

CAC Holdings

4725

TOKYO Stock Exchange Prime Market

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Summary

Results in the initial year of the Company's Medium-Term Management Plan exceeded forecasts. Growth continuing in FY12/23 on the strength of the domestic IT business

1. Company outline and business description

CAC Holdings Corporation <4725> (hereafter, also “the Company”) was established in August 1966 and started in business as a pioneering, independent, specialist software company in Japan. In June 2021, it transferred its stake in CAC Croit Corporation (presently, EPS Corporation), a consolidated subsidiary engaged in the CRO business involving outsourcing of clinical studies in new development, and agency services for manufacturing and marketing of approved drugs. CAC Holdings now comprises a corporate group that concentrates its management resources on the IT business both in Japan and abroad, conducting business through 20 consolidated subsidiaries and 2 equity-method affiliates under the holding company, enlisting 4,367 Group employees. (All as of December 31, 2022.)

Effective from FY12/22, the Company has two reporting segments: domestic IT business and overseas IT business. The domestic IT business mainly provides systems development and integration services, systems operation and management services, and human resource (HR) BPO services at domestic subsidiaries. Meanwhile, the overseas IT business mainly provides systems development and integration services, systems operation and management services, and maintenance services at overseas subsidiaries.

2. Consolidated financial results for FY12/22 exceeded initial forecasts

In the FY12/22 consolidated results, net sales edged up 0.1% YoY to ¥47,971mn, operating income decreased 13.8% to ¥3,187mn, ordinary income declined 13.9% to ¥3,158mn and profit attributable to owners of parent fell 15.4% to ¥2,093mn. The Company's initial results forecasts were net sales of ¥45,000mn (down 6.1% YoY), operating income of ¥3,000mn (down 18.9%), ordinary income of ¥2,900mn (down 20.9%) and profit attributable to owners of parent of ¥2,000mn (down 19.2%). Removing the CRO business from the scope of consolidation impacted net sales by ¥4,841mn and operating income by ¥812mn, which is why the Company forecasted a decrease in revenue, but revenue increased thanks to the solid performance of the domestic IT business. Operating income decreased, but it came in above the initial forecast. In addition, looking at the trends in the typical indicators of financial stability, we see that the equity ratio declined from 65.1% at the end of FY12/21 to 64.7%, the current ratio improved from 245.6% to 269.1%, and net cash (cash and deposits less interest-bearing debt (excess cash if positive)) increased from ¥7,854mn to ¥9,885mn. Net cash is steadily increasing, and net cash in the broad sense—adding in ¥1,300mn in securities included in current assets and ¥14,543mn in investment securities included in fixed assets—has reached ¥25,728mn. This is 77.6% of the Company's market capitalization of ¥33,154mn as of March 10, 2023, so the Company bears watching as a value investment.

Summary

3. FY12/23 consolidated results forecasts are for sales to increase 4.2% YoY and operating income to increase 3.5%

For the FY12/23 consolidated results, the Company is forecasting that net sales will increase 4.2% YoY to ¥50,000m and operating income will rise 3.5% to ¥3,300mn. Forecasts by segment call for net sales to increase 1.6% to ¥37,000mn and segment profit to edge up 0.9% to ¥2,500mn in the domestic IT business, and net sales to increase 12.4% to ¥13,000mn and segment profit to rise 12.5% to ¥800mn in the overseas IT business. Consolidated subsidiary CAC MARUHA NICHIRO SYSTEMS is slated to be removed from the scope of consolidation in April 2023, and FISCO estimates that this will impact net sales by ¥1.5-1.6bn* and operating income by ¥20-30mn. On a real basis, excluding the above factor, net sales from the domestic IT business are expected to grow steadily. In addition, in the overseas IT business, revenue is projected to increase by a large margin owing in part to a recovery at the Company's Indian subsidiary. The foreign exchange rate assumed for the Company's results forecasts for its overseas IT business is ¥140 = US\$1 (it was ¥130 = US\$1 for FY12/22 results).

| * FISCO's estimate based on annual net sales of ¥2.0-2.5bn and consolidation for a three-month period. |

4. Progress of long-term vision and Medium-Term Management Plan

The Company has clarified the financial indicators and dividend policy it will pursue in Phase 1 of its Medium-Term Management Plan. Its new targets established for FY12/25 are 1) ROE of 10% or higher, 2) an equity spread (ROE in excess of shareholders' equity) of 2.5% or higher, and 3) DOE of around 5%. Focusing on the equity spread, an indicator aimed at high capital efficiency, the Company will work for 1) ROE of 10% or higher and 2) an equity spread of 2.5% or higher on the assumption of shareholder equity costs of around 7.5%. In addition, as an indicator that clarifies its policy on shareholder returns, the Company is targeting 3) DOE of around 5%. It will aim to maintain internal reserves for future growth and provide a stable dividend to shareholders on a continuing basis. Based on these policies, the Company increased its annual per-share dividend for FY12/23 by ¥20.00 YoY to ¥80.00. It has made DOE a dividend indicator, so if performance continues to improve, a stable dividend based on ¥80.00 annually can be expected. The Company's dividend yield is close to 5%, and considering the large amount of financial assets it holds, including stock in Recruit Holdings <6098> (Recruit), it bears watching as a value investment.

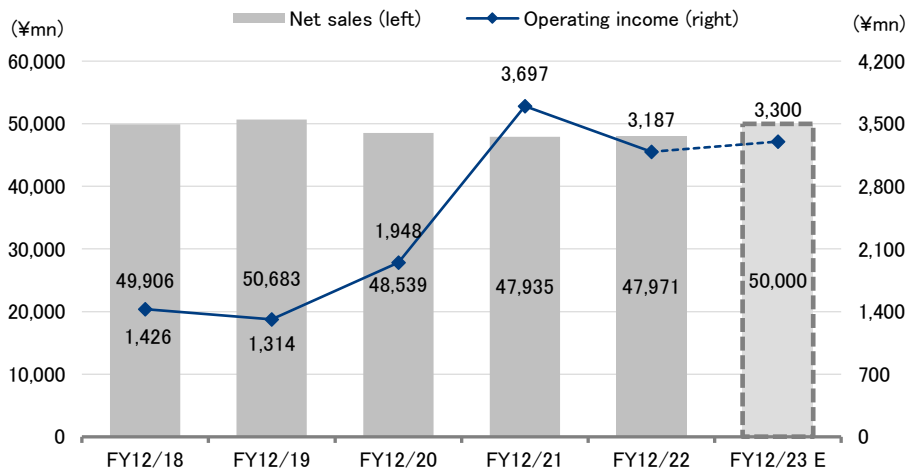
In addition, in Phase 1 of its Medium-Term Management Plan, the Company is putting particular focus on "building a framework for continuously producing new products & services." Net sales in FY12/22 from these new products & services increased ¥0.3bn to just ¥1.3bn, so the services the Company has traditionally provided still account for the lion's share of its sales. Going forward, the Company intends to strengthen sales and marketing, where resources have been thin, while also considering utilizing outside resources through M&A as it works to achieve its targets in the final year of the plan. However, the details of how it will utilize business investment to achieve these targets is an issue. The Company has ¥15.0bn in investment capital. Along with funds acquired from existing businesses, it will utilize cash and deposits, investment securities, and also borrowings. This investment capital will be used not only for shareholder returns; it plans to commit around ¥6.5bn to human resources investment and around ¥10.0bn for M&A and new business investment. However, FISCO believes the Company needs to place emphasis on investing in the resources it lacks internally through actively hiring professionals in corporate planning for M&A and other such activities, including the CVC investment currently underway (approx. ¥5.5bn invested as of December 31, 2022).

