



Summary of Quarterly Financial Results Press Conference

Fiscal Year Ended March 31, 2020



2020/5/8
CRESCO LTD.



1 Results main points

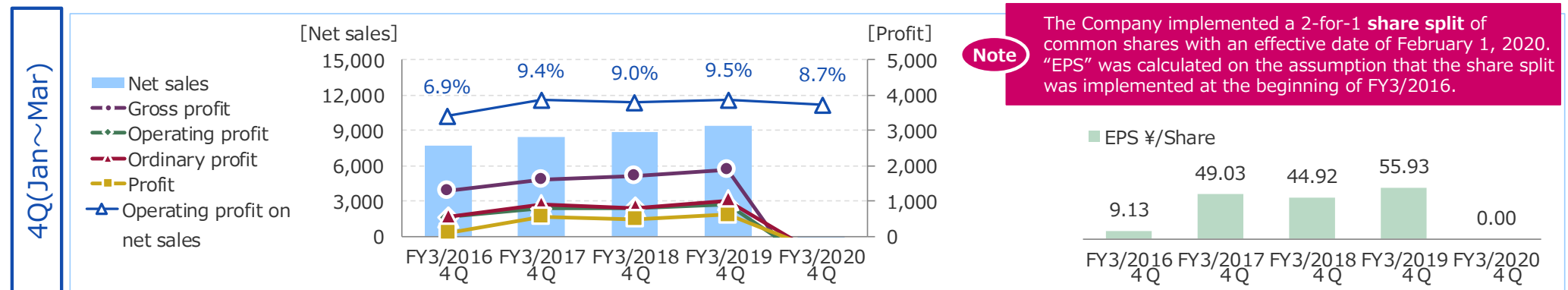
- Regarding the full year business environment, IT investment was supported by digital transformation centered on “aggressive IT management.”
- The impact of the scourge of COVID-19 on the development business was immaterial for the year ended March 31, 2020.
- Regarding the full year result, net sales and operating profit increased with double digits.
- Ordinary profit and profit increased, but profit ratios declined due to loss on valuation of financial assets.

- Net sales:** Increased 4,107 million yen (up 11.7% year on year).
- Operating profit:** Increased 349 million yen (up 10.9% year on year). Profit ratio decreased “from 9.1% to 9.0%” by 0.1%.
- Ordinary profit:** Increased 54 million yen (up 1.5% year on year).
- Profit:** Increased 136 million yen (up 5.9% year on year).

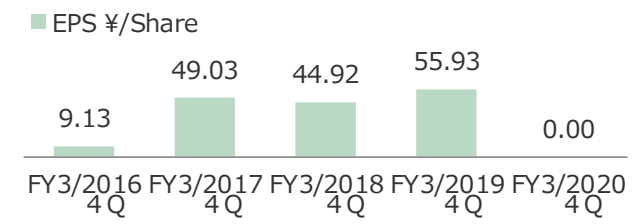
Full year		FY3/2018	FY3/2019	FY3/2020	YoY	Full-year progress	FY3/2020 Forecast <Announced on May 9, 2019>	YoY
	Net sales		33,328	35,230	39,337	111.7%	103.8%	37,880
Gross profit		6,308 (18.9%)	6,673 (18.9%)	7,246 (18.4%)	108.6%			
Operating profit		3,091 (9.3%)	3,207 (9.1%)	3,556 (9.0%)	110.9%	104.6%	3,400 (9.0%)	106.0%
Ordinary profit		3,492 (10.5%)	3,658 (10.4%)	3,712 (9.4%)	101.5%	97.4%	3,813 (10.1%)	104.2%
Profit		2,202 (6.6%)	2,285 (6.5%)	2,421 (6.2%)	105.9%	100.2%	2,416 (6.4%)	105.7%
Note	EPS ¥/Share	100.13	104.46	114.30			114.28	Note

Note: Respective profit ratios shown in parentheses.

(Unit: Amounts less than 1 million yen omitted)



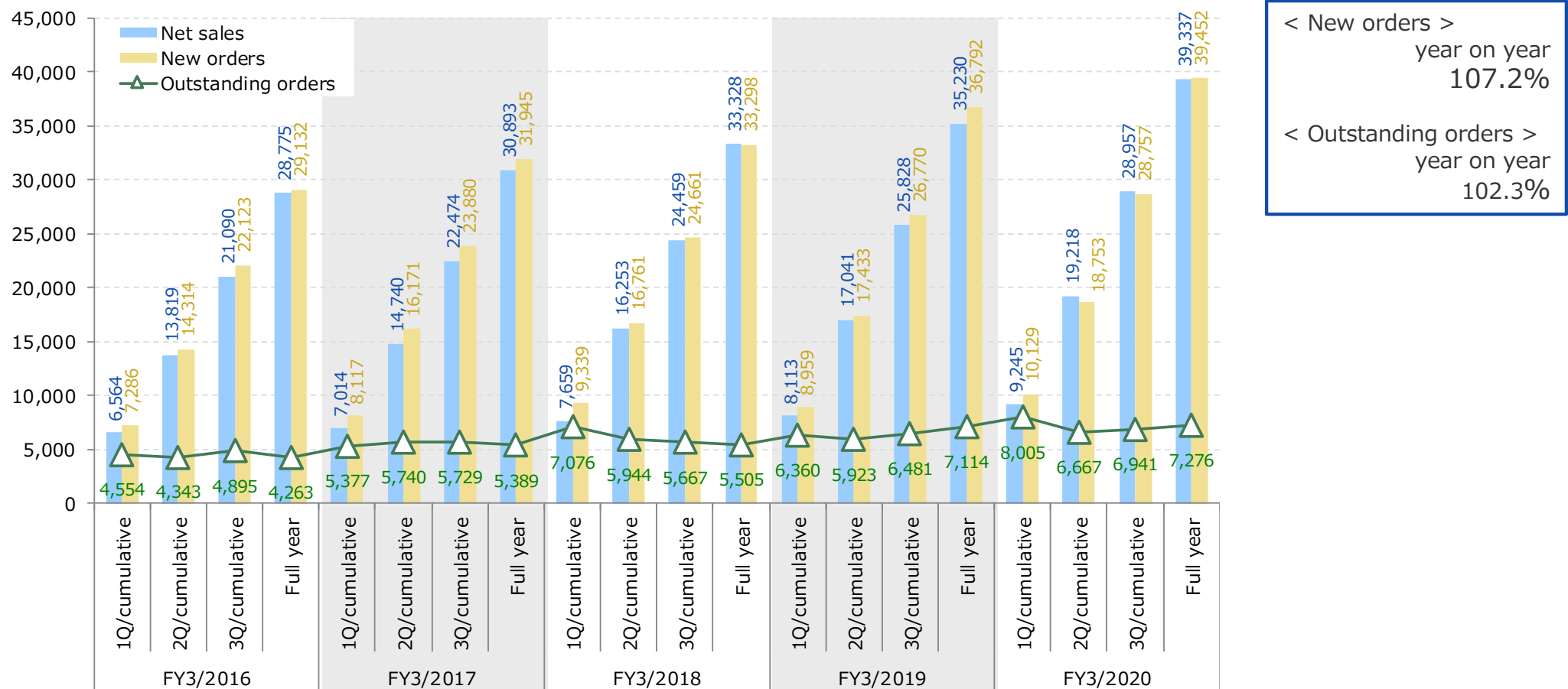
Note The Company implemented a 2-for-1 **share split** of common shares with an effective date of February 1, 2020. “EPS” was calculated on the assumption that the share split was implemented at the beginning of FY3/2016.



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



- The impact of the scourge of COVID-19 on customer inquiries was also immaterial. This was supported by aggressive IT investment and the continued digital transformation (DX).
 - ▢ **Software development:** There was a slight increase in orders related to “Financial services,” and “Public service” and “Distribution & other” orders were steady.
 - ▢ **Embedded software development:** Orders were steady overall, despite some variations in customers related to “Car electronics.”
- Regarding the service business, orders of DX projects (projects related to cloud and AI in particular) were steady.



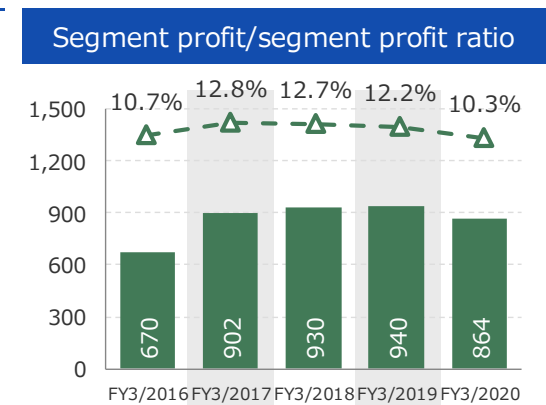
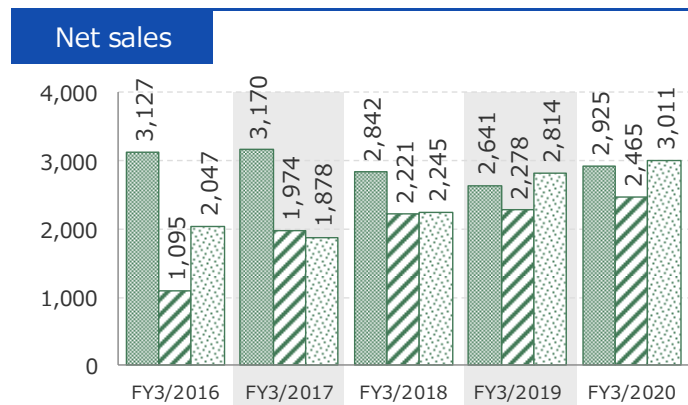
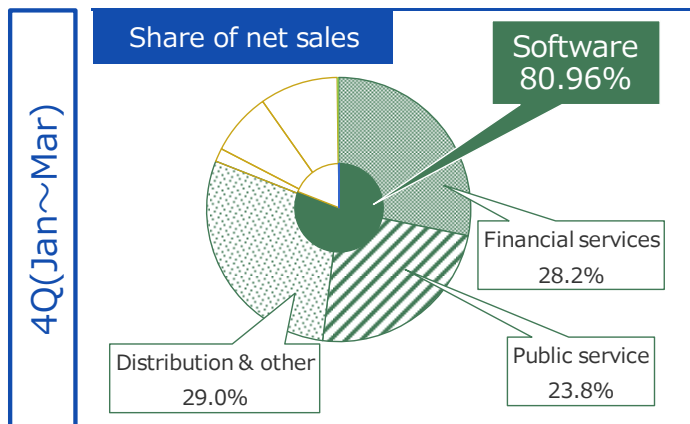
- Net sales **increased with double digits by 11.3%** due to reinforcement of sales and the development team (including offshore), and the thoroughness of group-wide coordination.
- While there were several large unprofitable projects during the period, we focused on recovery and segment profit **increased 7.6%**.

