



# Summary of Quarterly Financial Results Briefing

for the Nine Months Ended Desember 31, 2022

Feb 7, 2023



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# Consolidated Results main points



# 1.1. Main initiatives up to the third quarter (i)

## ■ Organization and structure

- **Shifted to a two-representative system** by “Chairman & CEO” and “President and Executive Officer” effective April 1 and, accompanying the formulation of “CRESCO Group Ambition 2030,” **changed our corporate logo (for the first time since the Company’s founding).**
- The Promotion Of Management Strategy-Unit was established to realize the long-term vision of CRESCO Group Ambition 2030 and the Group Supervisory-Unit to **further demonstrate group synergy by promoting the sharing of sales projects among group companies.**
- In order to speed up management decision making and implementation of measures through appropriate delegation of authority, **an organizational reform was carried out to appoint executive officers as general managers.**
- Increased the frequency of group officers meetings to **enhance collaboration among the Group’s officers** for the purpose of strengthening agile management and improving group governance.
- On July 1, three consolidated subsidiaries (ARS Corporation Ltd., N-System Corporation, and Nexus Corporation) were merged and **reorganized into CRESCO J CUBE CO., LTD** for the purpose of producing further synergistic effects through the effective utilization of the Group’s human and management resources.



## ■ Business

- Strengthened digital solutions business by expanding business lineup in the areas of RPA, cloud, and DX.
  - April: Became UiPath's gold partner, a category of its certified reseller.
  - May: Began offering e-learning for companies that have purchased UiPath licenses.
  - October: Certified for AWS Public Sector Partner Program and as AWS Public Sector Solution Provider by Amazon Web Services (AWS).  
Released iOS application for Intelligent Folder, a large-capacity file sharing service.  
Launched DX Training Service to develop corporate DX human resources.
- Others (cyber-attack countermeasures, image recognition AI and machine learning, capital and business alliances, etc.)
  - August: Started selling "managed security services for SIEM," which detects and analyzes symptoms of a cyberattack and provides response and support by experts on the basis of information thus obtained.
  - September: Obtained a patent for an information processing device, method, and program for visualizing the basis of image classification results using image recognition AI.
  - November: Entered a basic agreement on capital investment in an Indian subsidiary of Forum Engineering Inc. for the purpose of global expansion of cognavi, a human resource service specializing in engineers.
  - December: Announced the development of Aircraft Engine Internal Inspection Tool utilizing image recognition technology through medical AI with Japan Airlines Co., Ltd.



# 1.1. Main initiatives up to the third quarter ( iii )

## ■ Business

- ❑ Encouraged self-study in technology, quality, and business transformation to raise business performance and create business opportunities.
- ❑ Continued to engage in evangelist activities, created opportunities for multiple employees of the Company to teach at colleges and universities, strongly promoting people-centered management.
- ❑ CRESCO Digital Technologies, Ltd., our subsidiary, started selling a social toilet system equipped with the company's IoT functions which it jointly developed with another company.
- ❑ CRESCO e-Solution Co., Ltd., our subsidiary, renewed MOA, a service for transitioning to SAP S/4HANA.
- ❑ CRESCO VIETNAM CO., LTD., our subsidiary, began selling the latest POS system for the Vietnamese food delivery market.
- ❑ Promoted the revision of our office spaces, including the relocation of offices and development sites, for the purpose of improving business efficiency.



# 1.2. Income statement [highlights]

(Unit: Amounts less than 1 million yen omitted)

## Net sales

Net sales held steady, resulting in an increase of 9.2%, as demand for IT investment to renew existing systems and improve productivity through DX promotion continues to be strong.

## Operating profit and profit ratio

Increased by 12.3% owing to the effect of revenue increase, the minimization of unprofitable projects, etc.  
The profit ratio was 10.5% (10.2% in the same period of the previous fiscal year).

## Ordinary profit

As a result of successive falls in stock prices in the U.S., decreased by 12.1% as we recorded a valuation loss on derivatives (non-operating expenses) of 789 million yen for financial instruments held by the Company (January 30 (Monday) timely disclosure).

### Net sales

Increased 2,969 million yen (up 9.2% year on year).

### Operating profit

Increased 404 million yen (up 12.3% year on year).