Summary

Key Points

- An independent, pioneering Sler with a history of more than 50 years since its establishment. Its greatest strength is its “transformational power,” which is supported by “a corporate culture that is positive about taking on challenges,” “an excellent customer base,” and “a solid financial structure”
- Consolidated financial results for FY12/22 significantly exceeded initial forecasts. Financial stability increased further
- FY12/23 consolidated results forecasts are for operating income to increase 3.5% YoY
- Announced “CAC Vision 2030” and established quantitative targets for FY12/25 with respect to achieving net sales of ¥58bn, operating income of ¥5bn, an operating margin of 8% or higher, and ROE of 10% or higher. The vision has gotten off to a steady start. In FY12/22, its first year, net sales and operating income both exceeded initial forecasts.

Results trends



Source: Prepared by FISCO from the Company's financial results

■ Company profile

Having served as an independent Sler pioneer since it was founded in 1966, the Company has developed into a corporate IT group with more than 4,000 employees through its aggressive M&A and overseas expansion

The Company was founded in August 1966 as Computer Applications Co., Ltd. (CAC) as a pioneering, independent, specialist software company in Japan. Its founding philosophy was “to construct user-oriented information systems from a neutral standpoint independent of hardware manufacturers,” and the idea of “creating new value based on advancing ICT with the world as its field” has been handed down as its current corporate philosophy.

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Company profile

CAC Holdings now comprises a corporate group that now concentrates its management resources on the IT business both in Japan and abroad (CAC Holdings conducts business through 20 consolidated subsidiaries and 2 equity-method affiliates under the holding company, with 4,367 Group employees). (All as of December 31, 2022).

Looking back on the Company's history of more than half a century, we see that it has sensitively ascertained and responded to the changes of the times and continued to take on the challenge of creating new value, while also developing and cherishing its core competencies.

1. As an independent Sler pioneer, went through an expansion period for its IT business, for which it has built an excellent customer base

Soon after its foundation in 1966, CAC, the previous incarnation of CAC Holdings, expanded its business to become a systems integrator (Sler) that undertakes various operations, including planning, construction and support for systems development and integration. In 1988, it acquired certification from the Ministry of International Trade and Industry (currently, the Ministry of Economy, Trade and Industry) when the Systems Integrator Registration and Certification System was launched. It has continued to expand its business domain as a group. In 1971, it invested in Nippon System Service Co., Ltd. (SSK), based on the idea that "specialist companies should operate and manage information systems in order to support customers' businesses," and launched a business as the first company in Japan specializing in outsourcing services. Then in 1973, it established System Utility Co., Ltd. (SUC), whose main operations were information processing and filing services.

In 1994, the above three companies (CAC, SSK, and SUC) merged to become CAC Corporation, putting in place a system that in name and reality was able to provide all services, from planning and development and integration through to operation, and it entered a period of IT business expansion. During this period, in addition to organic growth, the Company actively expanded the business even further through M&A, which it has conducted since it was listed (public share offering as over-the-counter shares in 1999, then listed on the First Section of the Tokyo Stock Exchange in 2000). Specifically, it made subsidiaries of ARK Systems Co., Ltd. in 2000, YUASA KNOWLEDGE INDUSTRY Co., Ltd. in 2002 (currently, CAC Knowledge Co., Ltd.), and ORBIS CORPORATION (currently, CAC ORBIS Corporation) and MARUHA SYSTEMS CORPORATION (currently, CAC MARUHA NICHIRO SYSTEMS CORPORATION) in 2003. These companies are the IT subsidiaries of leading companies which are the Company's customers, and they can be said to be good examples in terms of showing the Company's position as seen from customers. CAC Holdings is aiming to strengthen relations with YUASA TRADING CO., LTD. <8074> (capital and business partnership in October 2020), and in this situation, in February 2021, CAC Knowledge transitioned from a consolidated subsidiary to an equity-method affiliate, and then in April of the same year, it resolved to change its company name to YUASA SYSTEM SOLUTIONS Co., Ltd.

The Company has strongly focused on providing services optimized for various industries from its position as the prime contractor. In a prime-contractor agreement, the Company is responsible for product liability, so the risk is greater compared to a delegation-type or secondary contract. However, the prime contractor can accurately and directly ascertain the needs of end customers (as a result, higher profits can be obtained if customer needs are met), which is consistent with the Company's founding philosophy of being customer oriented. These good relations with its customers as the prime contractor led to the expansion of the outsourcing business through M&A and advancement into the CRO (pharmaceutical BTO) domain.

Company profile

2. Utilized an M&A strategy in the CRO business development period from 2006 to 2016

Within its domestic IT business, the Company embarked on business entailing input of clinical trial data in the 1970s after having acquired major pharmaceutical companies as its leading customers. It went on to enter the business of data management as one aspect of its CRO business in 1990, at a time when the term “CRO” did not yet exist in the business realm. The Company later expanded its CRO business enlisting its M&A strategy, and in 2016, launched CAC Croit as a pioneering enterprise that combined CRO with information technology. However, the Company transferred all of its shareholdings in CAC Croit to EPS Corporation in June 2021 to concentrate its management resources on its IT business.

3. Acquisition of an Indian company drew the curtain on a period of full-fledged development of the overseas IT business, and maintained the M&A strategy after the business reconstruction

The Company's overseas business development passed through a few stages, including 1) entering the US in 1989 and Europe in 1990 in response to the overseas business development of customer companies, and 2) entering the Asia region (China in 2000 and India in 2010) with the aim of reducing development costs. In 2014, it entered a new stage of taking on the challenge of full-fledged development of its overseas business through an M&A strategy. Specifically, to strengthen its overseas support capabilities, in 2014, it invested more than ¥1.5bn in Accel Frontline Limited (hereafter, AFL; company name changed to Inspirisys Solutions Limited in 2018), an Indian IT company which has bases in the US, the UK, the Middle East, and elsewhere, and made it a subsidiary. Then in 2015, it made a subsidiary of Sierra Solutions Pte. Ltd. (hereafter, Sierra), which is a Singaporean IT company that conducts a business for medical institutions in the Asia region.

Subsequently, as results could not be obtained as initially anticipated, in 2017 it transferred all of its shares in Sierra and a Singaporean company (Accel Systems & Technologies Pte. Ltd., owned by AFL) whose main business is building cybersecurity systems. It progressed the reconstruction of the overseas business throughout 2018, and in September 2019, acquired all of the shares and made a consolidated subsidiary of Mitrais Pte. Ltd. (hereafter, Mitrais) of Singapore (execution date: October 18, 2019), whose main base is in Indonesia, and is maintaining its M&A strategy.

Company history

Date	Event
1966	Computer Applications Co., Ltd. (CAC) was established as an independent, specialist software company.
1971	Invested in Nippon System Service Co., Ltd., (SSK) and started a business as a company specializing in outsourcing services (the first in Japan).
1973	CAC established System Utility Co., Ltd. (SUC), a company specializing in systems operations and management and software development, as its wholly owned subsidiary.
1976	Completed the construction of the CAC FM Center (the Iidabashi Shogaku Building), a specialist computer building. Made a subsidiary of SSK with an investment ratio of 56%.
1977	Opened the Kansai Sales Office.
1986	Fully fledged start of systems consulting services.
1988	Became a certified company on the launch by MITI of the Systems Integrator Registration and Certification System.
1989	Established CAC America in New York City, U.S.
1990	Established CAC Europe in London City, U.K.
1991	In order to enhance systems development and integration services in the Kyushu area, conducted a capital participation in SCI Co., Ltd., and made it an affiliate.
1993	Started a desktop services business to support information systems management. Launched an information technology education services business.
1994	Entered into a business alliance with SAP Japan, an ERP package (Enterprise Resource Planning integrated business package) sales company. CAC, SSK, and SUC merged and CAC Co., Ltd., was established.
1995	Was once again certified as a systems integrator company by MITI, as CAC Co., Ltd. Was certified as a “special systems operating company, etc.,” by MITI.