- ▣ **Financial services:** There was a large change in banking related customers in particular, resulting in an only 1.3% increase in sales. (sales increased 140 million yen year on year)
- ▣ **Public service:** Sales increased 13.3%, driven by IT investments from existing major customers (human resources, travel, transport). (sales increased 1,134 million yen year on year)
- ▣ **Distribution & other:** Sales increased 20.0%, with orders expanding at consolidated subsidiaries. (sales increased 1,986 million yen year on year)

		FY3/2018	FY3/2019	FY3/2020	YoY	
Full year	Software	Financial services	11,868	10,438	10,579	101.3%
		Public service	7,793	8,545	9,679	113.3%
		Distribution & other	8,062	9,914	11,900	120.0%
	Net sales		27,724	28,898	32,158	111.3%
	Segment profit		3,431 (12.4%)	3,254 (11.3%)	3,502 (10.9%)	107.6%

Note: Respective profit ratios shown in parentheses.

(Unit: Amounts less than 1 million yen omitted)



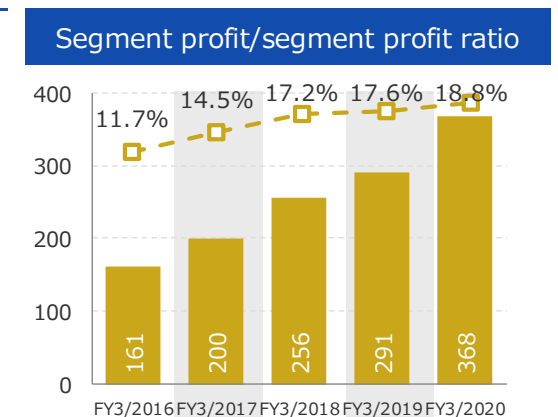
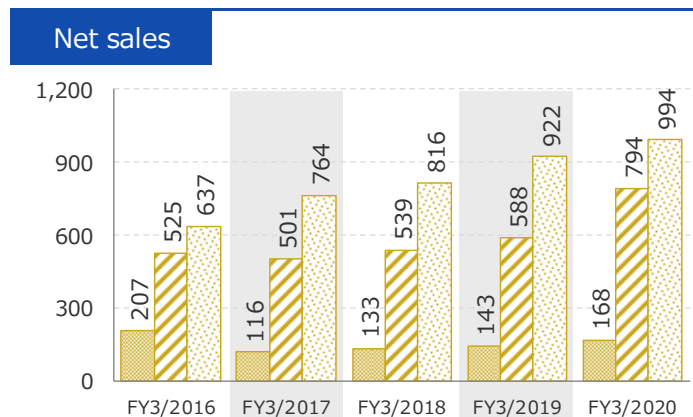
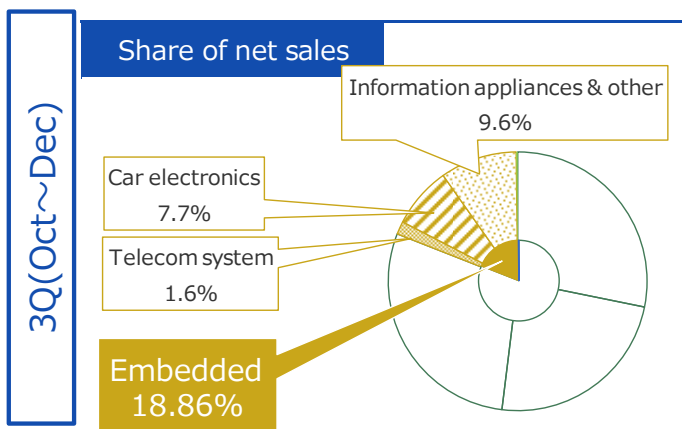
■ Net sales **increased with double digits by 13.5%** and segment profit also **increased with double digits by 16.9%** due to not only continued requests for additional staff from major customers and the review of basic contracts (conclusion of comprehensive agreements), but also initiatives for increased productivity and efforts to reinforce the development team.

- ▣ **Telecom system:** There was a slight increase in smartphone-related sales. (sales increased 31 million yen year on year)
- ▣ **Car electronics:** Sales expanded in our mainstay area of infotainment, and development of sensors was steady. (sales increased 587 million yen year on year)
- ▣ **Information appliances & other:** Sales of digital information appliances were steady. (sales increased 228 million yen year on year)

		FY3/2018	FY3/2019	FY3/2020	YoY	
Full year	Embedded	Telecom system	510	526	558	106.1%
		Car electronics	2,041	2,390	2,977	124.6%
		Information appliances & other	2,906	3,368	3,597	106.8%
	Net sales		5,458	6,285	7,132	113.5%
	Segment profit		905 (16.6%)	1,146 (18.2%)	1,339 (18.8%)	116.9%

Note: Respective profit ratios shown in parentheses.

(Unit: Amounts less than 1 million yen omitted)



The image features a decorative border with a repeating pattern of blue and white waves, resembling a traditional Japanese 'nami' pattern. The pattern consists of multiple layers of semi-circular arcs, creating a sense of movement and depth. The central area of the image is a plain white rectangle.

2 Future outlook

The impact of the scourge of COVID-19 varies significantly depending on the business category and the product.

We had a difficult time with sales of the contracted development type SIer, which has a high proportion of flow orders.

- From the start of FY2020, the favorable business environment has completely changed.
 - The BOJ Tankan, March 2020 [announced on April 1, 2020]
Future uncertainty has increased further as the diffusion index (DI) was shown to have deteriorated for both large manufacturing and non-manufacturing companies due to the influence of the scourge of COVID-19.
 - IDC Japan domestic ICT market forecast [announced on April 3, 2020]
On a spending basis, it is estimated to be 28,215.5 billion yen, down 4.5% from the previous year.
* This forecast is based on the assumption that around the end of June 2020, COVID-19 infections will be suppressed around the world and in Japan, and that corporate investments will be revitalized thereafter.
 - Monthly Economic Report for April by the Government [announced on April 23, 2020]
The report states, “The economy is rapidly deteriorating due to the effects of COVID-19, and the situation is very severe”, using the word “deterioration” for the first time in eleven years since the Lehman Brothers' filing for bankruptcy.
- Considering the deterioration of the actual economy, **it is inevitable that IT investment will slow down in the short term (especially in the first half of the period).**
- Among the information service industry, the companies that grow even with scourge of COVID-19 are platformers oriented on subscription business and those that provide network services. We believe **we will have a difficult time with sales for the contracted development type SIer, which has a high proportion of flow orders.**
- With the progress of cloud utilization and introduction of telework, **the “post-corona” transformation of the information service industry itself is accelerating.**

1. CRESCO Group's Measures Against COVID-19

- On February 27, we announced “The Company's Measures Against COVID-19.”

[Basic Measures Policy]

- (1) Ensure the safety and health of the lives of employees and their families.
- (2) Minimize damage to the business.
- (3) Avoid adverse impact on customers, business partners, shareholders, etc.
- (4) Contribute to the early stabilization of the regional economy.
- (5) Always consider humanitarian aspects when dealing with various matters.

- On April 6, we established the “Corona Emergency Response Headquarters” at the CRESCO Main Office.
- In line with the declaration of a state of emergency on April 7, we switched to company-wide telework in principle to reduce the company attendance rate to 20% or less from April 8.
- As of May 8, there were no infections among CRESCO Group employees.
- Thorough implementation of measures in line with government and local government requests.

- As a general rule, we instruct a wide-range of related parties, which includes employees and business partners, to work from home.
- Group events organized by the Company are canceled, postponed, or held online.
- As a general rule, meetings are held online.
- As part of restricting out-of-office business, as a general rule, domestic business trips and overseas travel are prohibited.
- Thorough implementation of wearing masks, cough etiquette, washing hand and gargling, and use of alcohol disinfectant. Distribution of masks to applicants.
- If an employee has a fever of 37.5 degrees or more, he or she will stop coming to the office, and if the employee has had close contact with an infected person, prohibit work for 14 days.
- If his or her cohabitant is suspected of being infected, he or she will stop coming to the office.