### Ordinary profit

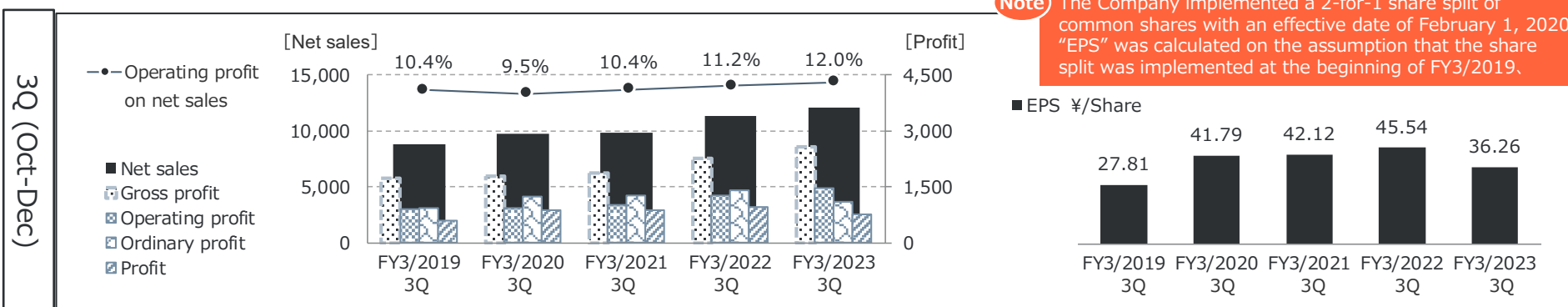
Decreased 438 million yen (down 12.1% year on year).

### Profit

Decreased 333 million yen (down 13.0% year on year).

	FY3/2021		FY3/2022		FY3/2023		YoY	Full-year progress	Full-year Forecast	
	<Announced on Feb 28, 2022>									YoY
Net sales	29,018		32,406		<b>35,376</b>		<b>109.2%</b>	<b>74.5%</b>	47,500	106.9%
Gross profit	5,127	(17.7%)	6,348	(19.6%)	<b>7,095</b>	<b>(20.1%)</b>	<b>111.8%</b>			
Operating profit	2,388	(8.2%)	3,292	(10.2%)	<b>3,697</b>	<b>(10.5%)</b>	<b>112.3%</b>	<b>77.8%</b>	4,750	(10.0%) 106.6%
Ordinary profit	3,123	(10.8%)	3,641	(11.2%)	<b>3,202</b>	<b>(9.1%)</b>	<b>87.9%</b>	<b>62.2%</b>	5,150	(10.8%) 107.7%
Profit	2,193	(7.6%)	2,564	(7.9%)	<b>2,230</b>	<b>(6.3%)</b>	<b>87.0%</b>	<b>66.6%</b>	3,350	(7.1%) 103.5%
EPS ¥/Share	104.46		121.96		<b>105.99</b>				158.99	

Note: Respective profit ratios shown in parentheses. "Profit" is "Profit attributable to owners of parent."





# 1.3. Valuation loss on derivatives

January 30 (Monday) timely disclosure:  
 Notice Concerning Recording of Loss on Valuation of Derivatives 📄

## ■ Summary

The Company recorded a **valuation loss on derivatives of 789 million yen as non-operating expenses** for the nine months ended December 31, 2022, taking into account the impact of the decline in the U.S. equity price which is linked to the prices of the bonds. This decline in the U.S. equity price is due to factors such as the increase in U.S. policy interest rates to control inflation and growing concerns of a recession in the United States.

Details of financial instruments	Yen-denominated equity-linked bonds of other companies with early redemption clauses (compound financial instruments with embedded derivatives)
Aggregate purchase amount	1.9 billion yen (10 issues, bonds linked to stocks listed in the US)
Redemption period	3-year bonds
Purpose of holding	To earn interest on securities

## ■ Outlook

Both the situation in Ukraine and the COVID-19 pandemic remain unpredictable, and we cannot be optimistic about the value at the end of this fiscal year. However, based on the current stock price recovery, we believe that a recovery in valuation gains or losses can be fully expected, and **we will not revise our full-year earnings forecast and dividend amount at this time**. However, if it becomes necessary to revise the earnings forecast in the future, it will be disclosed promptly.