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Company profile

Date	Event
1996	Entered into a business alliance with SHL Japan, a subsidiary of SHL of Canada, whose strength is in distributed systems outsourcing, and started a distributed systems operations and management services business.
1998	Opened the Data Center in Shinkawa, Chuo Ward, Tokyo.
1999	Offered shares to the public as over-the-counter shares.
2000	Acquired all of the shares of ARK Systems Co., Ltd., a systems operation and management services company, and made it a subsidiary. Established the subsidiary CAC PACIFIC CORPORATION in San Jose City, USA. Established Web Progressive Co., Ltd., to conduct a multimedia business that utilizes the Internet as a joint venture between SHOGAKUKAN Inc., NEC Corporation <6701>, and the Company. Established CAC Shanghai Corporation in Shanghai City, China, through a 100% investment by CAC Pacific. Established NetAdvance Inc., to provide digital content services as a joint venture between SHOGAKUKAN Inc., FUJITSU LIMITED <6702>, and the Company. Listed on the 1st section of the TSE.
2001	Acquired all of the shares of AVANT-GARDE COMPLEX OF DESIGN ASSOCIATES INC., a provider of web hosting services.
2002	Acquired the shares of GoldenTech Computer Technology (Suzhou) Co., Ltd., and made it a subsidiary. Established CEN Solutions Co., Ltd., as an affiliate through a joint venture with NEC Corporation and Kumagai Gumi Co., Ltd. <1861> Acquired the shares of YUASA KNOWLEDGE INDUSTRY Co., Ltd., and made it a subsidiary, and changed its company name to CAC Knowledge Co., Ltd. Starting providing PRASMA, a service to comprehensively support new drug research and development. Made a subsidiary of IXI Co., Ltd., which conducts business-model construction and support, and systems-consulting operations.
2003	Acquired the shares of ORBIS CORPORATION (currently, CAC ORBIS CORPORATION) and made it a subsidiary. Acquired the shares of MARUHA SYSTEMS CORPORATION (currently, CAC MARUHA NICHIRO SYSTEMS CORPORATION) and made it a subsidiary.
2005	Established Catient Inc., to conduct surveys, analysis, and consulting to create value utilizing IT. Transferred shares held in CAC Information Services Co., Ltd. Established CrossForce Co., Ltd., as a joint venture with Fuji Xerox Co., Ltd., to conduct an outsourcing services management business. Transferred shares held in IXI Co., Ltd., and AVANT-GARDE COMPLEX OF DESIGN ASSOCIATES INC. Relocated the head office to Nihonbashi-Hakozaki-cho, Chuo Ward, Tokyo.
2006	Established CDI Solutions, Inc., as a joint venture between Corporate Directions, Inc., the Company, and others in order to conduct IT-ROI consulting (management strategy x IT). Acquired the shares of Arm Systex Co., Ltd., which conducts a CRO business, and Arm Co., Ltd. made them subsidiaries of the Company.
2007	Established kizasi Company, Inc., to conduct an Internet-related business. Acquired all of the shares of Medical Ecology Co., Ltd., which conducts CRO operations (subsequently, its company name was changed to CAC ClinIT Co., Ltd.) and made it a subsidiary.
2009	Made an equity method affiliate of MIC Medical Corp., which conducts CRO operations (monitoring). Acquired the shares of clinical trust Co., Ltd., which conducts CRO operations, and made it a subsidiary.
2010	Merger of CAC ClinIT Co., Ltd., Arm Systex Co., Ltd., and Arm Co., Ltd. Made an equity method affiliate of Sogo Rinsho Holdings Co., Ltd., which conducts SMO operations (clinical trial facility support organization). Acquired the CRO business of Moss Institute Co., Ltd., and strengthened clinical DM and statistical analysis. Established CAC India in Mumbai City, India.
2012	Established CAC EXICARE Corporation, which conducts CRO operations, through a company split. Transferred the shares held in MIC Medical Corp. Transferred some of the shares held in Sogo Rinsho Holdings Co., Ltd.
2013	Dissolved CAC Pacific.
2014	Acquired the shares of Accel Frontline Limited (listed on the Bombay Stock Exchange and National Stock Exchange) and made it a subsidiary.
2015	Acquired the shares of Sierra Solutions Pte. Ltd., a Singapore IT company, and made it a subsidiary.
2016	Established CAC Croit Corporation through the merger of CAC EXICARE Corporation and clinical trust Co., Ltd. Invested in Afectiva, Inc., a leading US company in the emotion recognition AI market, and signed the first distributor agreement in Japan.
2017	Transferred all of the shares of Accel Systems & Technologies Pte. Ltd., held by Accel Frontline Limited. Transferred all of the shares of Sierra Solutions Pte. Ltd.
2018	Composed a CVC fund for domestic companies as part of its measures to create new businesses (total amount, ¥3bn). CAC Croit decided to start a compounds library-sharing (QualityLead) business. Accel Frontline Limited updated its in-company structure and changed its corporate name to Inspirisys Solutions Limited.
2019	Dissolved consolidated subsidiary kizasi Company, Inc. Acquired all of the shares and made a consolidated subsidiary of Mitrais Pte. Ltd., a Singapore company whose main base is in Indonesia.
2020	Concluded a capital and business alliance with YUASA TRADING CO., LTD. <8074> (allocated 1.46% of the Company's total number of outstanding shares through a disposal of treasury shares).
2021	Changed investment stake in CAC Knowledge (51→ 49%) and it transitioned from being a consolidated subsidiary to an equity-method affiliate. The Company transferred all of its shares of CAC Croit Corporation.

Source: Prepared by FISCO from the Company's securities reports, news releases, and financial reports

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Business overview

Two segment structure consisting of domestic IT and overseas IT

Effective from FY12/22, the Company has two reportable segments consisting of the domestic IT business and overseas IT business, upon transfer of its CRO business in June 2021. In addition, the Company assigns executive officers to four domains with respect to which they take charge of core ICT, China, Indonesia and new business promotion, in order to achieve prompt decision-making and agile execution of business.

The domestic IT business has a prime-contractor rate of 90%

1. Domestic IT business

The domestic IT business, which provides 75.9% of Company-wide net sales (FY12/22), is the Company's mainstay business, and through its domestic subsidiaries, it conducts operations that include systems development and integration services, systems operation and management services, and HR BPO services. As the prime contractor and from the neutral standpoint of an independent Sler, the Company focuses on accurately and directly ascertaining user needs and strengthening its provision of optimal services to customers. In fact, CAC Corporation, which is responsible for the core of the domestic IT business, has nearly 400 customer companies, and in this situation, it is keeping the prime-contractor rate at around 90% and securing a projected gross profit margin at the time of ordering of 25%.

(1) Strength in systems development and integration services for banks and trusts

In systems development and integration services, the Company comprehensively develops and integrates client companies' information systems, from the planning of information systems through to their design, development, testing, introduction, and maintenance. Among its top-ranking customers in terms of net sales are several financial institutions and major trust banks. As a prime contractor for over half a century, the Company has accumulated highly specialized operational knowledge and experience. As a result, it has strengths in market- and overseas-related systems for megabanks and pension-related systems for trust banks.

(2) Advancing cloud support for systems operation and management services

The origins of the systems operation and management services can be found in the investment in a specialist outsourcing services company (SSK) in 1971. The Company provides comprehensive services for the necessary functions for systems management, and currently these include operations process management, operations management, user support, client equipment management, application management, and infrastructure management. Amid these conditions, the Company has developed strengths in the form of management expertise accumulated through providing comprehensive services to major pharmaceutical companies and in directly addressing the needs of various industries (manufacturing industry, trading companies, fishery and foods) through M&A.