2. Impact of the scourge of COVID-19 on CRESCO Group's Financial Forecast

- Impact related to industry characteristics of the Group
 - 30-40% of the projects (flow business) occur on a yearly basis. Maintenance and service (stock business), etc. amount to 60-70%.
 - The flow business (new customers) will be struggle, and in some cases, customers in the stock business (existing customers) will also increasingly drop off.
- Many existing customers have no choice but to revise their IT investment plans, and the tendency has become noticeable after the declaration of a state of emergency. Among the inquiries, the accuracy of orders has been on the decline since May. It is difficult to secure business opportunities that are essential for cultivating new customers.
- Impacts on existing and new projects (cancellations/suspensions/postponements) are expected to come from now.
- Although we are aiming to stabilize work utilizing the telework system, there are many problems and we must acknowledge that the operating rate and productivity decline.
- Depending on the status of infection, temporary closure of business offices and having employees who have had close contact switch to a status of standby may become necessary, greatly affecting the operation rate.
- Impact on major business segments

[Software development business]

- "Finance" sector

Global financial instability due to stock price crashes and large fluctuations in exchange rates is expected to have an impact.

- "Public service" sector, "Distribution & other" sector

It is expected that the rapid deterioration of business performance and uncertainty about the future will have an impact.

[Embedded software development business]

Although the magnitude of the impact varies depending on the product sector ("Telecom system", "Car electronics," "Information appliances & other"), we forecast that a sharp drop in demand, review of product development cycles, and drastic fluctuations in foreign exchange rates will impact IT investment.

3. Awareness of business risks and opportunities

- The scourge of COVID-19 will damage not only the CRESCO Group, but also the overall domestic and overseas economies and the corporate activities of customers for a long period of time until it settles down.

Therefore, in 2020, **multiple business risks may occur concurrently or sequentially**, which may have a significant impact on CRESCO Group's business performance, etc.

- Risks related to changes in the business environment
- Risks related to the reliance on certain customers
- Risks related to alliances with business partners
- Risks related to work and health
- Risks related to infectious diseases etc.

- **From a short-term perspective, active business development is extremely difficult**, but we consider that the tide of “digital transformation” itself, which aims at value creation, has not changed much structurally, and that **the expansion trend will continue from a medium- and long-term perspective**.
- With the scourge of COVID-19, customer demands are on an increasing trend, such as BCP (Business Continuity Plan) measures, as well as newly reviewed cloud environments, introducing telework/working from home systems, saving labor and automation utilizing AI and RPA and we believe that **this will be a new business opportunity** for the CRESCO Group, which has a wide range of business fields including advanced technology.
- Amid the scourge of COVID-19, which will unavoidably be a long-term issue, we positively consider it to be **“the opportunity that lies in the middle of difficulty,”** and looking forward to the “post-corona” period, we will strive to optimize our business portfolio and flexibly manage our organization, maintain technological capabilities that can respond to market needs in a timely and appropriate manner, and work to create new innovative businesses.

4. Forecast of consolidated financial results for the fiscal year ending March 31, 2021

- The impact of the scourge of COVID-19 on the Group's results is **“difficult to grasp precisely”**
 - Suppression of customer IT investment (decrease in orders, project cancellations, suspensions, postponements, etc.)
 - Changes in working environment (transition to telework, staggered commuting, etc.)
 - Dealing with infection of parties concerned etc.
- **We prepared a forecast of financial results based on judgments from information presently available that is considered reasonable and assumptions below.**
 - ① The scourge of COVID-19 will start to settle down in the second half of the 2nd quarter, and orders received will gradually increase in the latter half of the fiscal year.
 - ② In the first half of the fiscal year, a significantly deteriorating impact is occurring on major customers, and orders received will decrease due to revisions of their plans.
 - ③ The Company made “Enisias Co., Ltd.” a consolidated subsidiary as of April 1, 2020, which is expected to contribute to improving the baseline performance of the Group.
 - ④ The recovery trend in the latter half of the fiscal year will not be sufficient to compensate for a slump in the first half, and **the full year result will end up on a par with the result for the previous fiscal year.**
- Regarding costs, we reviewed the initial plan in view of the current situation of the scourge of COVID-19. **We are reducing unnecessary and non-urgent expenses.**

2Q (cumulative)	FY3/2020				FY3/2021	
	Forecast	YoY	Actual	YoY	Forecast	YoY
	<Announced on May 9, 2019>				<Announced on May 8, 2020>	
Net sales	18,460	108.3%	19,218	112.8%	19,000	98.9%
Gross profit			3,586 (18.7%)	116.9%		
Operating profit	1,500 (8.1%)	106.7%	1,726 (9.0%)	122.8%	1,450 (7.6%)	84.0%
Ordinary profit	1,704 (9.2%)	99.0%	1,896 (9.9%)	110.2%	1,550 (8.2%)	81.7%
Profit	1,117 (6.1%)	103.8%	1,139 (5.9%)	105.8%	1,040 (5.5%)	91.3%
EPS ¥/share	102.10		52.74		49.55	

Full Year	FY3/2020				FY3/2021	
	Forecast	YoY	Actual	YoY	Forecast	YoY
	<Announced on May 9, 2019>				<Announced on May 8, 2020>	
Net sales	37,880	107.5%	39,337	111.7%	40,000	101.7%
Gross profit			7,246 (18.4%)	108.6%		
Operating profit	3,400 (9.0%)	106.0%	3,556 (9.0%)	110.9%	3,400 (8.5%)	95.6%
Ordinary profit	3,813 (10.1%)	104.2%	3,712 (9.4%)	101.5%	3,600 (9.0%)	97.0%
Profit	2,416 (6.4%)	105.7%	2,421 (6.2%)	105.9%	2,450 (6.1%)	101.2%
EPS ¥/share	114.28		114.30		116.72	

Note: Respective profit ratios shown in parentheses.

Note

The Company implemented a 2-for-1 **share split** of common shares with an effective date of February 1, 2020. "EPS" was calculated on the assumption that the share split was implemented at the beginning of FY3/2016.

	FY3/2018	FY3/2019	FY3/2020	FY3/2021
	Actual	Actual	Actual	<Announced on May 8, 2020>
Interim	29 yen	32 yen	36 yen	18 yen
Year-end	43 yen	34 yen	18 yen	18 yen
Full year	72 yen	66 yen	—	36 yen
Dividend payout ratio	36.0%	31.6%	31.5%	30.8%
Dividend yield	2.0%	2.0%	2.5%	
DOE	* 5.5%	4.6%	4.8%	
Total dividend payments	781 Millions of yen	722 Millions of yen	750 Millions of yen	

Shareholder return policy

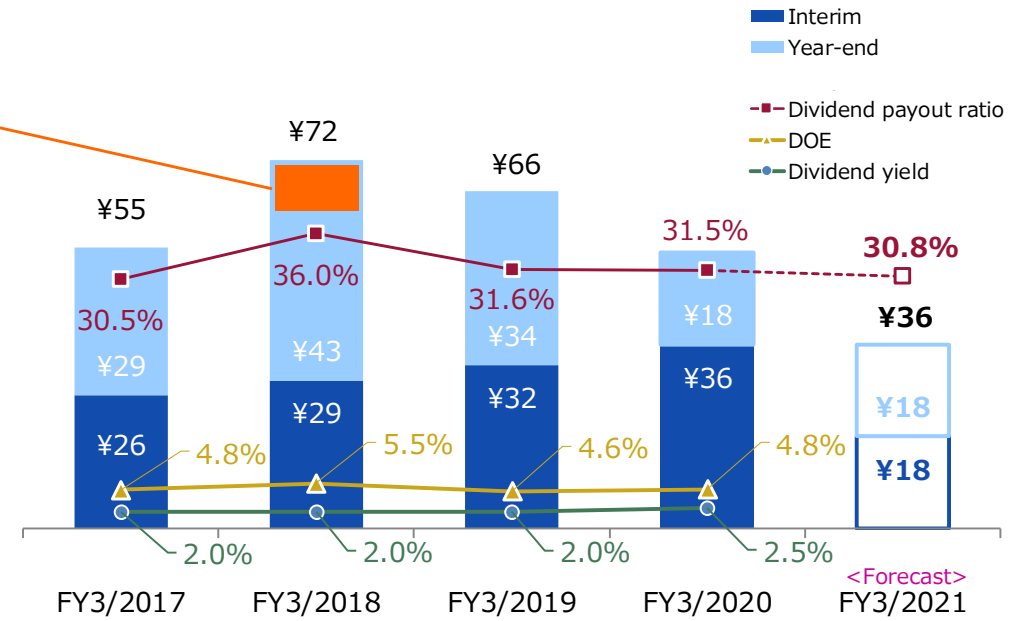
- CRESCO regards the matter of returning profits to shareholders as a key management issue, and has established a basic policy of enhancing shareholders' equity, maintaining consistent profitability over the long term, while **appropriately continuing to distribute profits backed by business.**
- As for dividends, in principle the Company aims to continually pay out about 30% of profit attributable to owners of parent for each fiscal year, which is calculated from consolidated ordinary profit and assuming extraordinary income and losses are zero.

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

Note

The Company implemented a 2-for-1 share split of common shares with an effective date of February 1, 2020.

- The actual amounts of dividends before the share split are shown for the FY3/2016 interim dividend until the FY3/2020 interim dividend.
- The total forecast for FY3/2020 is not shown in the table above because the implementation of the share split makes it impossible to perform a simple calculation.



Management policies

- Management in accordance with “CRESCO Ambition 2020”
- **Securing orders** by acquiring new customers and optimizing the business portfolio
- **Expanding profits** through the creation of high value-added businesses that utilize advanced technology
- **Improving productivity and employee satisfaction** by continuously taking on the challenge of work style reform
- **Accelerating growth potential** by promoting alliances

Five-year vision started in April 2016

CRESCO Ambition 2020

~ Lead the Digital Transformation ~

Issues to be addressed

1. Generating new businesses and conducting research and development of new technologies
2. Acquiring new customers and strengthening relationships with customers
3. Providing ironclad quality
4. Pursuit of productivity
5. Securing human resources engaged in development
6. Hiring and development of human resources
7. Promotion of work style reform
8. Promotion of health management
9. Initiatives to promote diversity
10. Promotion of M&A and alliance and reinforcement of Group companies management
11. Strengthening corporate governance
12. Business portfolio optimization and flexible organizational management



Overview of CRESCO LTD.