## ■ Changes in investment management policy

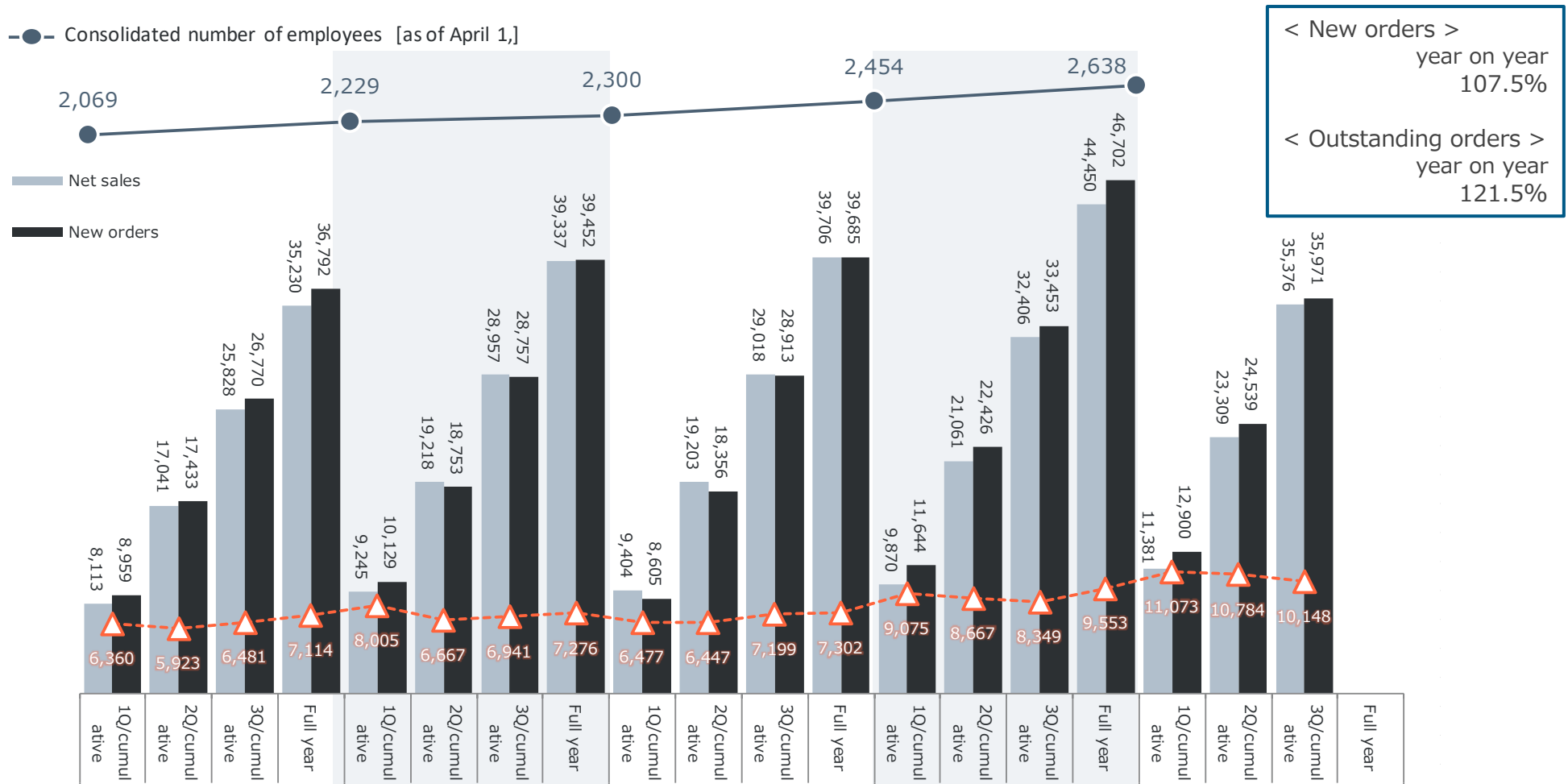
The Company is considering gradually decreasing the number of equity-linked bonds of other companies that will be redeemed at maturity starting from the next year, since these bonds are structured bonds in the form of private placement and have low liquidity and large fluctuation range of valuation gains or losses, making it difficult to determine gains or losses until redemption.



# 1.4. Quarterly net sales, new orders and outstanding orders

(Unit: Amounts less than 1 million yen omitted)

- The numbers of new orders and order backlog grew steadily against the backdrop of robust IT investment demand as in the first half of the fiscal year.
- The renovation of existing systems and DX promotion by client companies bolstered their order placement with us.





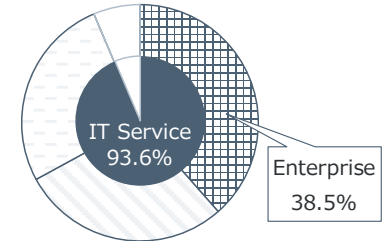


# 1.5. Results by segment: IT services business [Enterprise]

(Unit: Amounts less than 1 million yen omitted)