Since 2012, the Company has been strengthening its cloud support at a rapid pace, such as focusing on systems integration and applications development for AWS (Amazon Web Services). As of August 2022, it has around 130 engineers with AWS-related certification and supports a large number of companies, including major financial institutions and pharmaceutical companies. The acceleration of the migration to the cloud may lead to a contraction of the existing businesses of IT vendors, but the negative impact of this on the Company is small.

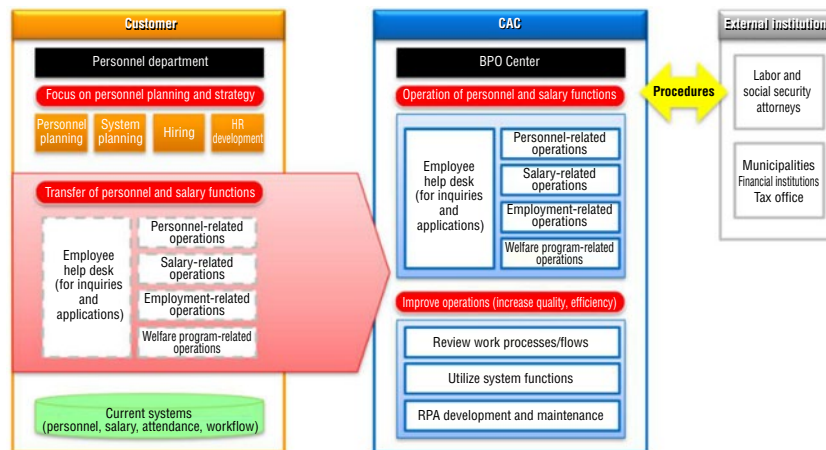
Business overview

(3) HR BPO services

HR BPO services utilize IT to conduct human resource operations and other business processes on behalf of the responsible managers in companies. The outsourced operations are not limited to work such as general payroll calculations, but also include personnel system management and labor management, welfare management, and other HR operations. In Nagasaki City, the company opened the Nagasaki BPO Center (or, Nagasaki BizPORT Office) in July 2019, followed by Nagasaki NBC Office in November 2021. It has considered not only overall HR operations but other operations such as general affairs and accounting and aims to comprehensively conduct consigned back-office operations.

From April 2020, the Nagasaki BPO Center started providing pharmaceutical-related IT services, and from September 2020, it started providing systems development services for financial institutions. In addition to providing employee salary BPO services, the Nagasaki NBC Office engages in research and development of advanced technologies and also bears functions to facilitate utilization of IT under the brand name, HCTech AI Lab Nagasaki. In so doing, the Company has been engaging in initiatives that contribute to Nagasaki in terms of addressing regional challenges and giving rise to local revitalization. As such, the Nagasaki business location has been developing important nearshore bases for the Company in the domestic IT business that go beyond mere BPO centers.

Overall image of HR BPO services



Source: Company website

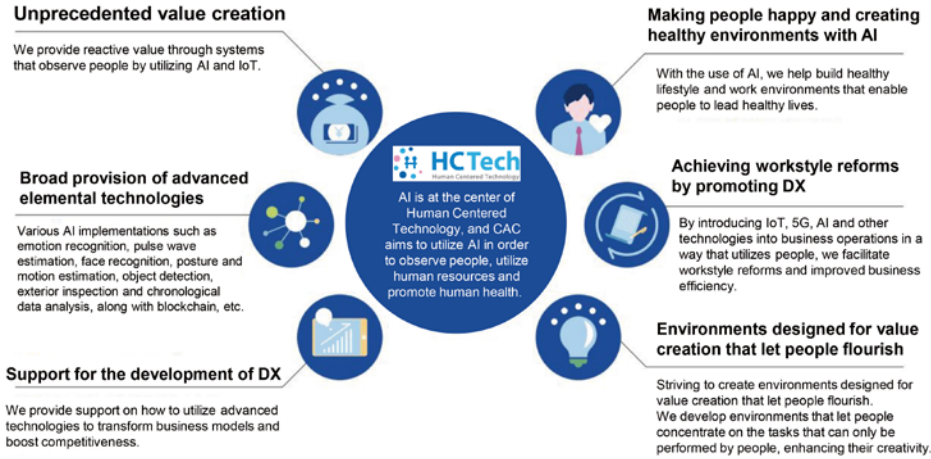
(4) Measures for digital transformation

The Company's awareness of digital transformation (hereafter, DX), which transforms society as a whole through the rapid evolution of ICT technology, is that it offers both opportunities and threats for existing Slers. DX will not only create new businesses, but also transform the design of existing businesses. In other words, in a new world in which the virtual world and physical world are integrated, it demands the migration to a digital business that is able to bring about the mutual interactions of people, objects, money, and businesses.

In order to support the advancement of DX by its customers, the Company has already prepared a menu of services that utilize the latest ICT technologies, including AI, blockchain, and IoT. To give a specific example, it is focusing on the domain with the concept of "HCTech (human-centered technology) that utilizes IT to understand people, utilize people, and make people healthy." HCTech involves the analysis and identification of images of people and objects and biometric data by AI, which has required an enormous amount of time and expertise, based on image analysis technologies that utilize AI, and it will be used in various industries and fields.

Business overview

DX solutions centered on HCTech



Source: Company's financial results briefing materials

Overseas IT business making progress with business reconstruction

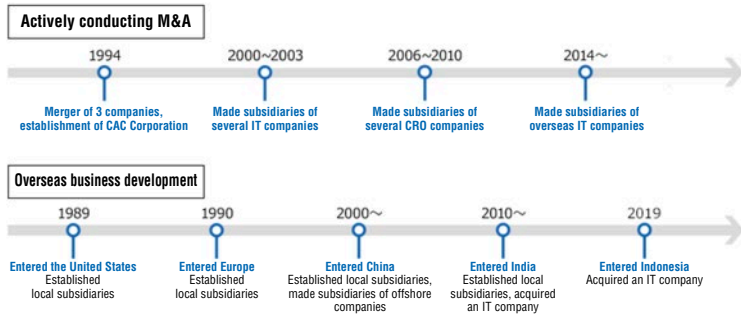
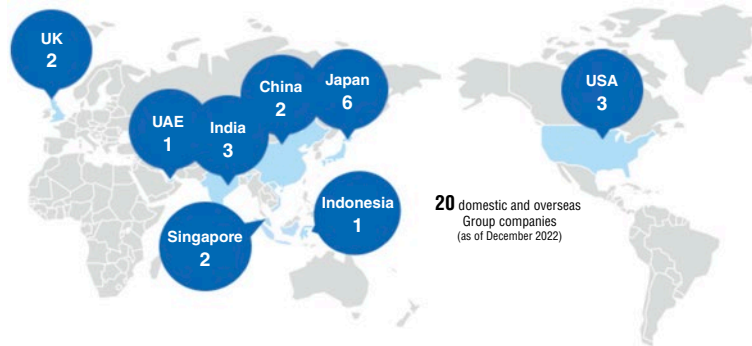
2. Overseas IT business

The Company conducts overseas IT business mainly through its subsidiaries in India and Indonesia where its business is large-scale, and provides systems development and integration services, systems operation and management services, and maintenance services.

