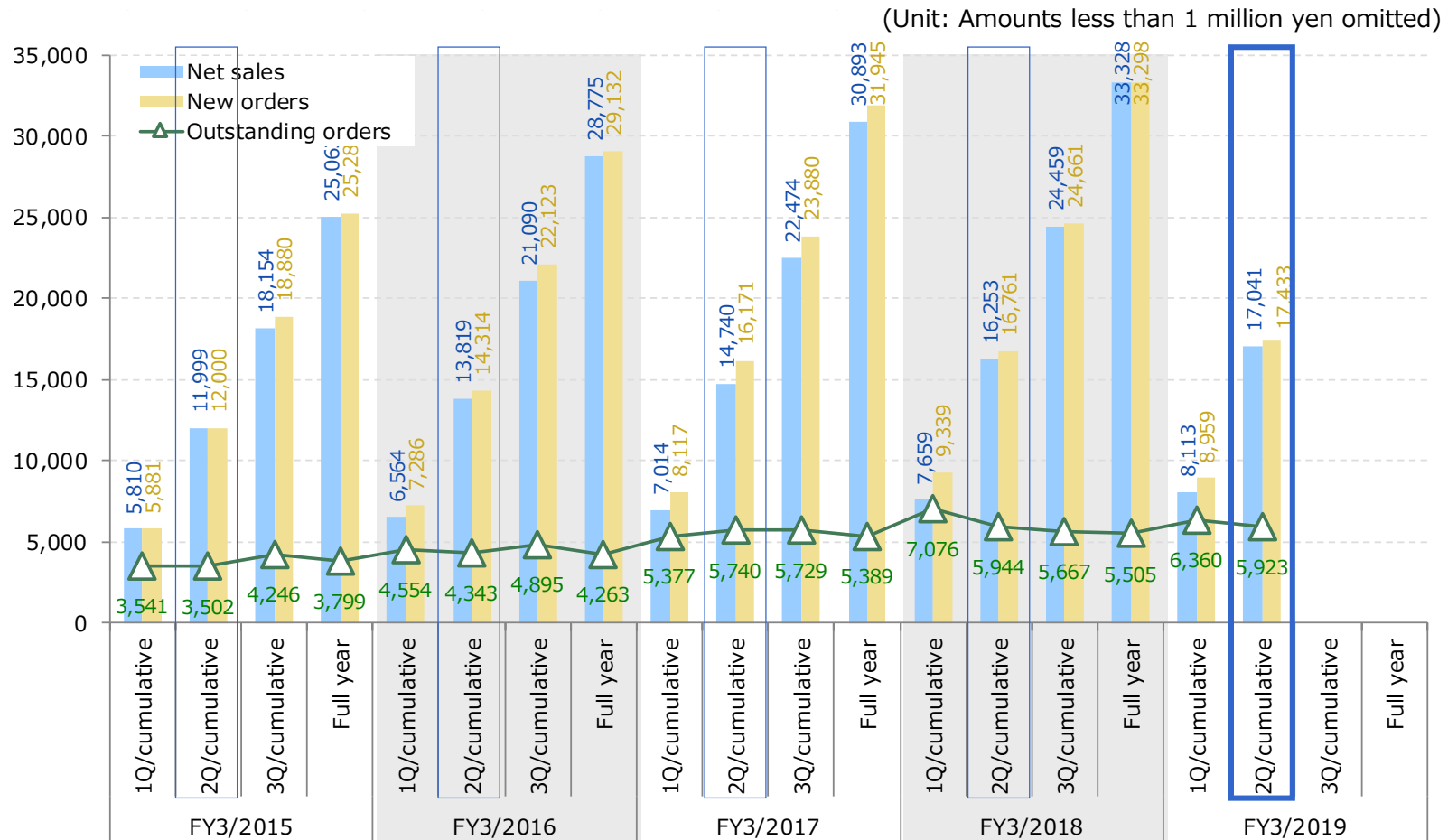
(Unit: Amounts less than 1 million yen omitted)



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



- Customer inquiries were generally steady on the back of digital transformation trends.
  - Software development: Somewhat lacked vigor with new orders decreasing more than expected for “financial services.”
  - Embedded software development: Customer inquiries for “Car Electronics,” “Information Appliances and Others” continued to increase from the first quarter.
- New orders: year on year 104.0%  
Outstanding orders: year on year 99.6%