Overview of CRESCO LTD.

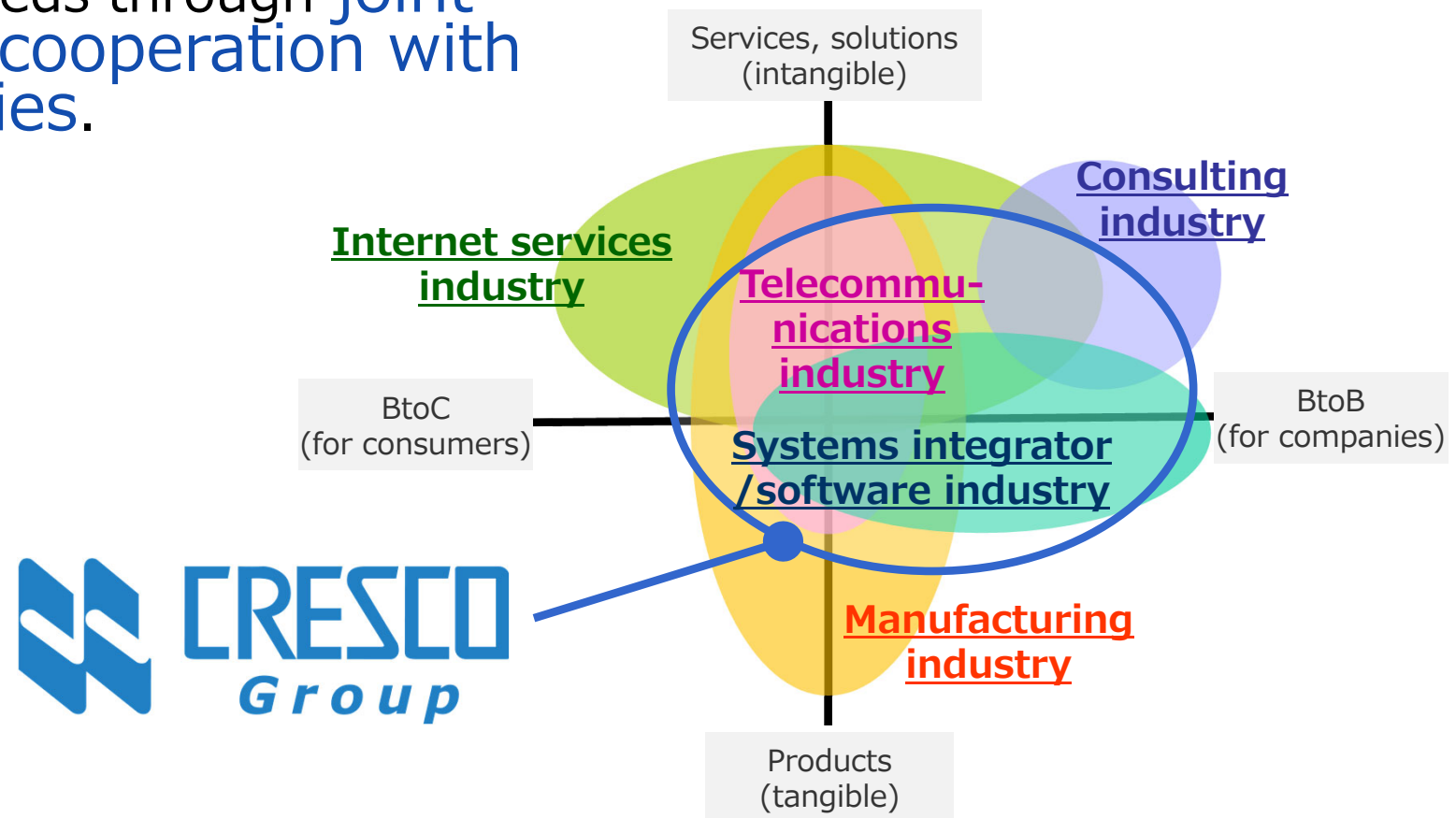
Profile

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
Consolidated Number of employees [as of April 1, 2020]	2,300 Male : 1,802 Female : 498 Proportion of female employees : 21.7%
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, 2020]	¥29,051 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.**

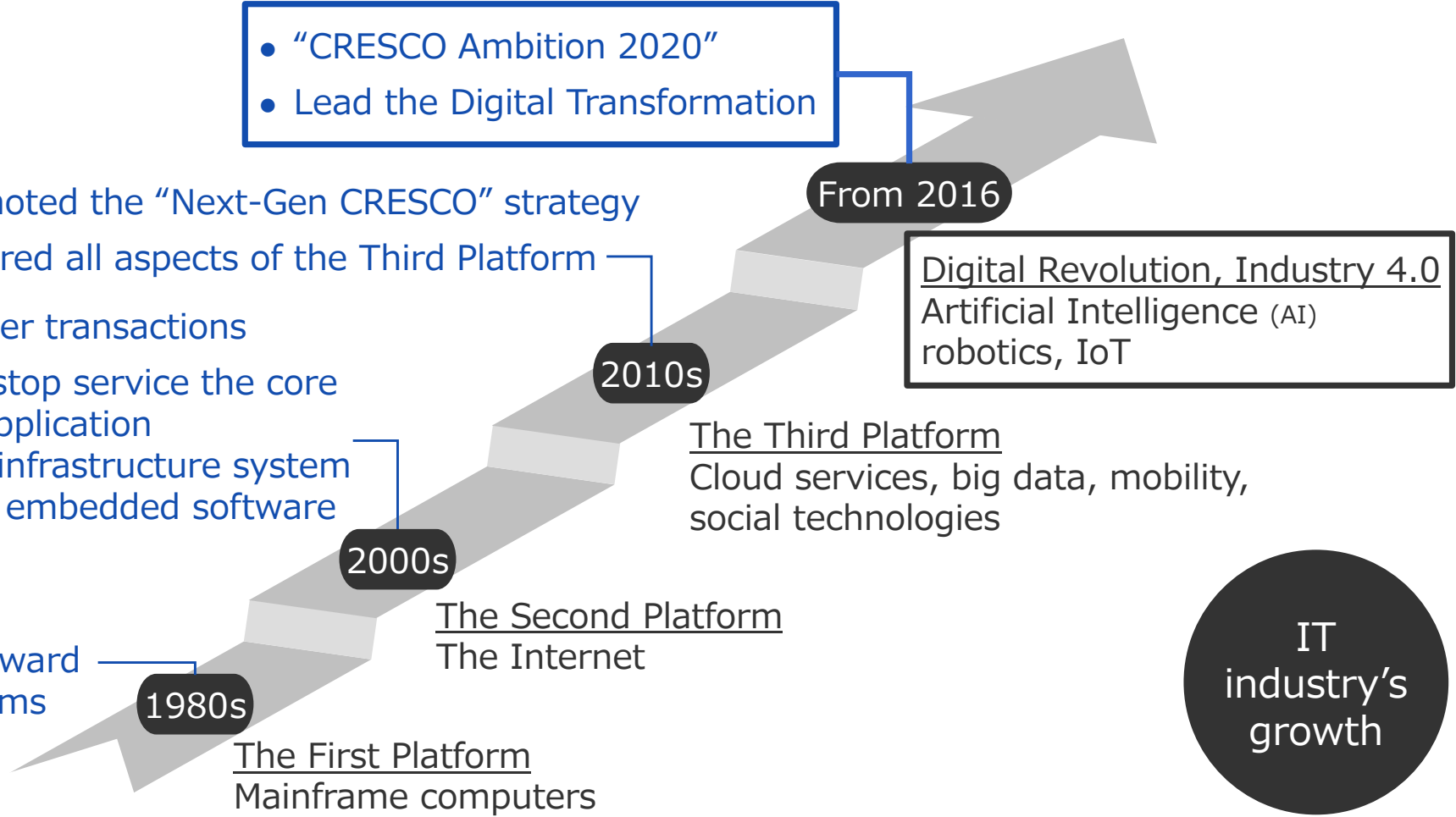


- We are proposing services suited to the changes in IT platforms.
- Technology Laboratory handles advanced technologies with sights fixed firmly on several years in the future.