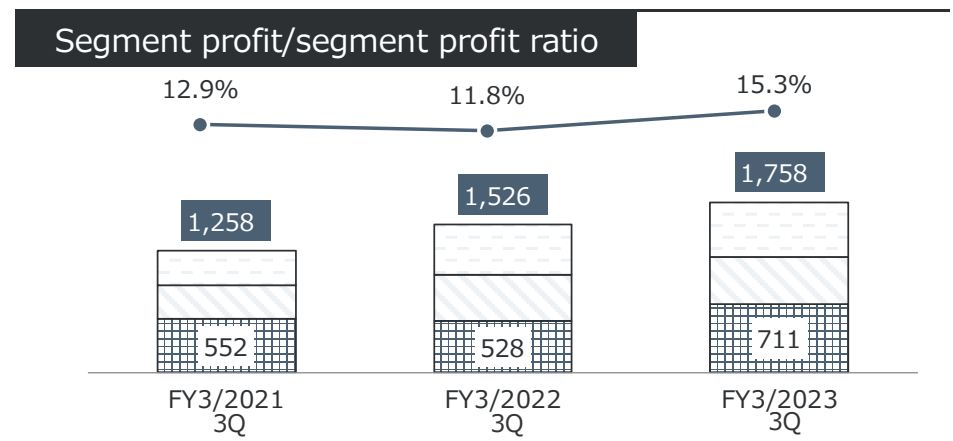
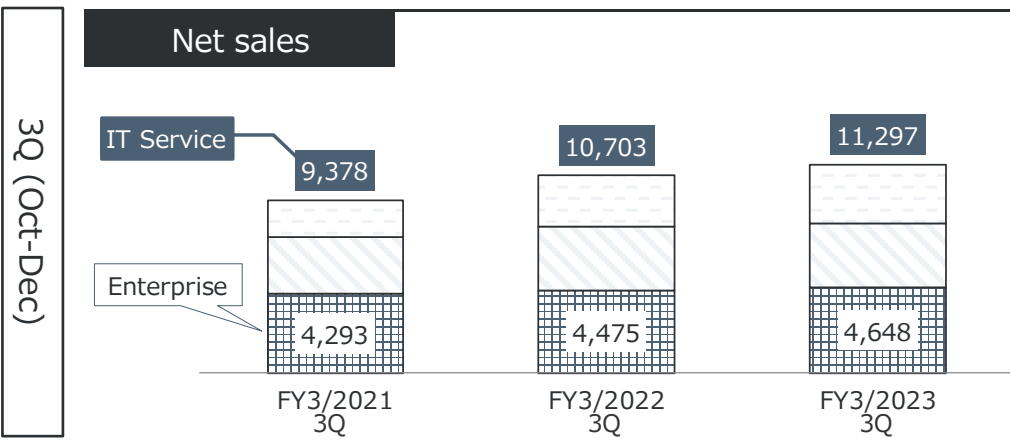
Segment		Subsegment	
IT Service	• Consulting	Enterprise	Information and communication, advertising, distribution services, transport, placement and dispatching, public services, resources and energy, construction and real estate, travel and hotels, medical and healthcare, etc.
	• IT planning		
	• Total service of development and maintenance		

<Share of net sales by segment: 3Q (Oct~Dec)>



**Cumulative**

- Net sales : 13,546million yen (YoY 0.9%↑)**  
 Despite the conclusion of large-scale projects in the areas of transportation and personnel placement/recruiting, sales increased in the logistics services, construction/real estate, information/communications/advertising, and public sector areas.
- Segment profit : 1,818million yen / 13.4% (YoY 10.8%↑)**  
 High-margin projects were secured in the information/communications/advertising area.

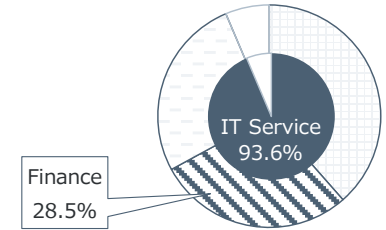


# 1.6. Results by segment: IT services business [Finance]

(Unit: Amounts less than 1 million yen omitted)

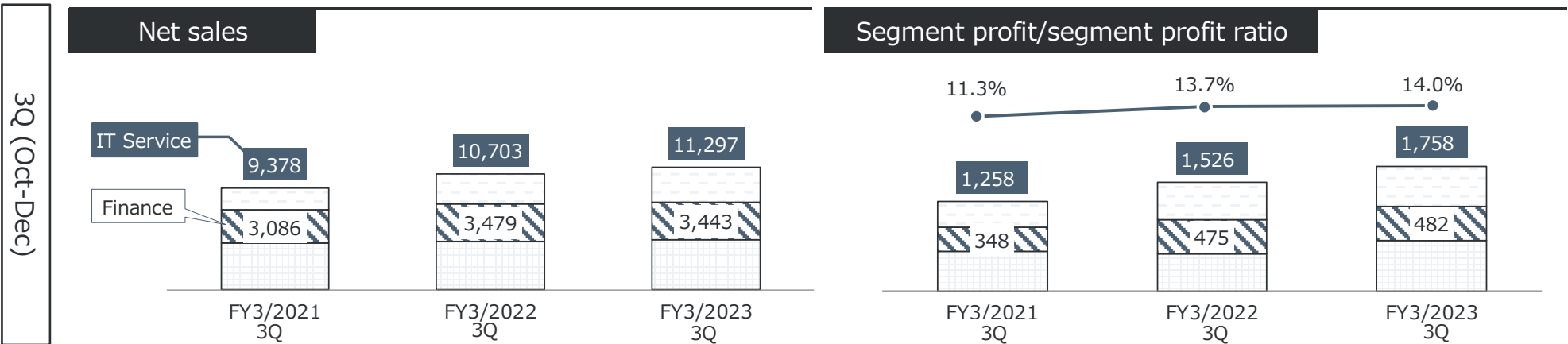
Segment		Subsegment	
IT Service	• Consulting	Finance	Banking, insurance, etc.
	• IT planning		
	• Total service of development and maintenance		