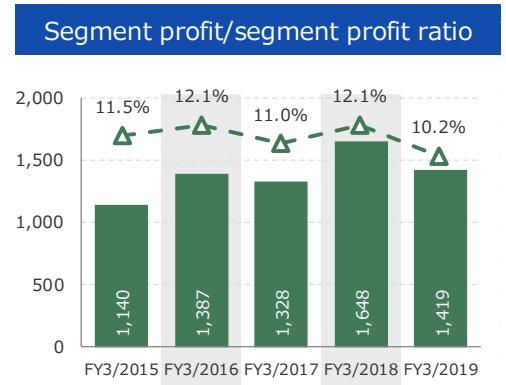
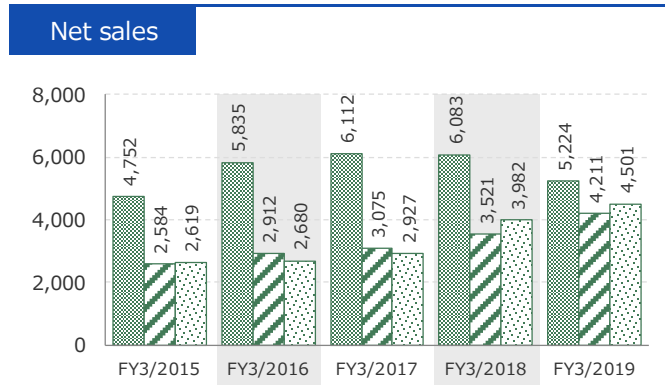
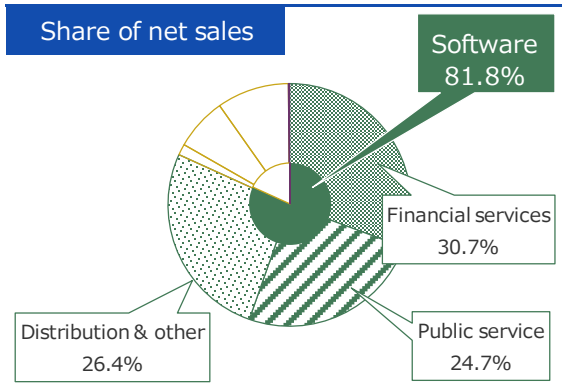
- Effort to address the unprofitable projects from the first quarter. Business portfolio rebalancing and resource reallocation are underway.
- **Financial services**  
Sales decreased year on year primarily due to the impact of major contracts with megabanks settling.
- **Public & service**  
Sales increased year on year due to increases in orders related to travel and human resources.
- **Distribution & other**  
Sales increased year on year reflecting the consolidation of a subsidiary "Nexus Corporation."

(Unit: Amounts less than 1 million yen omitted)

		FY3/2017	FY3/2018	FY3/2019	YoY	
2Q (cumulative)	Software	Financial services	6,112	6,083	<b>5,224</b>	<b>85.9%</b>
		Public service	3,075	3,521	<b>4,211</b>	<b>119.6%</b>
		Distribution & other	2,927	3,982	<b>4,501</b>	<b>113.1%</b>
		Net sales	12,115	13,586	<b>13,937</b>	<b>102.6%</b>
	Segment profit	1,328 (11.0%)	1,648 (12.1%)	<b>1,419 (10.2%)</b>	<b>86.1%</b>	

Note: Respective profit ratios shown in parentheses.

2Q (cumulative)

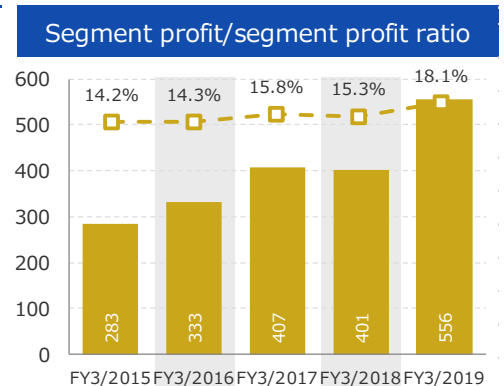
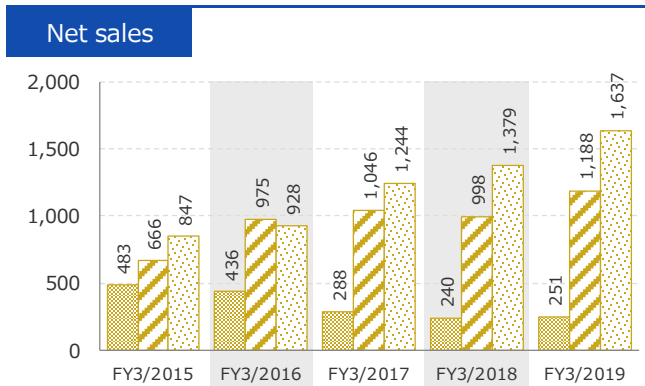
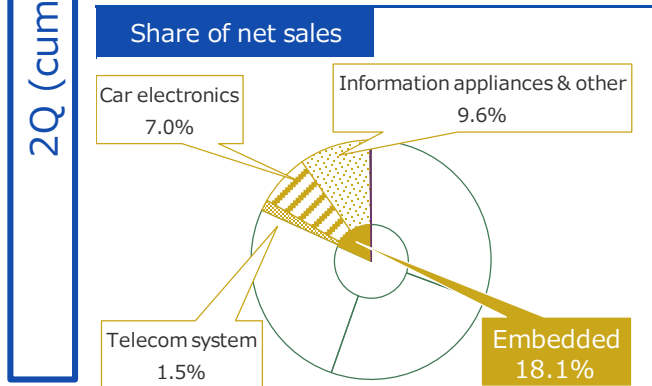


- The revision of unit price, productivity improvement efforts, and the reinforcement of the development team were successful.
- **Telecom system**  
There was a slight increase in smartphone-related projects. The current structure is maintained.
- **Car electronics**  
Sales were strong, particularly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

(Unit: Amounts less than 1 million yen omitted)

		FY3/2017	FY3/2018	FY3/2019	YoY	
2Q (cumulative)	Embedded	Telecom system	288	240	<b>251</b>	<b>104.4%</b>
		Car electronics	1,046	998	<b>1,188</b>	<b>119.0%</b>
		Information appliances & other	1,244	1,379	<b>1,637</b>	<b>118.7%</b>
	Net sales		2,578	2,619	<b>3,077</b>	<b>117.5%</b>
	Segment profit		407 (15.8%)	401 (15.3%)	<b>556 (18.1%)</b>	<b>138.7%</b>

Note: Respective profit ratios shown in parentheses.