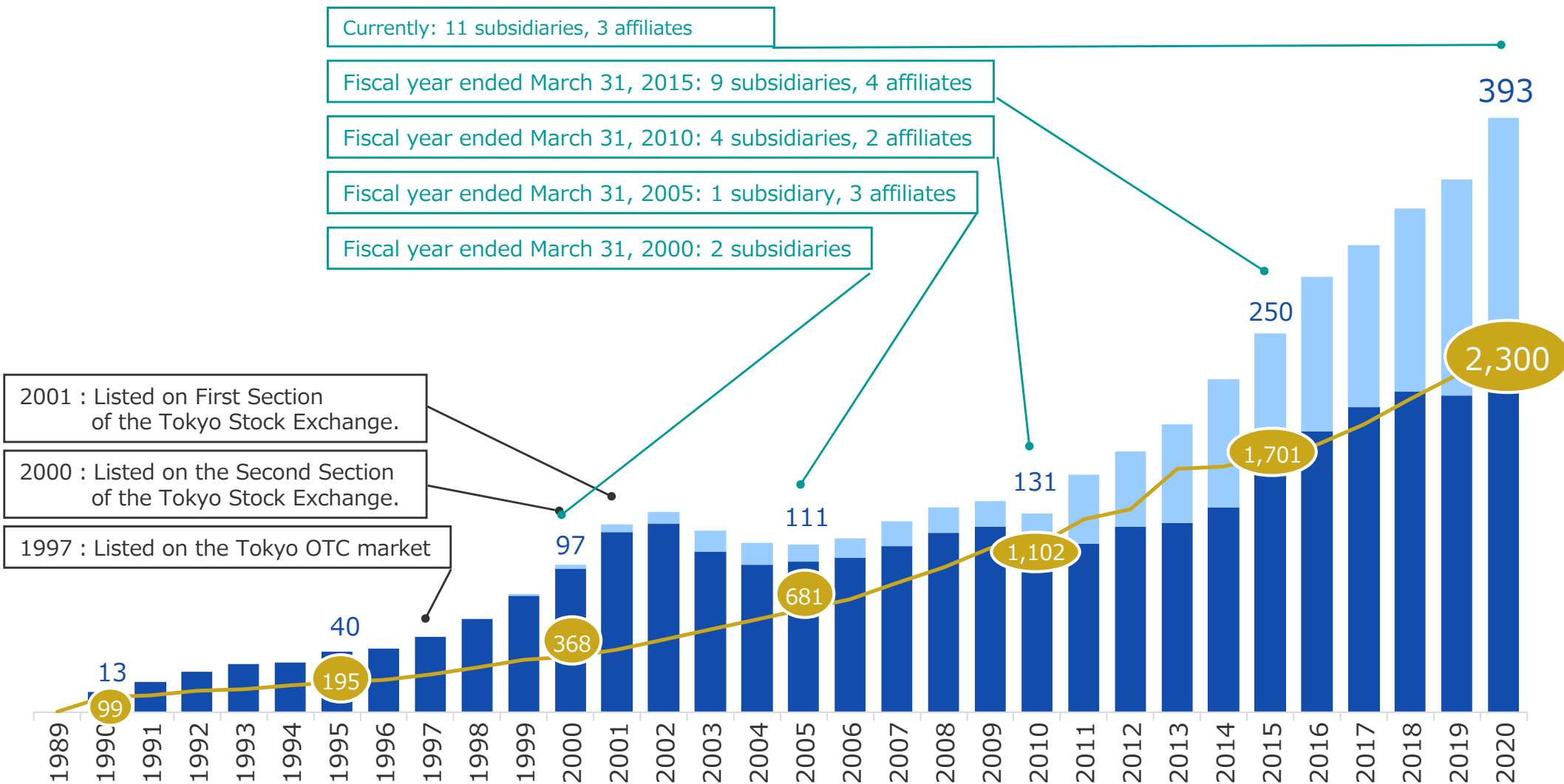
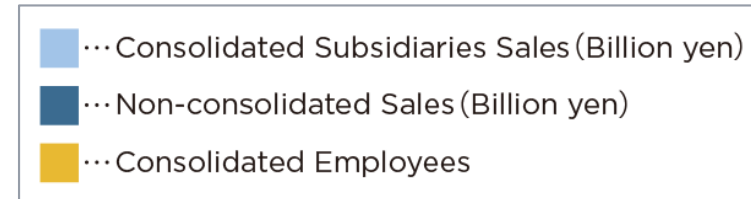
CRESCO's step-by-step progress

- 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

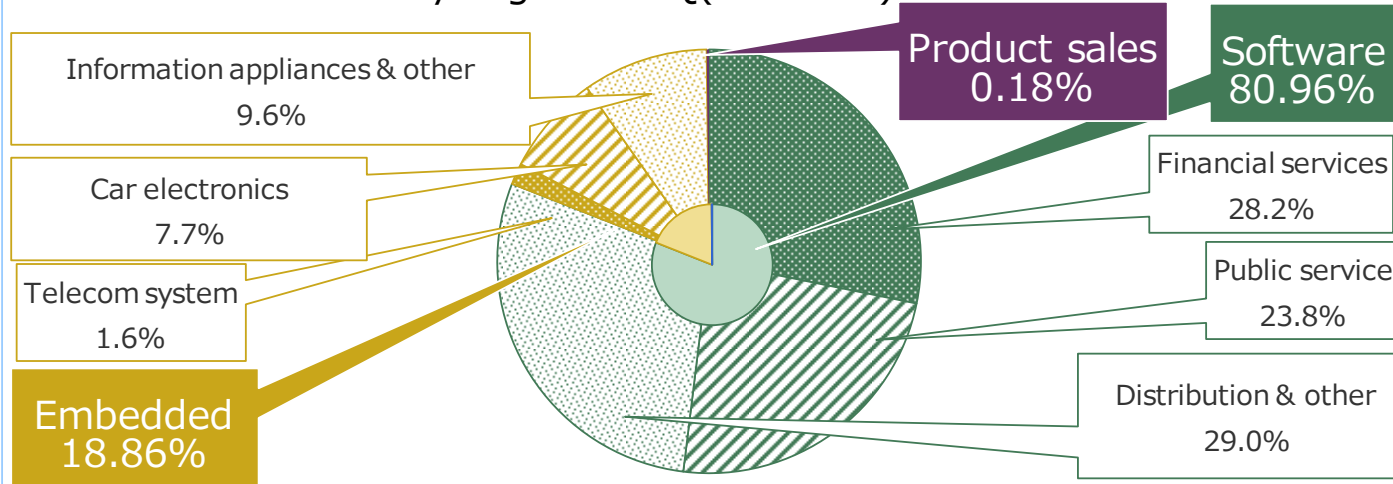
- "CRESCO Ambition 2020"
- Lead the Digital Transformation



IT industry's growth



<Share of net sales by segment:4Q(Jun~Mar)>



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." 	

Information system for banks



Online reservation for travel



Human resource matching



Package tracking for delivery, devices for drivers



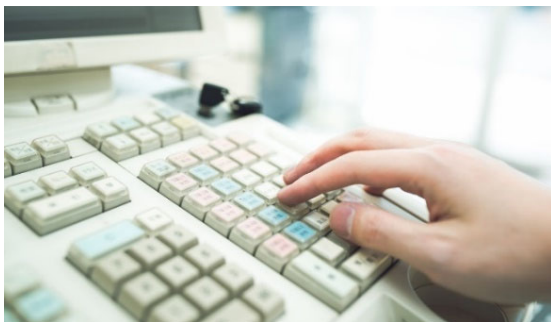
Seat reservation for airplanes



Seat reservation for movie theaters



POS system for mass retailers



Music distribution



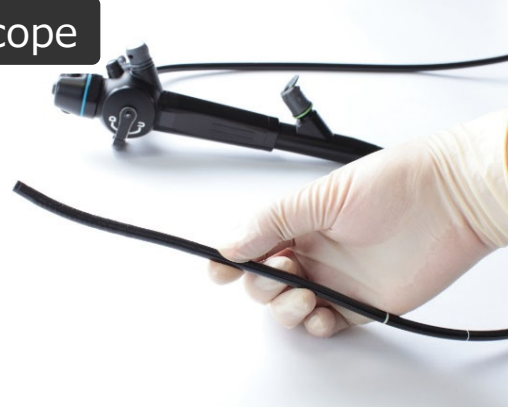
Devices for convenience stores



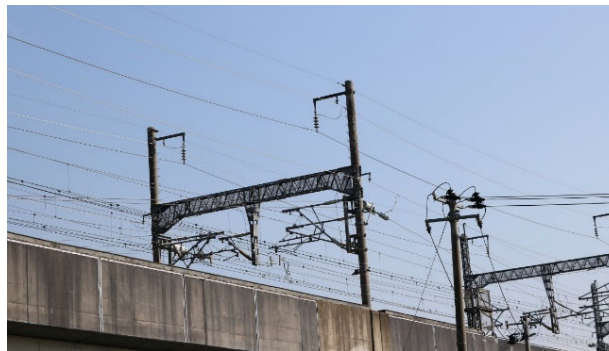
Center display, meter display for automobiles