The Company ascertained at an early stage that overseas markets were a growth frontier, including that it entered overseas markets during the 1970s in advance of other companies. Due to actively conducting M&A and other measures, overseas sales expanded to ¥11,743mn in FY12/17. However, while pursuing rapid expansion in scale, an acquired company unexpectedly incurred losses and the segment was forced to record a loss of ¥600mn in FY12/17. Subsequently, in 2019, the Company made a wholly owned subsidiary of Mitrais, a Singaporean software company with a track record in Indonesia and Australia (strengths include agile development methods that are effective for developing systems in a short period of time, which is required in the DX age). Due to making a wholly owned subsidiary (hereafter, "Indonesian subsidiary"), the overseas IT business reported segment income of ¥445mn in FY12/20, returning to profitability. In FY12/21, sales decreased as the Company embarked on business restructuring of Inspirisys Solutions Limited (formerly, AFL; listed on the Stock Exchange of India; hereafter, "Indian subsidiary"), which had been subject to a persisting slump. Overseas sales of ¥9,507mn were 81% of peak levels, and segment profit was ¥303mn. In FY12/22, sales benefited from further yen depreciation and the strong performance of the Indonesian and Indian subsidiaries, and profit was positively impacted by the improved profitability of the Indian subsidiary. As a result, overseas sales rose ¥21.6% YoY to ¥11,565mn and segment profit increased significantly, by 134.5% to ¥711mn.

Business overview

A global network and history of overseas business development



Note: As of December 31, 2022, there are 20 domestic and overseas Group companies
 Source: Company website

The Company’s overseas IT business has been advancing from the stage of focusing on global support for its Japanese customer companies and the offshore utilization of overseas Group companies to the stage of focusing more on local markets with a main focus on Asia-Oceania.

In this business, the focus is particularly on the Company’s Indian subsidiary and Indonesian subsidiary. Although the Company’s Indian subsidiary is in the process of carrying out business structural reforms largely prompted by the COVID-19 pandemic, it has retained excellent customers in regions such as the US, the UK and the Middle East, including financial and government-related institutions in its home country of India. Moreover, it has potential with respect to its role of serving as a bridge to local markets overseas. On the other hand, the Company’s Indonesian subsidiary has been steadily achieving business expansion led by business targeting Australia, and has been steadily gaining an increased presence in the overseas IT business. In FY12/22, the Indian subsidiary posted a slight loss, but the loss is expected to be eliminated from FY12/23 as a result of business restructuring. As such, we will keep an eye on the Company’s strategy of tapping local overseas markets centered on both subsidiaries.

Results trends

Financial performance significantly exceeded initial projections of consolidated results for FY12/22. Further improvement achieved with respect to financial stability

1. FY12/22 consolidated results

In the FY12/22 consolidated results, net sales increased 0.1% YoY to ¥47,971mn, operating income decreased 13.8% to ¥3,187mn, ordinary income declined 13.9% to ¥3,158mn, and profit attributable to owners of parent decreased 15.4% to ¥2,093mn. The initial results forecasts were net sales of ¥45,000mn (down 6.1% YoY), operating income of ¥3,000mn (down 18.9%), ordinary income of ¥2,900mn (down 20.9%), and profit attributable to owners of parent of ¥2,000mn (down 19.2%). Removing the CRO business from the scope of consolidation was expected to impact net sales by ¥4,841mn and operating income by ¥812mn, which is why the Company forecasted a decrease in revenue, but revenue increased thanks to the solid performance of the domestic IT business. In addition, operating income decreased, but it came in above the initial forecast.

FY12/22 consolidated results

	FY12/21		Forecast	FY12/22			
	Results	% of sales		Results	% of sales	YoY	Vs. forecast
Net sales	47,935	100.0%	45,000	47,971	100.0%	0.1%	6.6%
Cost of sales	36,036	75.2%	-	36,370	75.8%	0.9%	-
Gross profit	11,899	24.8%	-	11,601	24.2%	-2.5%	-
SG&A expenses	8,201	17.1%	-	8,414	17.5%	2.6%	-
Operating income	3,697	7.7%	3,000	3,187	6.6%	-13.8%	6.2%
Ordinary income	3,668	7.7%	2,900	3,158	6.6%	-13.9%	8.9%
Profit attributable to owners of parent	2,476	5.2%	2,000	2,093	4.4%	-15.4%	4.7%

Source: Prepared by FISCO from the Company's financial results

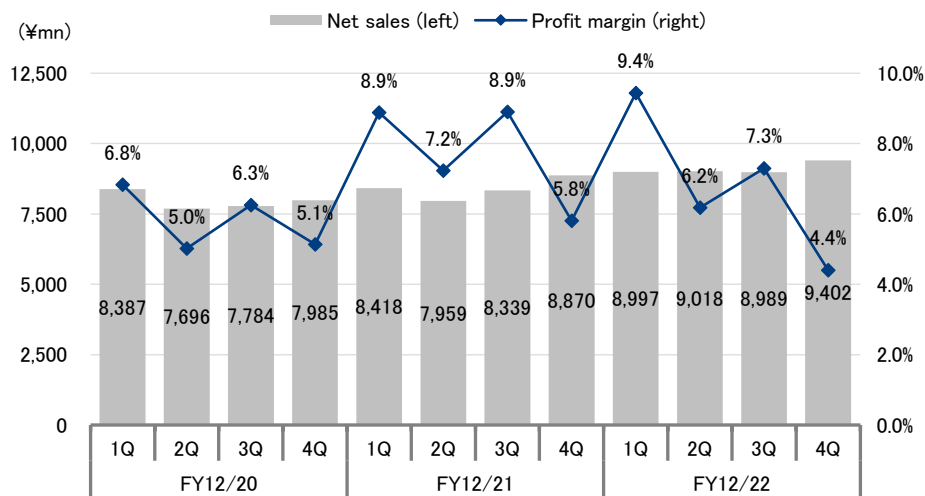
By segment, in the domestic IT business, net sales increased 8.4% YoY to ¥36,406mn and segment profit declined 4.1% to ¥2,476mn. The Company allocates corporate expenses based on net sales, so with its withdrawal from the CRO business, the portion of corporate expenses expected to continue to be incurred until FY12/23 (approx. ¥0.5bn for the year) was a factor in the decline in profit in this business. At the same time, sales continue to grow, system projects for the pharmaceutical industry, financial industry and others were steady, and an increased engineer utilization rate also was also a factor alongside the increase in sales. As a result, the Company achieved a major increase in profit. Factors that include an increase in orders for more new customers culminated in strong performance in the domestic IT business in terms of an 8.7% YoY increase in orders received in FY12/22 and a 12.1% YoY gain in order backlog at the end of FY12/22.

In the overseas IT business, net sales increased 21.6% YoY to ¥11,565mn and segment profit increased 134.5% to ¥711mn. Along with the yen's depreciation on foreign exchange markets, the Indian and Indonesian subsidiaries performed well, which led to the increase in sales. With regard to profit, a smaller loss at the Indian subsidiary was a contributing factor. The overseas IT business achieved a 20.4% YoY increase in orders received in FY12/22 and a 11.8% YoY gain in order backlog at the end of FY12/22.

Results trends

Looking at quarterly results trends in the domestic IT business and overseas IT business, the strong performance of the domestic IT business is evident. Quarterly sales from the domestic IT business increased YoY for the tenth consecutive quarter, a trend that started with the third quarter of FY12/20, and momentum continues to build. At the same time, the quarterly segment profit margin appears to have slumped somewhat in FY12/22, but the large amount of corporate expenses being temporarily allocated to the domestic IT business due to having withdrawn from the CRO business is playing a part, so it can be surmised that the situation excluding this impact continues to be good.