## 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, growth is expected mainly in the areas of human resources, travel, distribution, car electronics, and information appliances in the second half.
- 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 <Announced on May 9, 2016>	YoY	Actual	YoY	Forecast <Announced on May 9, 2017>	YoY
	Net sales	31,100	100.7%	33,328	107.9%	<b>35,500</b>
Gross profit			6,308 (18.9%)	109.8%		
Operating profit	2,750 (8.8%)	101.6%	3,091 (9.3%)	114.2%	<b>3,280 (9.2%)</b>	<b>106.1%</b>
Ordinary profit	3,000 (9.6%)	97.5%	3,492 (10.5%)	113.4%	<b>3,580 (10.1%)</b>	<b>102.5%</b>
Profit	2,000 (6.4%)	97.9%	2,202 (6.6%)	107.8%	<b>2,416 (6.8%)</b>	<b>109.7%</b>
EPS ¥/share	176.36		200.25		<b>220.84</b>	

Note: Respective profit ratios shown in parentheses.



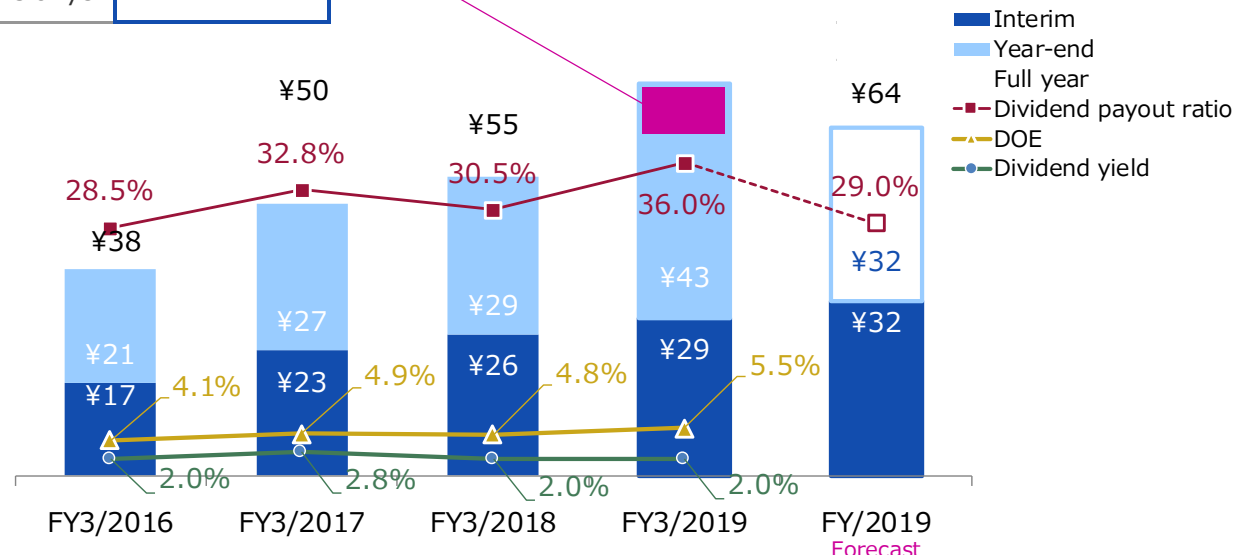
- The initial dividend forecast of 64 yen (interim 32 yen, year-end 32 yen) announced on May 8, 2018 has been left unchanged.

	FY3/2017	FY3/2018	FY3/2019 Forecast		
	Actual	Actual	Actual	<Announced on May 9, 2017>	Change
Interim	26 yen	29 yen	<b>32 yen</b>	<b>32 yen</b>	<b>3 yen</b>
Year-end	29 yen	* 43 yen	—	<b>32 yen</b>	<b>-11 yen</b>
Full year	55 yen	72 yen	<b>32 yen</b>	<b>64 yen</b>	<b>-8 yen</b>
Dividend payout ratio	30.5%	36.0%	—	<b>29.0%</b>	<b>-7.0%</b>
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.