<Share of net sales by segment: 3Q (Oct~Dec)>



**Cumulative**

- Net sales : 10,615million yen (YoY 6.1%↑)**  
 The number of individual projects such as infrastructure construction and migration in banking increased at the Company.
- Segment profit : 1,347million yen / 12.7% (YoY 3.7%↑)**  
 For the same reasons as for the increase in net sales.

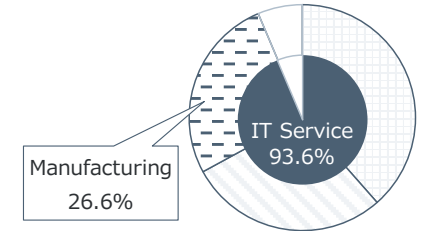




(Unit: Amounts less than 1 million yen omitted)

Segment		Subsegment	
IT Service	<ul style="list-style-type: none"> <li>• Consulting</li> <li>• IT planning</li> <li>• Total service of development and maintenance</li> </ul>	Manufacturing	Automotive, transport equipment, machinery, electronics, etc.

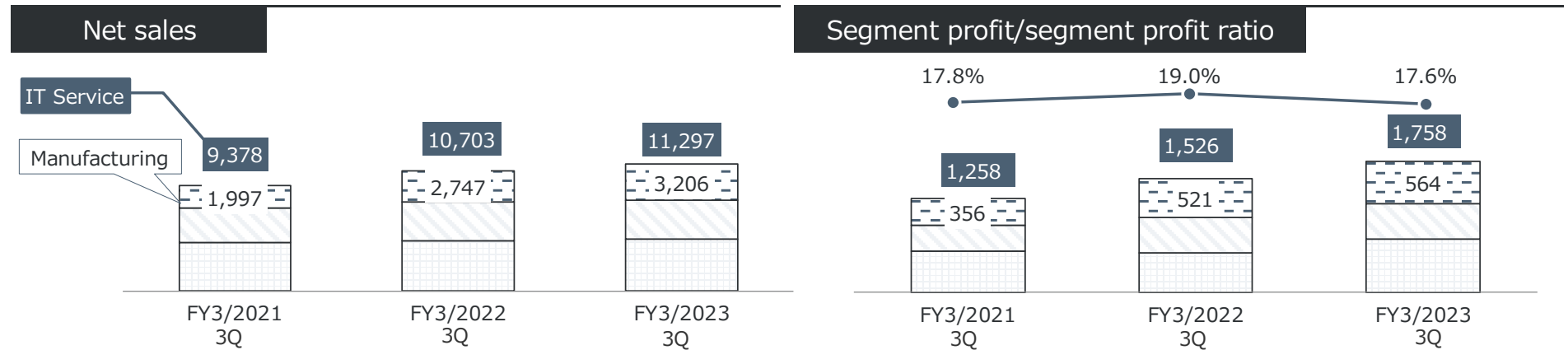
<Share of net sales by segment: 3Q (Oct~Dec)>



**Cumulative**

- Net sales : 9,427million yen (YoY 25.0%↑)**  
 The number of cloud security projects and anticipatory investment projects increased in the areas of machinery and electronics and automotive and transport equipment.
- Segment profit : 1,554million yen / 16.5% (YoY 24.4%↑)**  
 For the same reasons as for the increase in net sales.

3Q (Oct-Dec)