Trends in net sales and the segment profit margin in the domestic IT business

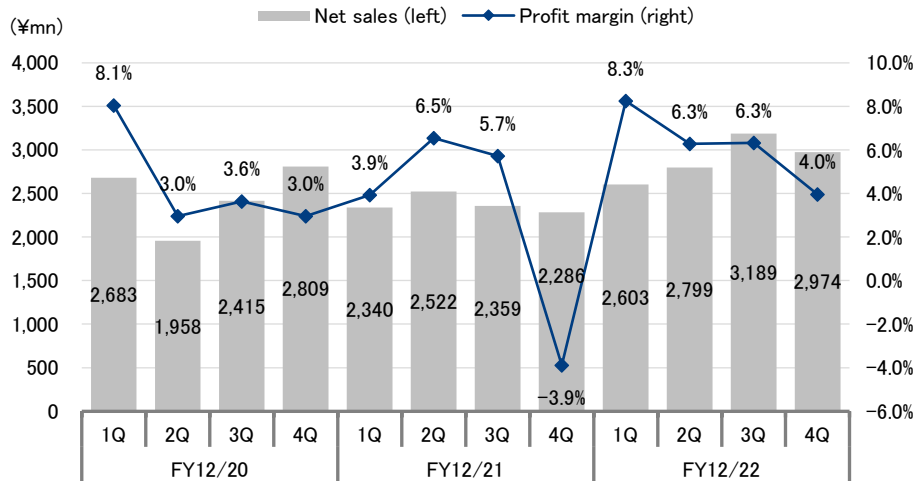


Source: Prepared by FISCO from the Company's financial results

Quarterly net sales of the overseas IT business have been in a volatile state amid recurring ups and downs on a YoY basis due to the prolonged nature of COVID-19 and business structural reforms of the Indian subsidiary. Specifically, net sales of the overseas IT business in FY12/21 were down 12.8% in 1Q, up 28.8% in 2Q, down 2.3% in 3Q, and down 18.6% in 4Q. Segment profit was in positive territory from 1Q through 3Q FY12/21, but came in at a loss in 4Q for the first time in eight quarters. However, this loss strongly reflects the business restructuring at the Indian subsidiary, and the situation improved in FY12/22. The Indian subsidiary's segment loss contracted from approximately ¥300.0mn in FY12/21 to around ¥30.0mn in FY12/22, so the Company is expected to return to black ink at an early date.

Results trends

Trends in net sales and the segment profit margin of the overseas IT business



Source: Prepared by FISCO from the Company's financial results

Steered to a financial strategy that prioritizes capital efficiency through enhancing the financial base

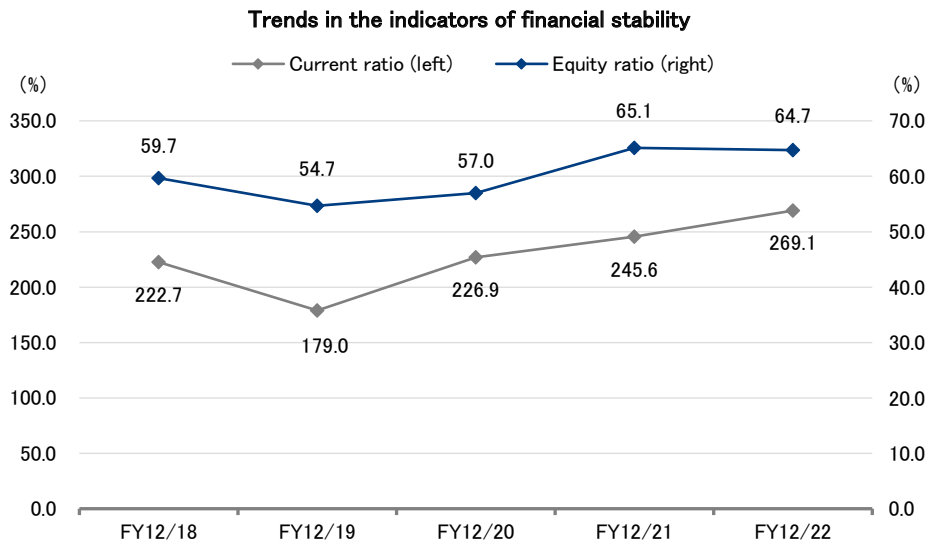
2. Financial condition

Looking at the trends in the typical indicators of financial stability, we see that the equity ratio edged down from 65.1% at the end of FY12/21 to 64.7% at the end of FY12/22, the current ratio increased from 245.6% to 269.1%, and net cash (cash and deposits less interest-bearing debt (excess cash if positive)) improved from ¥7,854mn to ¥9,885mn. Net cash is steadily increasing, and net cash in the broad sense—adding in ¥1,300mn in securities included in current assets and ¥14,543mn in investment securities included in fixed assets—has reached ¥25,728mn. This is 77.6% of the Company's market capitalization of ¥33,154mn as of March 10, 2023, so the Company bears watching as a value investment.

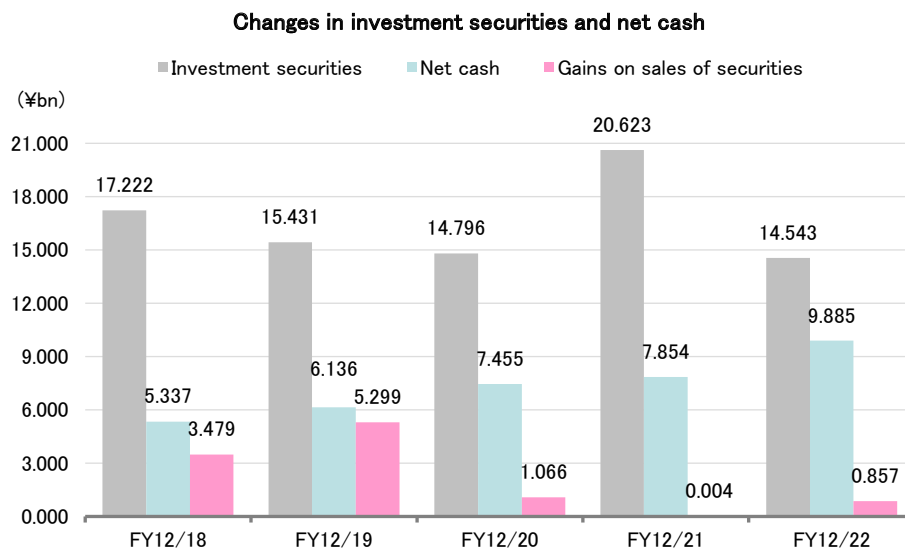
In the last few years, the Company has continuously sold the shares of Recruit, which have a low acquisition book value, and while supplementing the financial foundation, it has conducted M&A and business structural reforms. In FY 12/19, from perspectives including improving capital efficiency, it decided to sell 2,000,000 shares (total price: ¥5,970mn, gain on sale: ¥5,291mn) in a single batch, in FY12/20, it sold only 150,000 shares and sold none in FY12/21. The Company appears, however, to have sold shares in FY12/22, with the gain on sale being around ¥800mn.

With the strong performance of the domestic IT business, the Company continued to enhance its financial base in FY12/22. In addition, it is worth noting that the Company managed to retain Recruit shares to serve as a financial resource for facilitating its growth strategy going forward (holdings of 1,719,000 Recruit shares with a fair value of ¥11,984mn at the end of FY12/22).