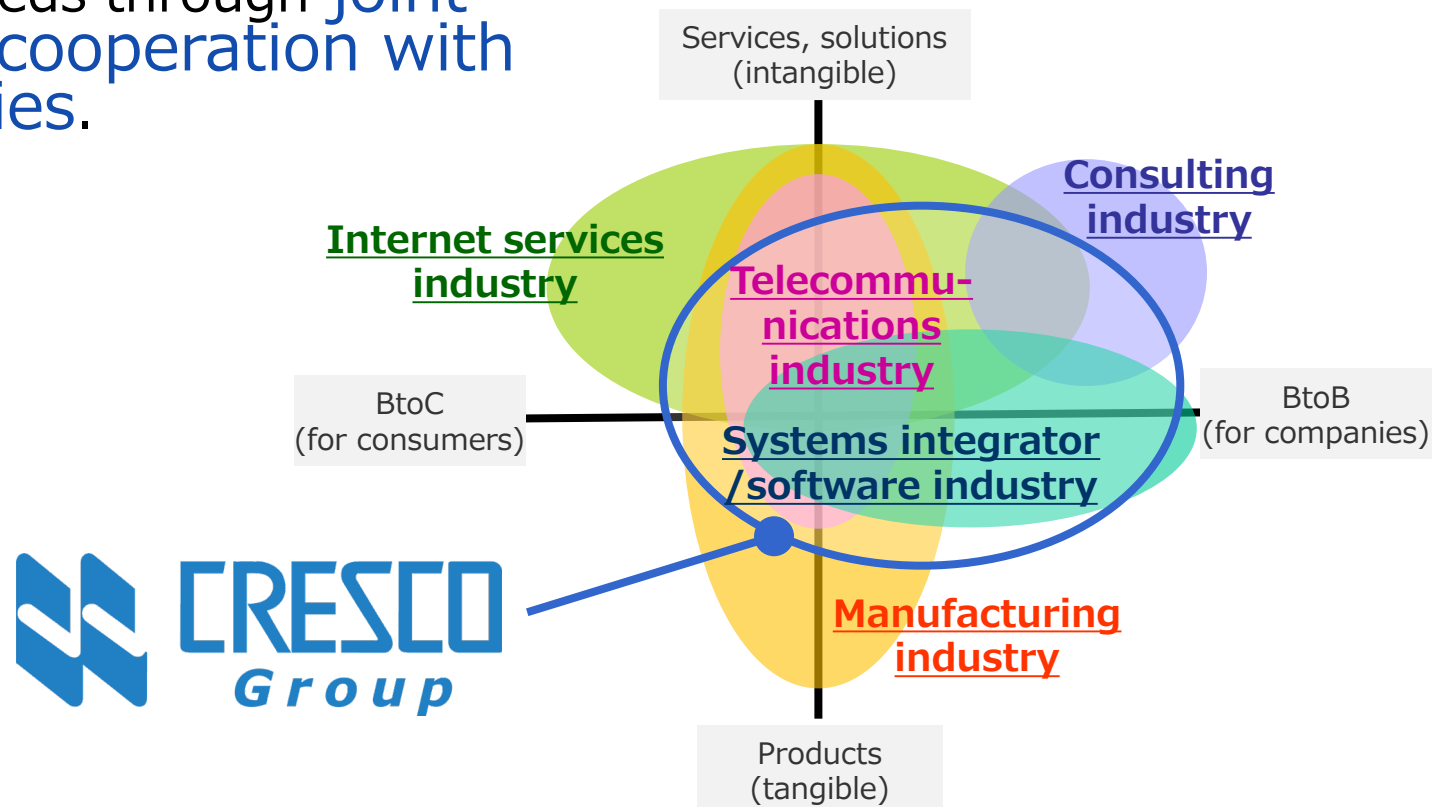
# Profile

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.**

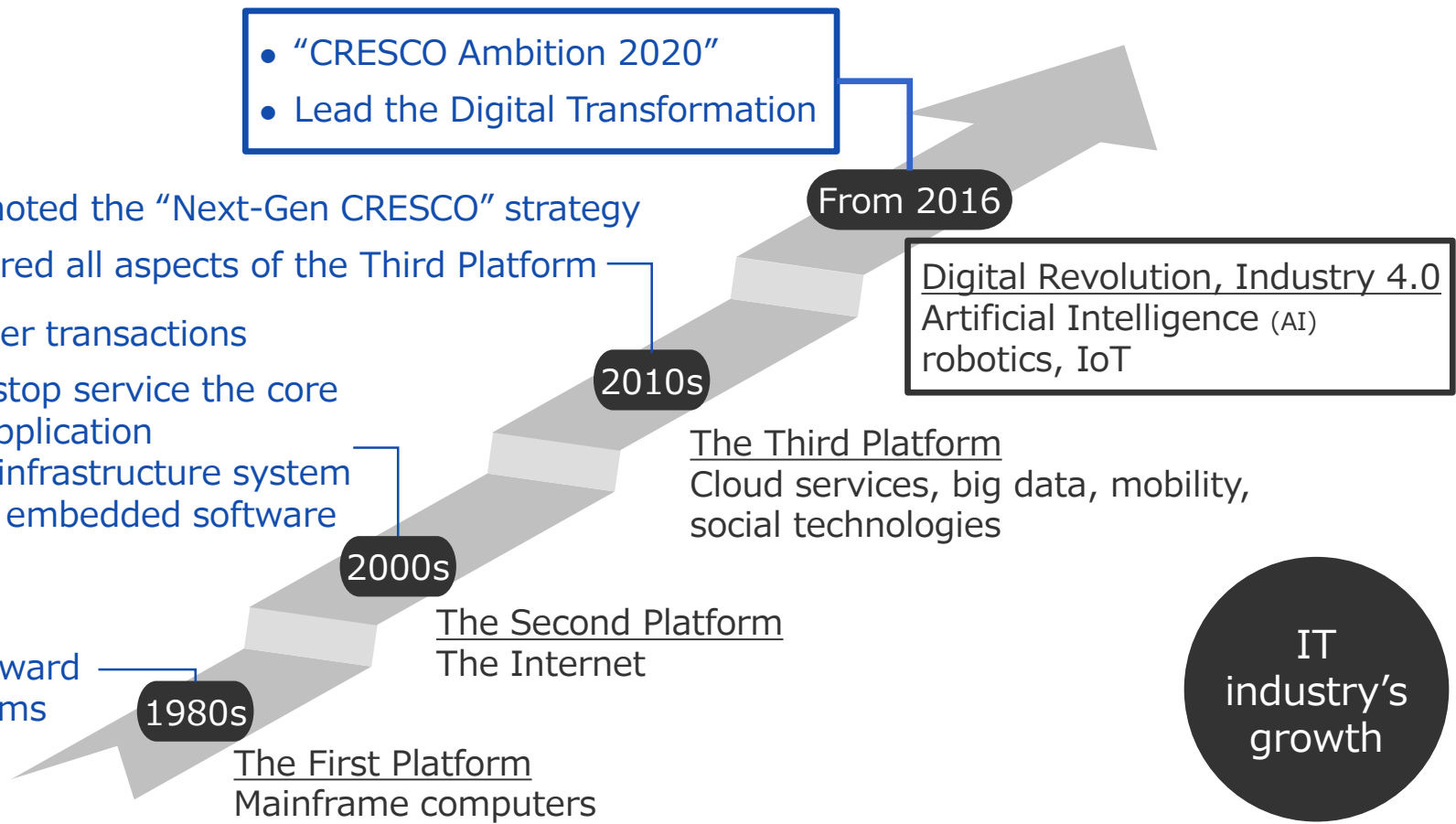




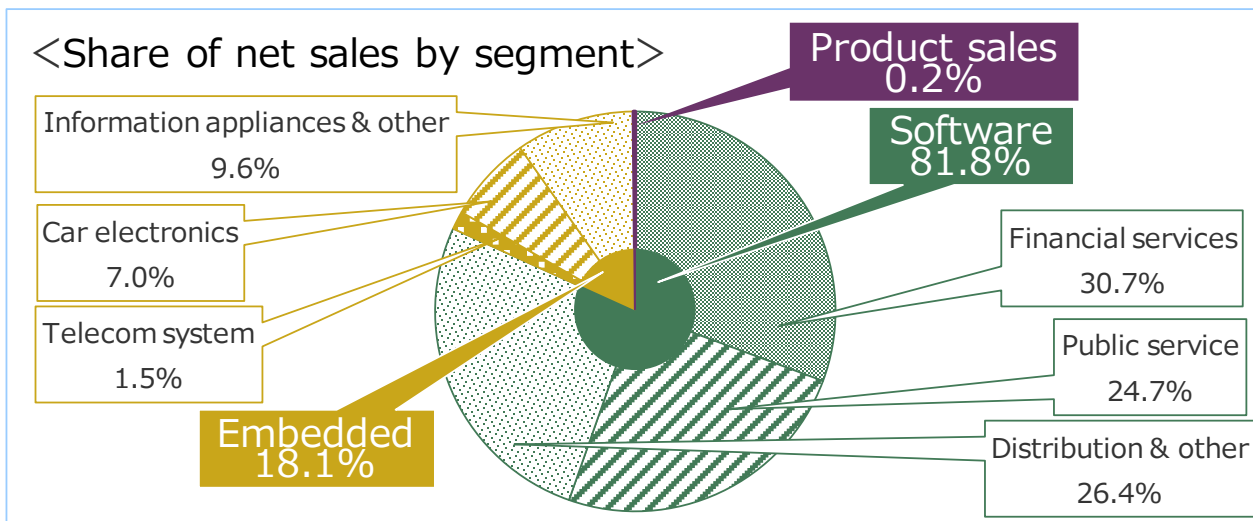
- We are proposing services suited to the changes in IT platforms.
- Technology Laboratory handles advanced technologies with sights fixed firmly on several years in the future.

**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"> <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 Six Months Ended June 30, 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.		●									
	CRESCO Wireless, Inc.										●	●