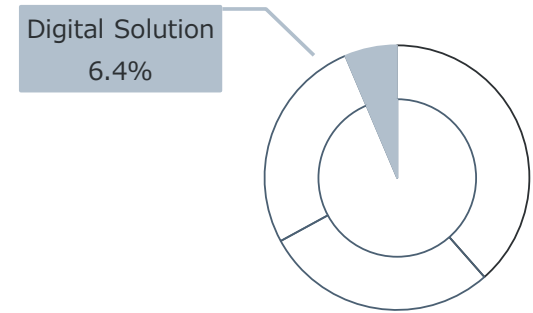


# 1.8. Results by segment: Digital solutions business

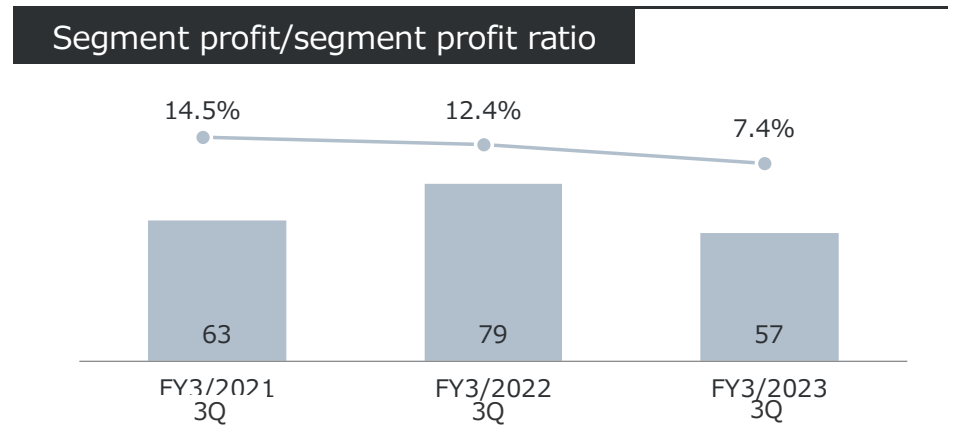
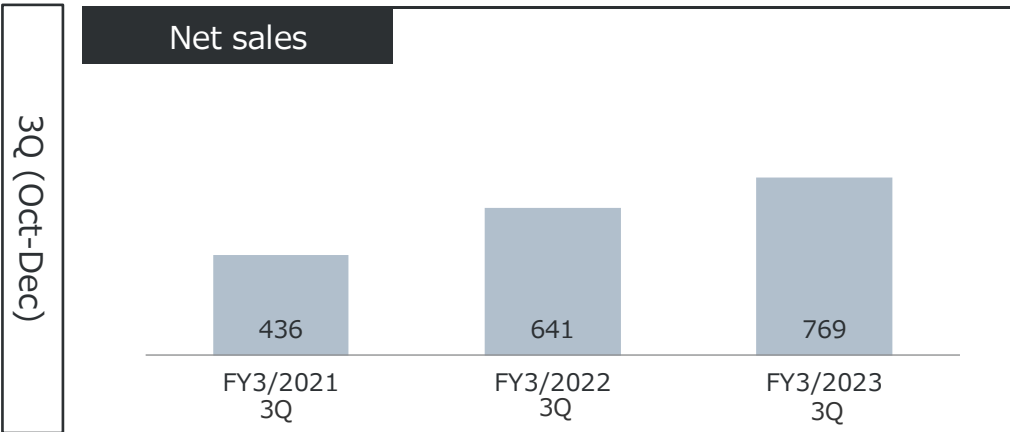
(Unit: Amounts less than 1 million yen omitted)

Segment	Business
Digital Solution	<p>Solution groups consisting of products and services supporting customers in realizing digital transformation (DX)</p> <p>&lt;Main products and services&gt;</p> <p>Creage : Cloud-related service      UiPath : RPA-related service</p> <p>Annotation : AI-related service      Training and seminars : AI, cloud, RPA, etc.</p>

<Share of net sales by segment: 3Q (Oct~Dec)>



- Cumulative**
- Net sales : 1,785million yen (YoY 24.5%↑)**  
 Sales of Creage, our main cloud service, and RPA licenses increased.
  - Segment profit : 98million yen / 5.5% (YoY 8.3%↓)**  
 Overhead costs increased as a result of implementing planning, research, and verification activities for new services and solutions in the Company's digital solutions division.





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## Future outlook



IT investment demand among client companies remains strong, although uncertainty stemming from price hikes triggered by the conflict in Russia and Ukraine and the financial markets are concerns.

- While there has been a progress in normalization from restrictions under the scourge of COVID-19, an extremely significant impact has been made on household consumption and corporate investment by price hikes arising from the Russian-Ukrainian conflict and the resulting monetary and fiscal policies of various countries in response have increased uncertainty in the financial markets.
- Although actions such as scrutinizing, postponing, or downscaling IT investment are observed with some of our corporate group's client companies, demand remains robust for IT investment for the renovation of existing systems and productivity improvement through DX promotion.

#### <Reference: Survey on the economic assessment>

##### Monthly Economic Report for January 2023 [released on January 25, 2023]

The report expresses the judgment, "The Japanese economy is picking up moderately, although some weakness has been observed recently." Concerning short-term prospects, the economy is expected to show movements of picking up, supported by the effects of the policies under the "new normal."

\* However, slowing down of overseas economies is downside risk of the Japanese economy, amid ongoing global monetary tightening and other factors. Also, full attention should be given to price increases, supply-side constraints, fluctuations in the financial and capital markets, and the spread of infections in China.