Results trends



Source: Prepared by FISCO from the Company's financial results



Source: Prepared by FISCO from the Company's financial results

Results trends

Simplified consolidated balance sheet

	FY12/20	FY12/21	FY12/22	Change
	(¥mn)			
Current assets	22,915	21,804	24,758	2,954
Cash and deposits	10,125	10,532	12,491	1,959
Notes and accounts receivable – trade and contract assets	9,796	8,568	9,287	719
Non-current assets	21,650	25,457	19,454	-6,003
Property, plant and equipment	2,362	1,313	1,489	176
Intangible assets	1,895	1,679	1,856	177
Investments and other assets	17,392	22,464	16,108	-6,356
Total assets	44,565	47,261	44,213	-3,048
Current liabilities	10,098	8,879	9,199	320
Notes and accounts payable - trade	3,661	2,701	3,172	471
Short-term loans payable	670	678	606	-72
Non-current liabilities	8,230	6,982	5,713	-1,269
Bonds payable, convertible bonds	0	0	0	0
Long-term loans payable	2,000	2,000	2,000	0
Total liabilities	18,329	15,862	14,912	-950
(Interest-bearing debt)	2,670	2,678	2,606	-72
Total net assets	26,236	31,398	29,300	-2,098

Source: Prepared by FISCO from the Company's financial results

Business outlook

The FY12/23 consolidated results forecasts are for operating income to increase 3.5% YoY

For the FY12/23 consolidated results, the Company is forecasting that net sales will increase 4.2% YoY to ¥50,000m and operating income will rise 3.5% to ¥3,300mn. Forecasts by segment call for net sales to increase 1.6% to ¥37,000mn and segment profit to edge up 0.9% to ¥2,500mn in the domestic IT business, and net sales to increase 12.4% to ¥13,000mn and segment profit to rise 12.5% to ¥800mn in the overseas IT business. Consolidated subsidiary CAC MARUHA NICHIRO SYSTEMS is slated to be removed from the scope of consolidation in April 2023, and FISCO estimates that this will impact net sales by ¥1.5-1.6bn and operating income by ¥20-30mn. On a real basis, excluding the above factor, net sales from the domestic IT business are expected to grow steadily. In addition, in the overseas IT business, revenue is projected to increase by a large margin owing in part to a recovery at the Company's Indian subsidiary. The foreign exchange rate assumed for the Company's results forecasts for its overseas IT business is ¥140 = US\$1 (it was ¥130 = US\$1 for FY12/22 results).

FY12/23 financial results forecast

	FY12/22	FY12/23 E	Change	YoY
	(¥mn)			
Net sales	47,971	50,000	2,029	4.2%
Operating income	3,187	3,300	113	3.5%
Ordinary income	3,158	3,200	42	1.3%
Profit attributable to owners of parent	2,093	2,200	107	5.1%
EPS (¥)	123.60	129.39	5.79	4.7%

Source: Prepared by FISCO from the Company's financial results

Strengths and issues

Greatest strength is its “transformational power”

1. Its strengths are its “corporate culture,” “customer base,” and “financial structure” that support its “transformational power”

What is apparent when considering the Company’s history, business description, and results trends is that its greatest strength is its “transformational power,” meaning its ability to transform itself (corporate reforms) according to societal needs and issues that change with the times.

It is not content with growing as an independent, specialist software company, and it has continued to transform itself, while interweaving “business structural reforms through selection and concentration” with “business expansion through M&A.” The aspects supporting this “transformational power” are “a corporate culture of positively taking on challenges (management’s intention),” “an excellent customer base as the core of business expansion,” and “a solid financial structure that makes possible a flexible financial strategy.”

We estimate that it is precisely because the Company has a clear mission and purpose (management philosophy) of being “customer oriented and emphasizing CSV,” that a corporate culture has taken root within it that is based on “taking on challenges,” which is necessary to achieve its goals. It has continued to expand its business and grow by “taking on challenges,” including successes related to entering overseas markets in the overseas IT business in advance of other companies and entering the BPO business and CRO business domains and expanding this business. This ability to “take on challenges” can be considered a benefit of its good relations with the “excellent customer base” it has built as Japan’s first independent Sler. In other words, its “excellent customer base” creates the seeds for “taking on challenges.”

In addition, it is the Company’s “solid financial structure” that supports its M&A strategy, rapid business structural reforms, and stable returns to shareholders. The reason why it has held a large amount of Recruit shares up to the present time is likely because Recruit is an important business partner, but the Company also has a track record of selling its Recruit shares as necessary to build a solid financial structure. This is a good example of how the Company benefits from its good relationships with customers.

2. The challenge is how to improve profitability

The CAC Vision 2030 long-term vision states that the Company seeks to transform itself into a digital solutions provider that achieves high profitability and substantial growth. In other words, when drawing up its long-term vision, the Company endeavored to strike a balance between profitability and growth, which presumably indicates that it is opting for a transition to a business model oriented to increasing returns from a labor-intensive business model as a means of addressing such aims. Although the Company’s aspiration of taking on new challenges will be no easy feat, such efforts will serve as a test of its “transformational power.” We will focus our attention on specific business strategies launched by the Company from this point forward.

■ Progress of medium-to long-term strategy

Clarified the financial indicators and dividend policy to be pursued in Phase 1. For FY12/23, the dividend is expected to increase by ¥20.00 to ¥80.00

1. Articulating values shared amongst all employees of the Company upon establishing the long-term vision in February 2022

In February 2022, the Company released its CAC Vision 2030 long-term vision and its new Medium-Term Management Plan. CAC Vision 2030 has been drawn up with the primary aim of aligning the vectors of the Group's operations by formulating and sharing the kind of Group it wants to be 10 years from now and the direction it must head, based on its corporate philosophy (Our Mission) of "creating new value on a global level enlisting the latest information and communications technologies."

Particularly worth noting with respect to the CAC Vision 2030 is the manner in which it articulates the corporate vision for the medium to long term and the values that are to be shared amongst all employees of the Company. The Company cites as its vision the notion of "evolving into a corporate group that consistently makes a positive impact on society with technologies and ideas." Meanwhile, the values consist of the Five Values: 1) Creativity: Valuing ideas and thinking unbound by preconceptions, 2) Humanity: Living in a human way with the greatest emphasis on humanity, 3) Challenge: Continuing to attempt new challenges without fear of failure, 4) Respect: Respecting others and never forgetting our sense of gratitude, and 5) Pride: Believing in the efforts of our colleagues and ourselves, and producing results that we can be proud of with respect to society. We deem that the vision and the values will make sense to the employees in that both elements provide consistency in terms of seeking to take on challenges of value creation enlisting information and communications technologies, and in terms of the Company's history of serving as a typical CSV (creating shared value; social contribution through business) corporate group that is customer oriented.

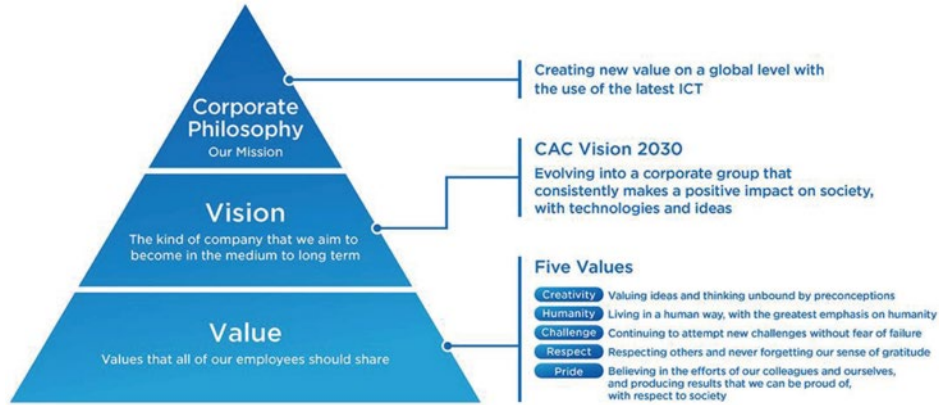
Meanwhile, the Company shared its CAC Vision 2030 in-house prior to its public release heading toward the end of 2021. President & CEO Nishimori explained the vision directly to all employees in online conferences. Meanwhile, face-to-face briefings for executives were held on several occasions with time set aside for Q&A sessions. One might think it would be the norm for the president himself to address all employees regarding how the Medium-Term Management Plan reflects his aspirations, but that often ends up not being the case. As such, the notion that the president arranged these briefings seems to indicate the importance the Company attaches to CAC Vision 2030. Meanwhile, replies to questionnaires administered in response to the in-house briefings indicate that employees have a positive impression of CAC Vision 2030 overall with respect to its 10-year vision and its strategic direction. As such, CAC Vision 2030 has potential not only in terms of aligning vectors of the Group's operations, but also with respect to enhancing employee engagement.