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

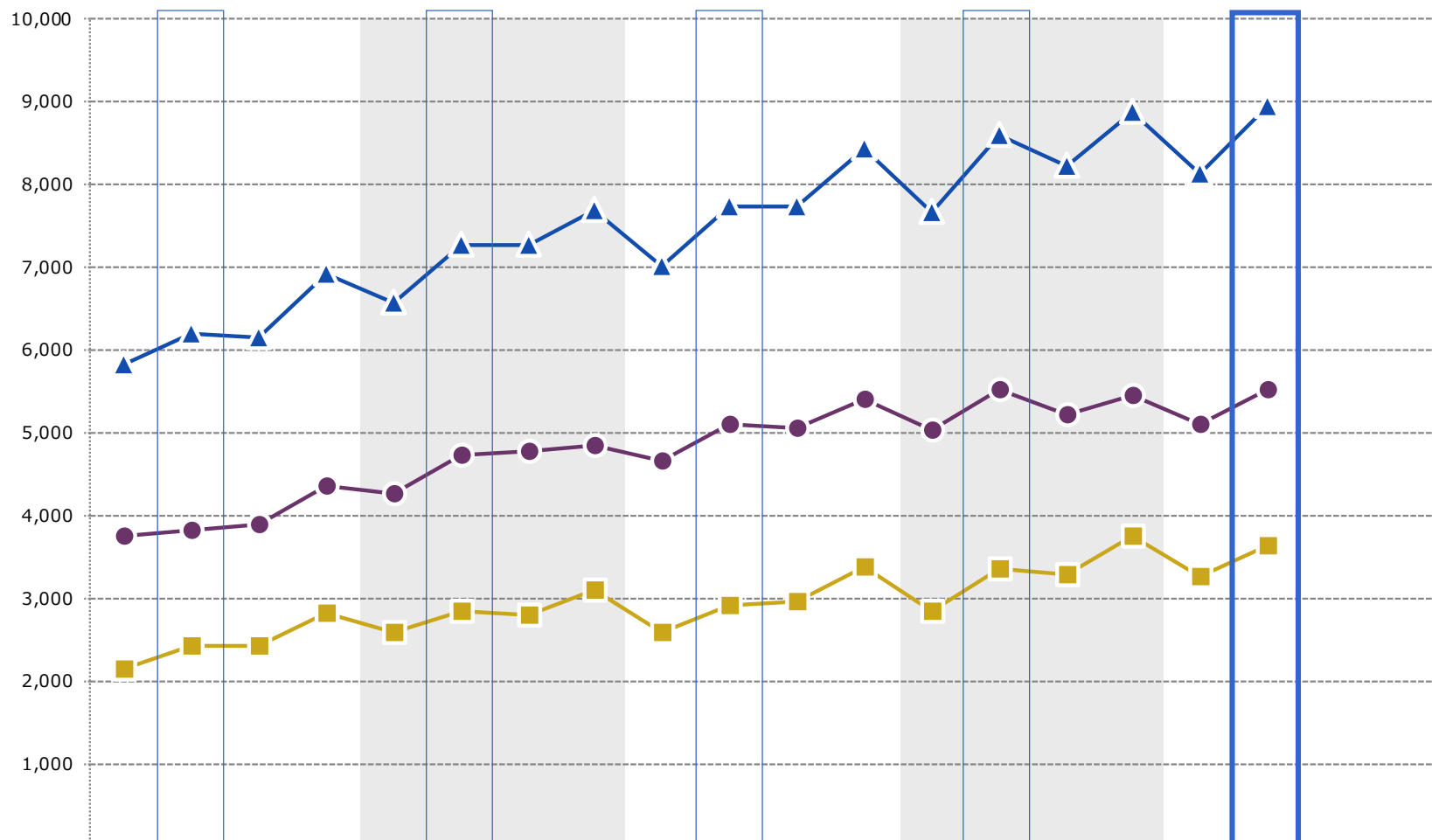
\* Media Magic Co., Ltd. was renamed Mexess Co., Ltd. effective March 12, 2018.

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

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



(Unit: Amounts less than 1 million yen omitted)