Endoscope



Electric power control for railway



Smartphone camera



Video camera



TV

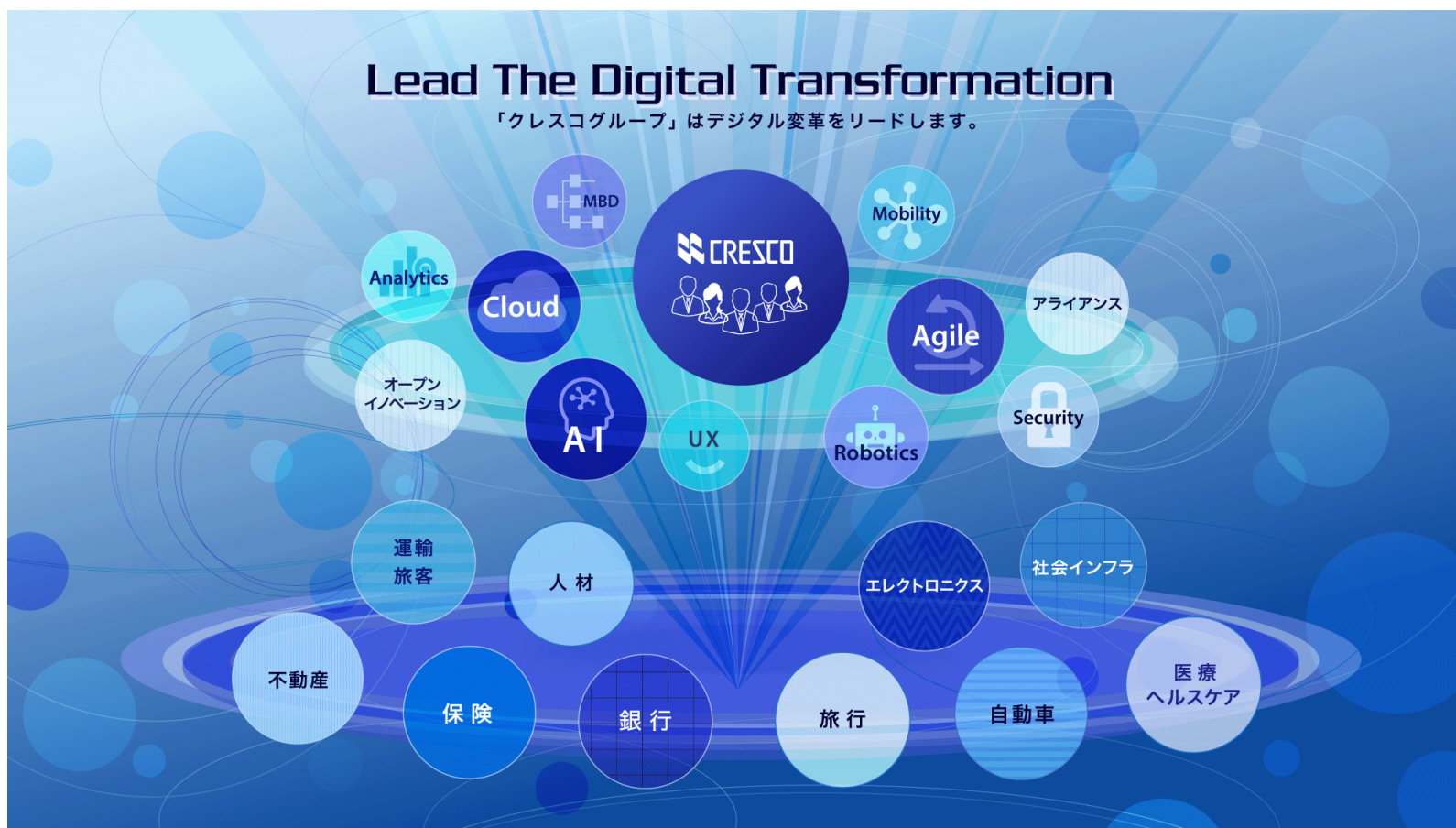


AI speaker



Definition of “Digital Transformation” by the Ministry of Economy, Trade and Industry

A situation where a company deals with dramatic changes in business environments, changes its products, services and business models so as to meet the demands of customers and society by taking advantage of data and digital technologies and changes its services per se, organizations, processes, corporate and business culture so that it can establish competitive advantages.



Intelligent Folder

- Commencement of service: 2011
- High security file sharing service that can handle unlimited users and three languages



Intelligent Folder

Intelligent Folder Express

- Commencement of service: 2014
- Support for increasing the speed of file transfers



Intelligent Folder *Express* →

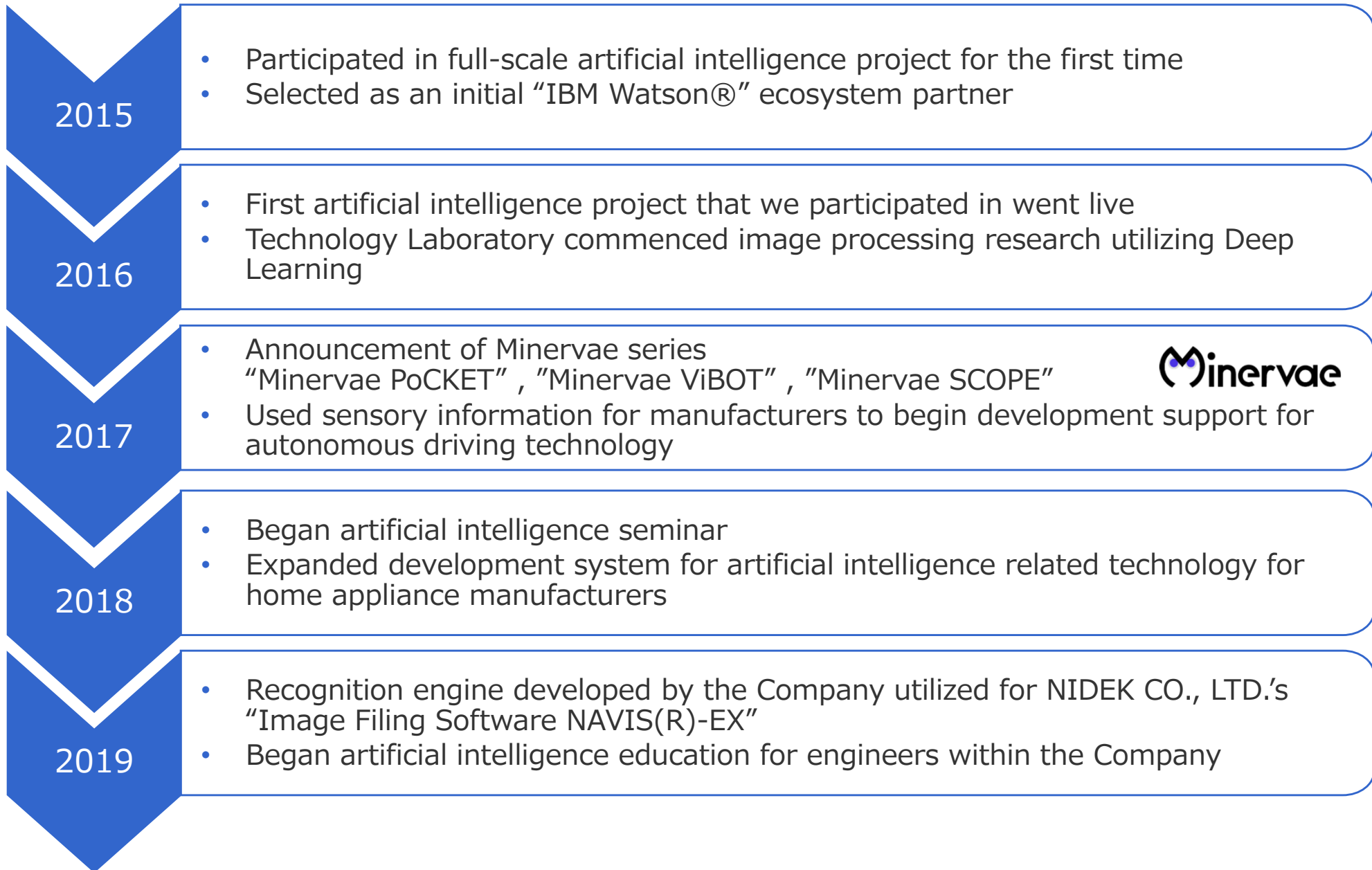
Creage

- Commencement of service: 2012
- Service to provide know-how regarding utilization of the cloud
 - Consulting: Proposal for efficiently utilizing the cloud
 - Integration: Development of the cloud environment
 - Managed: Operation of the cloud environment



Cresco Cloud Service
Creage

- ◆ 2019/11/05
Acquired "AWS Well-Architected Partner Program Qualification"
- ◆ 2018/01/18
Acquired "AWS Well-Architected Partner Program Qualification"



Support for “ifLink Open Community,” which was established with Toshiba and TOSHIBA DIGITAL SOLUTIONS as core members

- “ifLink Open Community” is a community that aims to be an open joint development IoT service that puts the users first.
- Its vision is to realize a world “where users can create value for themselves by freely combining modules” and “where participants enjoy broader business opportunities.”
- As core members, Toshiba Corporation and TOSHIBA DIGITAL SOLUTIONS CORPORATION established it in FY2019 and specific activities will begin from FY2020.
- As of November 5, 2019, ALPS ALPINE CO., LTD., KYOCERA Corporation, Global Mobility Service Inc., KDDI CORPORATION, SoftBank Corp., SORACOM, INC., DENSO CORPORATION, Tokyo Gas Co., Ltd., and the Company have expressed support.

■ ifLink

An IoT platform developed by TDSL. Using IF-THEN model settings similar to “IF the door is opened, THEN the light turns on,” users will be able to freely operate devices that are connected to their smartphones. Programming won’t be necessary and users without IT expertise will be able to utilize it.

■ ifLink Open Community

Activities, such as a “Co-creation Community,” where people can utilize ifLink, and users and members can conceive of convenient ways to use ifLink and other ideas originating from the user, and a “Development Community,” where members can mutually collaborate on various IoT devices, web services, applications, etc., add more connectible modules, and quickly develop trial products, are planned. Members aim for creation of an IoT service where users’ ideas are made into reality as well as the realization of making this into a business at an early stage, through test environments for verification and networks between companies.

- We established the **“Technology Laboratory”** in April 2012 in order to turn advanced technology into a business.
- We are researching and developing technologies that **may become trends in a few years in anticipation of the changing market and changing technologies.**
- We are promoting “joint research” with customers and “industry-academia collaboration” with research organizations such as universities, etc.