##### Reuters survey on business conditions for January 2023 [released on January 18, 2023]

Diffusion Index (DI): The DI for manufacturing enterprises turned negative for the first time in two years (worsened by 14 points) since January 2021 due to the impact of production adjustments by automakers and the squeeze on earnings from various cost increases, while the DI for non-manufacturing enterprises also deteriorated slightly (worsened by 5 points).

##### QUICK Tankan (QUICK Short-term Economic Survey) for January 2023 [released on January 18, 2023]

Diffusion Index (DI): The index worsened by 3 points from the previous month's survey to plus 8.

##### Tankan (Short-Term Economic Survey of Enterprises in Japan) for September 2022 by the Bank of Japan [released on October 3, 2022]


Diffusion Index (DI): For large manufacturing enterprises, business sentiment worsened by 1 point from the previous survey (September survey) to DI +7. Increased import costs put pressure on profits in many industries.

For large, non-manufacturing enterprises, business sentiment improved by 5 points to +19 as the downward pressure of the coronavirus pandemic on the economy weakened. Business sentiment recovered to a level close to that before the coronavirus pandemic.

Fixed investment by all enterprises in all industries for FY2022 is forecast to increase by +15.1% year on year. Software investment is forecast to increase by +14.3%.



(Unit: Amounts less than 1 million yen omitted)

- Because the impact of making **Japan Software Design CO.,LTD.** into a subsidiary on February 1, 2023 ([timely disclosed on January 30, 2023](#) ) **is not material**, the forecast for the fiscal year ending March 31, 2023 announced on May 10, 2022 **remains unchanged**.
- If it becomes necessary to revise the forecasts due to future conditions, business trends, etc., the revision will be disclosed promptly.

Full year	FY3/2022						FY3/2023	
	Forecast <Announced on May 8, 2020>		YoY	Actual	YoY	Achievement rate	Forecast <Announced on Feb 28, 2022>	
	Net sales	44,000		110.8%	44,450		101.0%	<b>47,500</b>
Gross profit				8,698 (19.6%)		120.8%		
Operating profit	4,440 (10.1%)		127.4%	4,457 (10.0%)		100.4%	<b>4,750 (10.0%)</b>	<b>106.6%</b>
Ordinary profit	4,600 (10.5%)		112.2%	4,782 (10.8%)		104.0%	<b>5,150 (10.8%)</b>	<b>107.7%</b>
Profit	3,180 (7.2%)		120.7%	3,236 (7.3%)		101.8%	<b>3,350 (7.1%)</b>	<b>103.5%</b>
EPS ¥/Share	151.14			153.92			<b>158.99</b>	

Note: Respective profit ratios shown in parentheses. "Profit" is "Profit attributable to owners of parent."



# 2.3. Consolidated Forecast of cash dividends

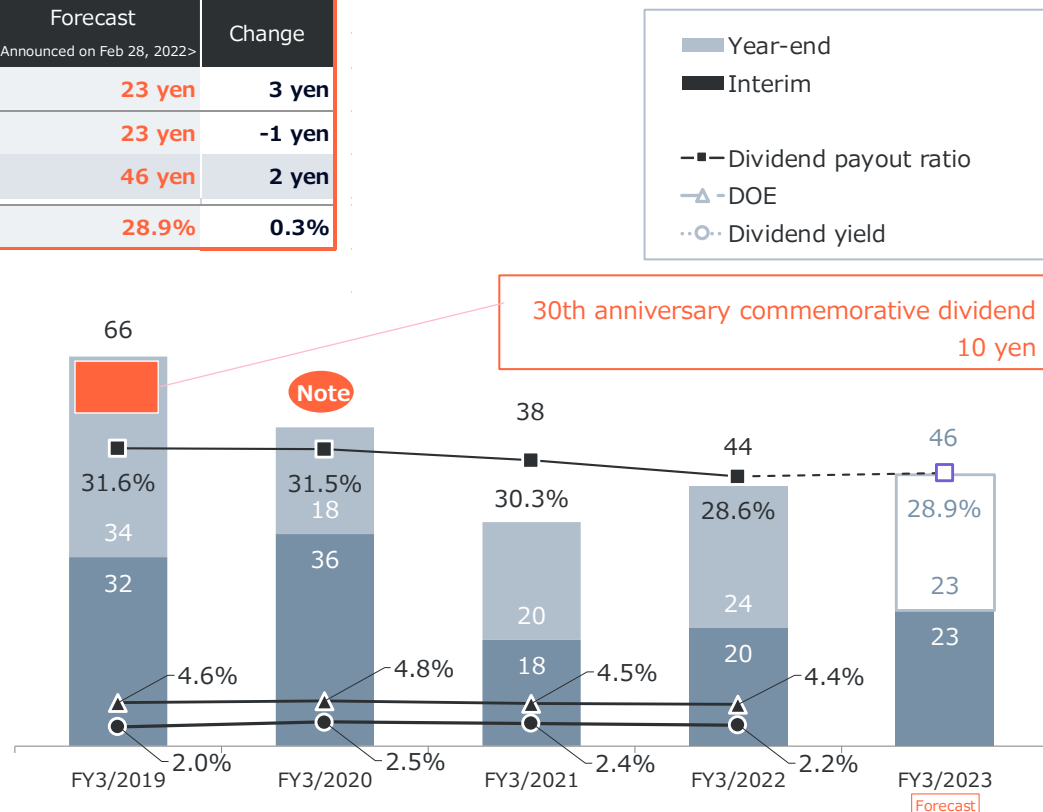
- Dividends will continue to be distributed in accordance with the Group's shareholder return policy.
- No change in forecast of dividends for the fiscal year ending March 31, 2023 announced on May 10, 2022.