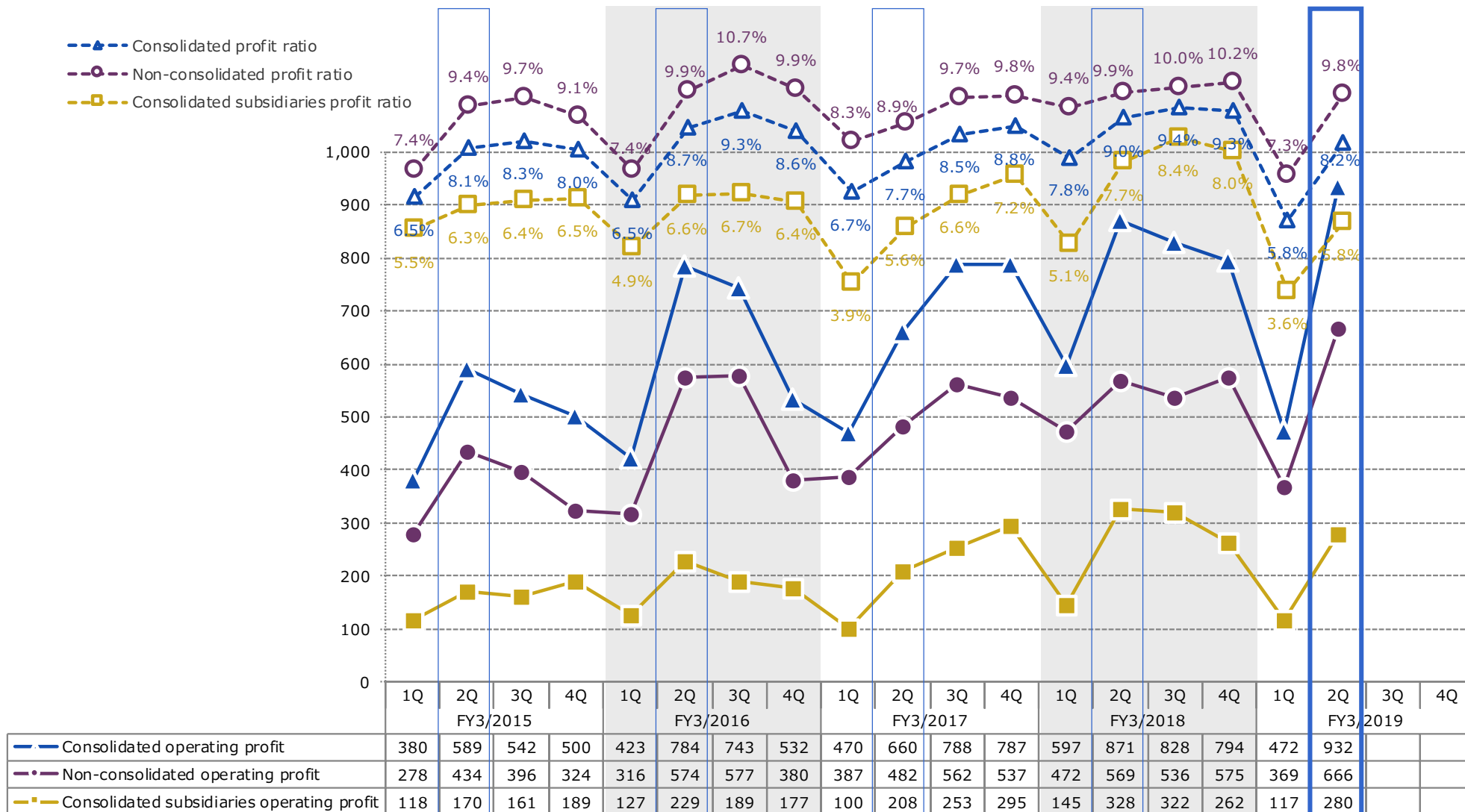


	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
	FY3/2015				FY3/2016				FY3/2017				FY3/2018				FY3/2019			
Consolidated net sales	5,810	6,189	6,155	6,909	6,564	7,255	7,270	7,684	7,014	7,725	7,733	8,419	7,659	8,594	8,206	8,868	8,113	8,928		
Non-consolidated net sales	3,745	3,817	3,881	4,350	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		
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		

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



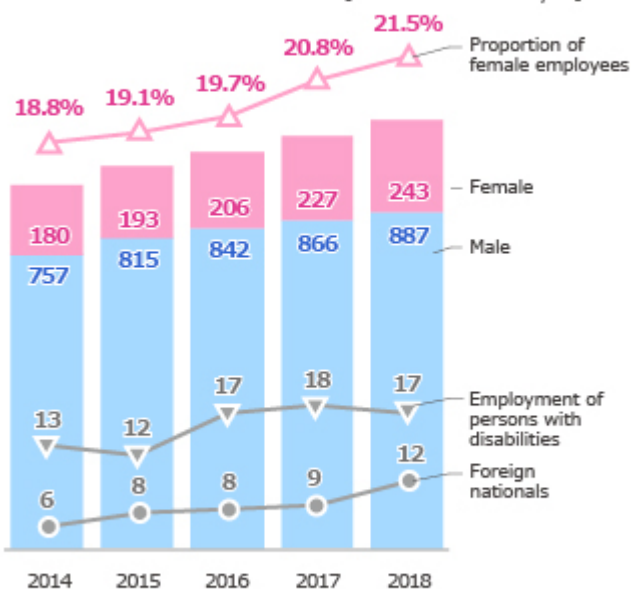
(Unit: Amounts less than 1 million yen omitted)



(Unit: Persons)

## Employee breakdown

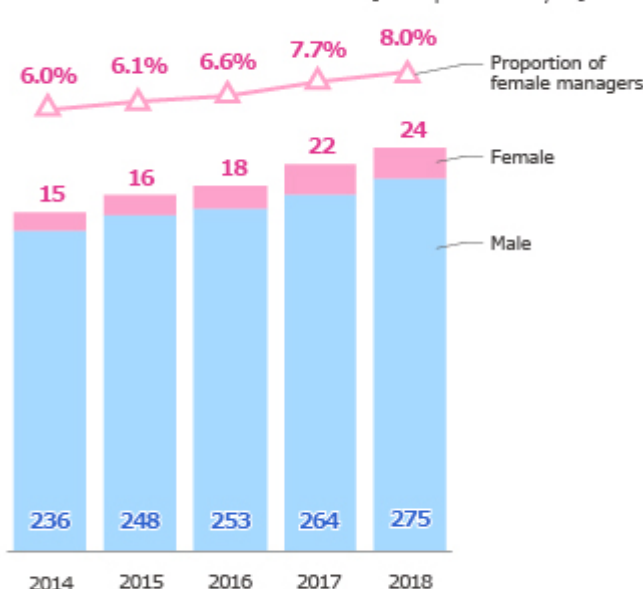
[As of March 31 of each year]