Results of the Technology Laboratory

- Cloud Service “Creage”
- Tool for automatically creating test specifications
- Increase scalability of IoT by adding the fog layer
- Control data granularity using physical distance
- Research to realize dialog agent
- Support in diagnosing ocular diseases using OCT images and machine learning



Download compilation
of results



Delivery of information

Engineers' Blog

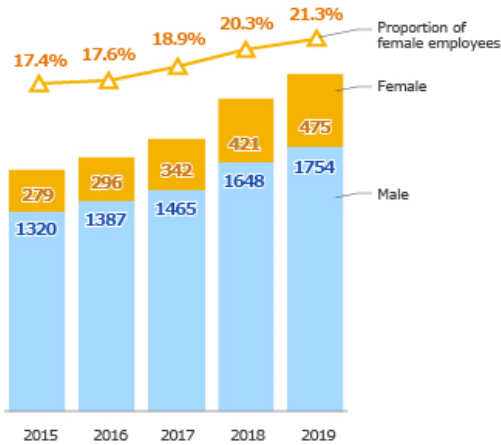
Technology blog
by CRESCO engineers



(Unit: Persons)

[Consolidated] Employee breakdown

[As of March 31 of each year]

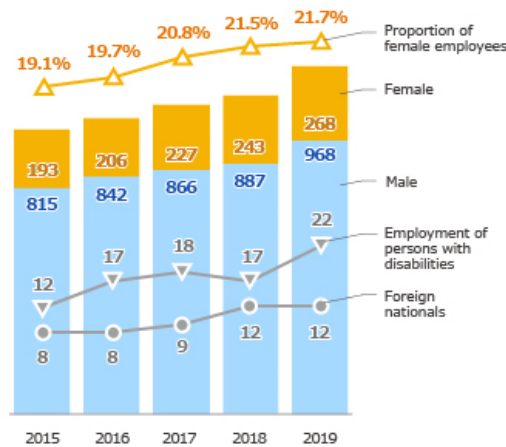


< The industry average in FY2018 (according to JISA data) >
Proportion of female employees: 21.2%

Non-consolidated

Employee breakdown

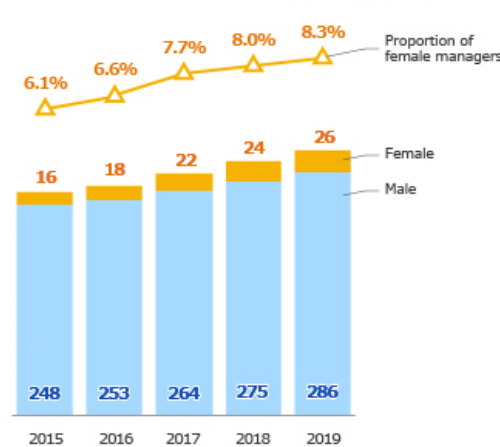
[As of March 31 of each year]



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

Manager breakdown

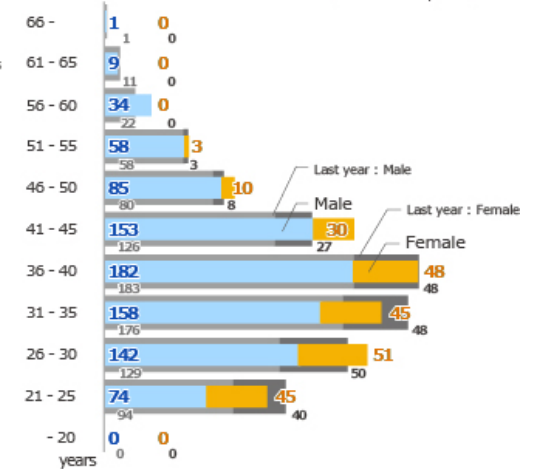
[As of April 1 of each year]



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

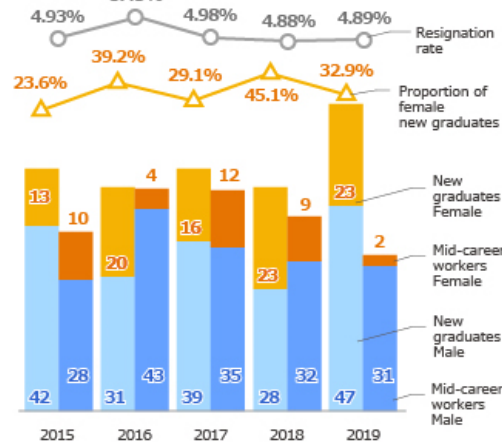
Employee breakdown by age

[As of March 31, 2018]



New employee breakdown and resignation rate

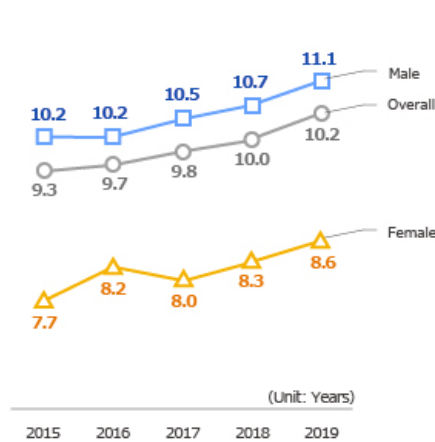
[As of March 31 of each year]



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

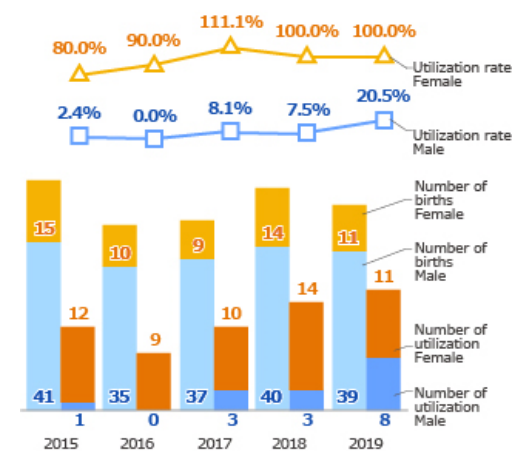
Average service years

[As of March 31 of each year]



Taking the childcare leave

[As of May 31 of each year]



Business indicators and shareholder return

	FY3/2016		FY3/2017		FY3/2018		FY3/2019		FY3/2020	
	Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end	Interim	Year-end
ROA	–	9.2%	–	10.2%	–	9.8%	–	9.2%	–	9.3%
ROE	–	14.8%	–	15.7%	–	15.2%	–	14.6%	–	15.0%
Ordinary profit on total assets	15.6%	15.4%	13.4%	15.4%	16.2%	15.6%	14.3%	14.8%	14.9%	14.2%
Ordinary profit on net sales	10.2%	9.9%	8.7%	10.0%	10.4%	10.5%	10.1%	10.4%	9.9%	9.4%
Operating profit on net sales	8.7%	8.6%	7.7%	8.8%	9.0%	9.3%	8.2%	9.1%	9.0%	9.0%
Turnover of total capital used (Times)	–	1.6	–	1.5	–	1.5	–	1.4	–	1.5
Financial leverage (Times)	–	2.6	–	2.9	–	2.8	–	2.8	–	3.0
Current ratio	–	59.2%	–	54.7%	–	57.9%	–	56.3%	–	53.3%
Fixed assets ratio	–	57.9%	–	49.5%	–	59.8%	–	57.2%	–	65.4%
Leverage ratio	–	63.3%	–	66.9%	–	62.5%	–	63.6%	–	60.4%
Equity ratio	–	157.9%	–	153.4%	–	154.9%	–	158.5%	–	161.4%
Debt-to-equity ratio	–	1.8%	–	1.5%	–	9.0%	–	6.1%	–	15.8%
Interest coverage ratio (Times)	–	1264.8	–	2537.7	–	851.7	–	796.4	–	723.7
Cash flows from operating activities (Millions of yen)	277	1,543	(40)	1,144	960	2,174	351	1,824	1,690	3,693
Cash flows from investing activities (Millions of yen)	(469)	(1,287)	(381)	(505)	(482)	(179)	(466)	(1,238)	(742)	2
Cash flows from financing activities (Millions of yen)	20	(286)	(273)	(604)	(866)	(606)	(683)	(1,278)	(374)	(511)
Free cash flow (Millions of yen)	(192)	256	(422)	638	477	1,995	(115)	586	948	3,695
EPS (Yen)	45.77	76.13	38.32	90.14	51.72	100.13	49.20	104.46	52.74	114.30
PER (Times)	–	11.9	–	15.4	–	17.8	–	15.9	–	12.5
DOE		4.9%		4.8%		5.5%		4.6%		4.8%

Risk of Businesses

[As of May 8, 2020]

1. Risks related to changes in the business environment

The Group endeavors to respond flexibly to changes in the business environment by researching the market trend and expanding areas of business and customer groups. However, there is an growing tendency that demand for IT investment is significantly affected by IT strategies promoted and encouraged by the Japanese government as well as structural and other changes including the aging and decreasing population, in addition to domestic and international situations, economic conditions, business sentiment, etc.

Consequently, a slowdown in the economy and its deterioration can inhibit IT investment by customers to cause a decline in orders received, which can in turn adversely affect the operating results of the Group.

2. Quality risks in development projects

The Group practices project management based on a standardized method, trying to ensure management of all development processes including estimation, initiation, planning, execution, etc. and prevent the occurrence of delivery delays, additional costs, liability for damages, etc.

It is possible, however, that an unexpected discrepancy in the understanding of specifications or the occurrence of quality troubles at the development stage of a project causes the incurrence of additional costs, making the project less profitable or unprofitable.

In addition, although the Group monitors the progress of a project as it proceeds and endeavors to observe the contractual delivery date strictly, it is difficult for the Group to preclude uncertainty including external factors completely.

If the Group has failed to complete or deliver the work by the date agreed with the customer, it would be subject to delay penalties, and if the Group ultimately fails to complete or deliver the work, it would incur a liability for damages. In such cases, the operating results of the Group can be adversely affected.

3. Quality risks in software or services delivered

The Group guarantees the quality of software and/or services delivered (hereinafter referred to as "Deliverables").

Quality troubles, however, can occur with Deliverables of the Group, and the incurrence of additional costs, liability for damages, etc. due to troubleshooting can adversely affect the operating results of the Group.