	FY3/2021	FY3/2022	FY3/2023		
	Actual	Actual	Actual	Forecast <Announced on Feb 28, 2022>	Change
Interim	18 yen	20 yen	23 yen	23 yen	3 yen
Year-end	20 yen	24 yen	-	23 yen	-1 yen
Full year	38 yen	44 yen	-	46 yen	2 yen
Dividend payout ratio	30.3%	28.6%	-	28.9%	0.3%
Dividend yield	2.4%	2.2%	-	-	-
DOE	4.5%	4.4%	-	-	-
Total dividend payments	798 Millions of yen	925 Millions of yen	-	-	-

(Total dividend payment: Amounts less than 1 million yen omitted)

**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 performance.
- The Company does not offer any special shareholder benefits.
- 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.



**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 FY3/2019 interim dividend until the FY3/2020 interim dividend**.
- The total amount 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.





# Reference

# Reference Changes in the Cresco Group's consolidated subsidiaries

	FY3/2019				FY3/2020				FY3/2021				FY3/2022				FY3/2023			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
CRESCO e-Solution Co., Ltd.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
CRESCO Wireless, Inc.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
IOS Co., Ltd. [*1][*5][*7][*10]	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
CRESCO KYUSHU Co. Ltd. [*8]	●	●	●	●	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/
CRESCO HOKURIKU. LTD.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
C3 Co. Ltd.	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
CRESCO Digital Technologies Ltd. [*13]	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
Mexess Co., Ltd. [*3][*4]	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	
N-System Corporation [*14]	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	/	/	/
Nexus Corporation [*2][*14]	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	/	/	/
ARS Corporation Ltd. [*6][*14]	/	/	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	/	/	/
CRESCO J CUBE CO., LTD. [*14]	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	/	●	●	●	
CRESCO VIETNAM CO., LTD. [*9]	/	/	/	/	/	○	●	●	●	●	●	●	●	●	●	●	●	●	●	
Enisias Co., Ltd. [*11]	/	/	/	/	/	/	/	/	●	●	●	●	●	●	●	●	●	●	●	
OEC Ltd. [*12]	/	/	/	/	/	/	/	/	/	/	/	/	●	●	●	●	●	●	●	
<b>Total number of subsidiaries</b>	10	10	11	11	10	11	11	11	12	12	12	12	12	13	13	13	13	11	11	

[\*1] Applications Co., Ltd. became a subsidiary of IOS Co., Ltd. effective October 2, 2017.

[\*2] Nexus Corporation became a subsidiary effective January 12, 2018.

[\*3] Media Magic Co., Ltd. was renamed Mexess Co., Ltd. effective March 12, 2018.

[\*4] The Kansai Office of IOS Co., Ltd. was integrated into Mexess Co., Ltd. Effective April 1, 2018.

[\*5] Applications Co., Ltd. was integrated into IOS Co., Ltd. effective April 1, 2018.

[\*6] ARS Corporation Ltd. became a subsidiary effective October 1, 2018.

[\*7] e-techno. Co., Ltd. became a subsidiary of IOS Co.,Ltd. effective November 1, 2018.

[\*8] Cresco KYUSHU Co. Ltd. was integrated into the Company effective April 1, 2019.

[\*9] CRESCO VIETNAM CO., LTD. was established effective September 17, 2019. (Date of business commencement: October 1, 2019)

[\*10] e-techno. Co., Ltd. was integrated into IOS Co., Ltd. effective October 1, 2019.

[\*11] Enisias Co., Ltd. became a subsidiary effective April 1, 2020.

[\*12] OEC Ltd. became a subsidiary effective July 1, 2021.

[\*13] Creative Japan, LTD. changed its name to CRESCO Digital Technologies Ltd. on May 1, 2022.

[\*14] Effective July 1, 2022, N-System Corporation and Nexus Corporation were integrated into ARS Corporation Ltd., which was renamed CRESCO J CUBE CO., LTD.

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