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

## Manager breakdown

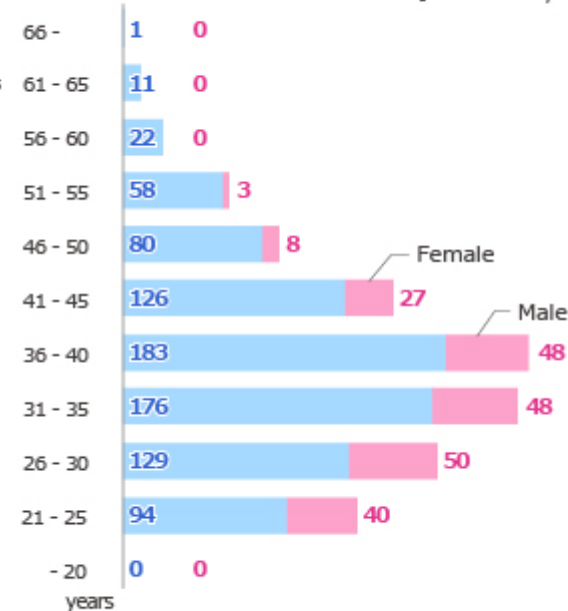
[As of April 1 of each year]



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

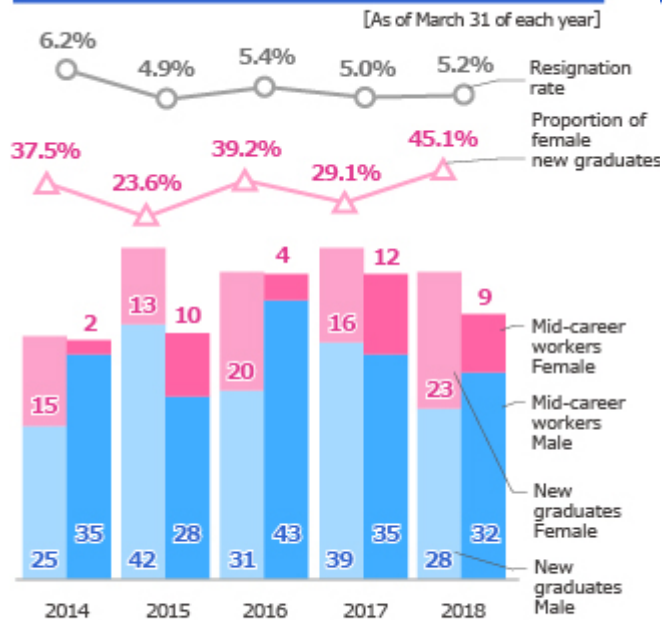
## Employee breakdown by age

[As of March 31, 2018]



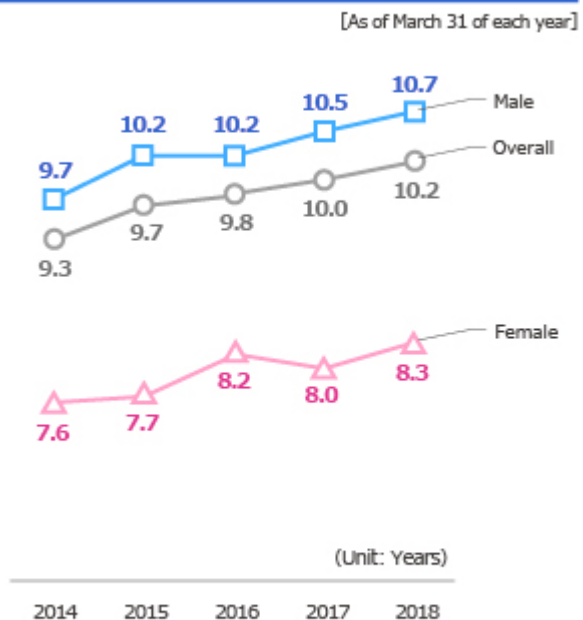
(Unit: Persons)

## New employee breakdown and resignation rate

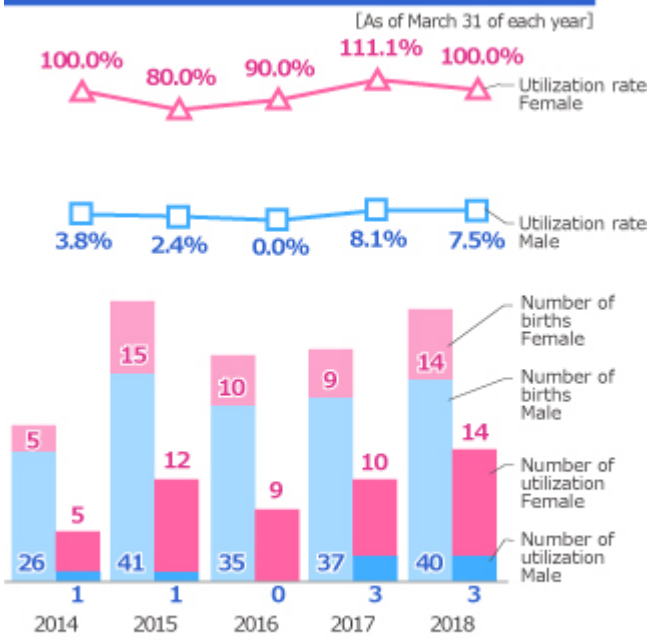


< The industry average in FY2017 (according to JISA data) >  
 Proportion of female new graduates: 31.5%

## 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

# 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

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