Although the Group rigorously controls the quality of Deliverables, in addition to the possibility of incurring liability for damages due to the occurrence of bugs and other problems, it is possible to incur an unexpected claim for damages if Deliverables are to be embedded in products of the recipient.

While the Group takes care not to infringe rights of other companies in acquiring and protecting intellectual property, it is possible that the Group is claimed for damages or consideration or equivalent for the use of intellectual property if it infringes any intellectual property right of another company without awareness, which can in turn adversely affect the operating results of the Group.

[As of May 8, 2020]

4. Risks in generating a new business

In the business environment surrounding the Group, a rapid progress takes place not only in economy but also technological innovation. Accordingly, industry standards, user and social needs are also changing rapidly.

The Group is endeavoring to generate innovative new businesses (services and products) in order to respond such changes in an agile way and ensure its competitive advantage.

It is difficult, however, to analyze the trend of the market and predict future demand appropriately given drastic changes in the trend in technology. If R&D and development management by the Group fail to work effectively, the Group cannot provide a new business in a timely manner. In that event, the emergence of a competitor which provides a revolutionary service or product, delay in the Group's response to new technologies, opportunity loss, etc. can adversely affect the operating results of the Group.

5. Risks related to information security

In the course of its business, the Group handles various confidential information (business information, customer information, personal information, etc.) and is required to address information security cautiously and ensure strict information management. The Group has developed various policies together with related internal regulations as well as strove for preventing an information security accident and reinforcing responsiveness to the detection of an incident and the occurrence of an accident by introducing the latest information security system and reinforcing the Group's information security management system.

Furthermore, employees and contractors, upon signing agreements, are regularly provided with appropriate training and subjected to a compliance check, which covering information security as well, in order to raise their awareness about information management and prevent any information leakage from within.

In addition, support for the Act on the Protection of Personal Information has been strengthened by making an effort to obtain Privacy Mark certification and ISMS, and, at the same time, an effort towards safety control has been made by clarifying the hierarchy of responsibilities, in accordance with the Personal Information Protection Management System (PMS).

If, however, a leakage of personal information or confidential information should occur due to a cyberattack or information security accident, criminal act, etc. despite these measures, the operating results of the Group can be adversely affected due to the incurrance of liability for damages, a loss of social credibility, etc.

[As of May 8, 2020]

6. Risks related to the reliance on certain customers

Although the Group formulated business plans based on transactions with a wide range of customers, due to the nature of its business that is based on ongoing commercial relationship with its customers, the Group's sales tend to concentrate on a limited number of customers.

The relationships with these customers have been stable since the commencement of transactions. A change in their business and/or outsourcing policies, however, can adversely affect the operating results of the Group.

In particular, sales to IBM Japan, Ltd. account for a significant percentage of the Group's consolidated net sales as shown in the table below:

Counterparty	Fiscal year ended March 31, 2019		Fiscal year ended March 31, 2020	
	Net sales (Thousands of yen)	Percentage	Net sales (Thousands of yen)	Percentage
IBM Japan, Ltd.	4,714,620	13.4%	5,168,020	13.1%
Total consolidated net sales	35,230,083	100.0%	39,337,600	100.0%

(Note) Above figures do not include consumption taxes.

7. Risks related to securing and developing human resources and employee resignations

Amid the persistent labor shortage, it is inevitable that employee turnover will increase.

Based on the assumption that "difficulty in recruitment will continue and employee turnover will increase going forward," the Group endeavors to make it more attractive and improve its work environment further for steadily securing and retaining human resources.

If, despite such efforts and measures, the Group fails to secure or develop such human resources as planned and if employee resignations increase, the operating results of the Group can be adversely affected.

8. Risks related to alliances with business partners

In the course of business operations, the Group has established alliances with contractors, including overseas contractors. While the Group has implemented measures such as providing project information and holding business partner forums in order to strengthen the alliances with business partners, the Group's inability to secure business partners in a timely and appropriate manner, or any changes with regard to such relationships can adversely affect operating results of the Group due to reasons including the hindrance of the launch and/or execution of a project and/or the provision of services.

[As of May 8, 2020]

9. Risks related to work and health

In light of the Japanese government's policy on "work style reform" and the trend of relevant legal institutional changes, the Group has positively worked on personnel management and work environment development not only through appropriate institutional design but also through working hour management, encouragement to take a paid leave, anti-harassment measures, and promotion of mental and physical health of employees.

However, the persistent labor shortage, combined with the structure of system development, system failure at a customer's location, responses to a delay in project development, etc., in addition to services or products offered by the Group, may cause stress-related health problems and/or a decline in productivity due to the loss of project members, which can in turn adversely affect the operating results of the Group.

10. Risks related to compliance

Led by the Internal Control Committee of the Company, the Group is working to improve corporate ethics by establishing the "Basic Policy on the Establishment of the Internal Control System" and the "Code of Conduct for Compliance Management" as the shared norm and endeavors to develop a fair and just corporate culture by ensuring the strict compliance with laws, regulations, and internal regulations, etc. by each and every officer and employee of the Group.

It is possible, however, that a violation of a relevant law or regulation or a wrongful act by an officer or employee cannot be completely avoided even if such measures are taken.

Should such an event occurs, social credibility of the Group declines, which can adversely affect the operating results of the Group due to the suspension of transactions with customers or a large amount of administrative monetary penalty, a claim for damages, etc.

11. Risks related to litigation, etc.

Lawsuits may be brought against the Group with regard to its business activities, liabilities pertaining to services or products offered by the Group, labor issues, etc. Depending on the development of such lawsuits, the Group may be subject to liabilities for damages and loss of credibility. In such cases, the operating results of the Group can be adversely affected.

While the Group is reinforcing awareness efforts and the internal management system so that no service or product offered by the Group may infringe any intellectual property rights of any third party, it is possible that a third party already possesses intellectual property rights which is beyond the Group's knowledge.

In that case, the Group can be subject to a suit or claim for the reason of infringement, forcing the Group to bear the damage or to acquire or develop alternative technology, which can adversely affect the operating results of the Group.

[As of May 8, 2020]

12. Risks related to financial markets

The valuation of the securities and other financial instruments held by the Group is dependent on trends in the domestic and overseas economies as well as stock markets and other financial markets. As such, we regard this as an important risk concerning fund management and other business investments.

While the Group works to minimize risk by grasping fair values of securities, etc. in appropriate timing, it is difficult to avoid risk completely; if an unavoidable market crash occurs, a significant decline in asset value may occur and can impact the operating results, etc. of the Group.

If the price of financial instruments held by the Group should fall, the Group may incur a significant loss.

In addition, a future revision in systems, standards, etc., concerning the accounting treatment of fair value of financial instruments can adversely affect the operating results of the Group.

13. Risks related to natural disasters, etc.

The Group is endeavoring to take actions for a BCP tailored to the mode of business and actual situations of the Group and introduce a teleworking system in order to fulfill its security obligation owed to stakeholders and respond promptly to emergencies on the assumption of the materialization of external threats, including natural disasters such as earthquakes, storms or floods, accidents such as fires, the closure of business establishments due to a large-scale system failure or other incidents, physical or cyber terrorism, etc.

However, a disruption to business continuity or decline in productivity may occur due to considerations for securing offices and places of business, securing workforce and ensuring safety and hygiene, etc., which can adversely affect the operating results of the Group.

Besides the damage, destruction and/or disruption of social infrastructure and a failure of central functions, if significant damage occurs to customers, suppliers or supply chains, order reception and supply may stagnate for a long period of time in the course of reconstruction and recovery, which can adversely affect the operating results of the Group.

[As of May 8, 2020]

14. Risks related to infectious diseases

Assuming the manifestation of threats including a pandemic, cluster occurrence, overshoot and lockdown due to the spread of an infectious disease, the Group enacted the Basic Policy for the Action Plan Against Novel Influenza in order to respond promptly to emergencies, thereby fulfilling its security obligation of avoiding the exposure of stakeholders to an infection risk, and also endeavors to take actions for a BCP tailored to the mode of business and actual situations of the Group and to introduce a teleworking system.

However, a disruption to business continuity or decline in productivity may occur due to the closure of offices and places of business, necessity for working from home and teleworking, the prohibition of nonessential and nonurgent outings, etc., which can adversely affect the operating results of the Group.

If damage occurs to customers, suppliers or supply chains, order reception and supply may stagnate for a long period of time in the course toward cessation of infection spread, which can adversely affect the operating results of the Group.

15. Risks related to investment including M&A and capital and business alliance

The Group promotes active M&A and capital and business alliances for the purpose of expanding the scale and areas of business and reinforcing the profit bases in the software development business, which is the main line of business, advanced technology (AI, cloud computing, etc.) related business and new business areas.

Investment is executed upon conducting detailed due diligence under cooperation with external experts and, at the same time, sufficiently examining investment effect, risk, etc. in advance at the Board of Directors, etc.

Profit initially expected, however, may not be obtained due to changes in the business environment and other factors, resulting in a decreased possibility of recovering investment.

If the possibility of recovering investment decreases, business reorganization or similar measures may be implemented in order to streamline management and strengthen the business base, in which case costs entailed by reorganization can be incurred temporarily, adversely affecting the operating results of the Group.

Sometimes, business reorganization or similar measures cannot be implemented in an appropriate period and method, in which case the whole or a part of investment can become a loss or additional investment can be required, etc., adversely affecting the operating results of the Group.

"In addition, if goodwill fails to generate sufficient future cash flow, it will be necessary to recognize impairment loss, which may cause a large amount of impairment loss to adversely affect the operating results of the Group."

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