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Progress on medium-to long-term strategy

Corporate philosophy denoted in CAC Vision 2030



Source: Company's financial results briefing materials

2. Seeking to build a new business model for 2022–2025

Under CAC Vision 2030, the Company has established quantitative targets for FY12/25 with respect to achieving net sales of ¥58bn, operating income of ¥5bn, an operating margin of 8% or higher, and ROE of 10% or higher, with the years 2022–2025 (the period covered by the Medium-Term Management Plan) positioned as Phase 1 devoted to building a products and services platform (building of framework and business platform for facilitating ongoing establishment of new businesses). The Company ultimately seeks to transform itself into a digital solutions provider that achieves high profitability and substantial growth amid Phase 2 of its plan for achieving substantial growth over the years 2026-2030.

The Company defines “digital solutions” as constituting a combination of digital products and services (consulting and support) that lead the way to addressing customer challenges. The digital solutions business seemingly enlists a business model oriented to fixed costs and increasing returns whereby it is possible to establish pricing in-house, which is in contrast to the outsourcing services business thus far enlisting a business model oriented to variable costs and a labor-intensive approach whereby pricing is set passively in units of man months in alignment with customer requirements.

In terms of the FY12/21 financial results, excluding those of the CRO business, the Company posted net sales of ¥43,094mn, operating income of ¥2,885mn, and operating margin of 6.7% and ROE of about 6.2%. The Company will not have an easy time achieving its quantitative targets for the final fiscal year of phase 1 in FY12/25, four years from now (net sales of ¥58bn, operating income of ¥5bn, an operating profit margin of 8% or higher, and ROE of 10% or higher), but it is possible if management keeps control of SG&A expenses, even assuming the outsourcing services business with just a 25% gross margin being the main driver of growth. We reckon that the Company must transition to the business model oriented to fixed costs and increasing returns if it is to achieve an operating profit margin of 15% or higher, which the Company envisions for FY12/30.

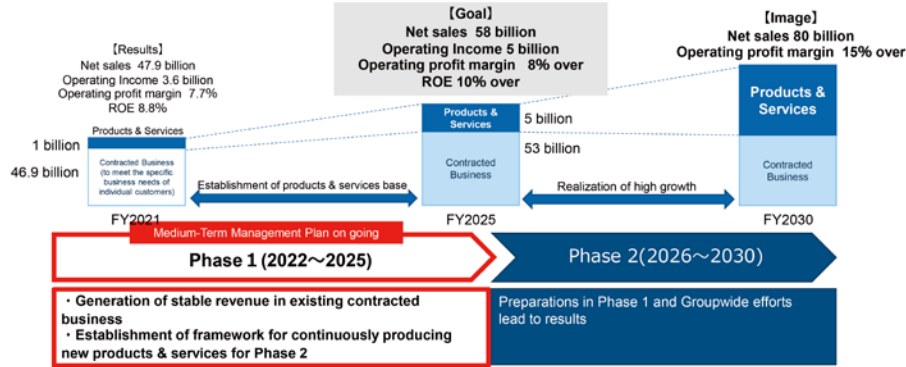
In its outline of the Medium-Term Management Plan, the Company indicates that it intends to use up approximately ¥15bn over the phase 1 to business investment and promoting human resources with the aim of building a new business platform. The Company's restructuring efforts in January 2022 involved establishing the Strategic Investment Committee, New Business Promotion Division, and R&D Center Department, and also working out specific investment projects and products strategies on a daily basis. We will initially keep an eye on progress the Company achieves in carrying out its structural reforms in the overseas IT business. We will also monitor developments with respect to investment as such initiatives materialize going forward.

We encourage readers to review our complete legal statement on “Disclaimer” page.

Progress on medium-to long-term strategy

Quantitative depiction of the CAC Vision 2030 timeline
 Transform into a **high profit, high growth Digital Solutions (*) Provider** for achievement of CAC Vision 2030

*Combination of digital products and services (consulting and support) to lead the way in solving customer issues



Source: Company's financial results briefing materials

Outline of Medium-Term Management Plan (Phase 1: 2022-2025)

Period for earning stable revenue in existing contracted business and for building framework for continuously producing new products & services in preparation for phase 2

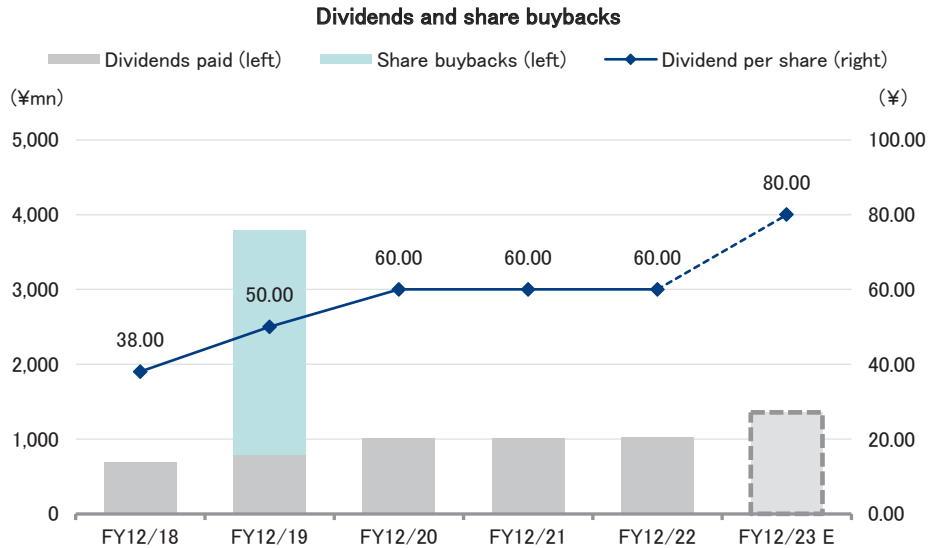


Source: Company's financial results briefing materials

3. Completed initial year of Medium-Term Management Plan

The Company clarified the financial indicators and dividend policy it will pursue in Phase 1 of its Medium-Term Management Plan. Its three new targets for FY12/25 are 1) ROE of 10% or higher, 2) an equity spread (ROE in excess of shareholders' equity) of 2.5% or higher, and 3) DOE of around 5%. Focusing on the equity spread, an indicator aimed at high capital efficiency, the Company will work for 1) ROE of 10% or higher and 2) an equity spread of 2.5% or higher on the assumption of shareholder equity costs of around 7.5%. In addition, as an indicator that clarifies its policy on shareholder returns, the Company is targeting 3) DOE of around 5%. It will aim to maintain internal reserves for future growth and provide a stable dividend to shareholders on a continuing basis. Based on these policies, the Company increased its annual per-share dividend for FY12/23 by ¥20.00 YoY to ¥80.00. It has made DOE a dividend indicator, so if performance continues to improve, a stable dividend based on ¥80.00 annually can be expected. The Company's dividend yield will reach close to 5%, and considering the large amount of financial assets it holds, including stock in Recruit, it bears watching as a value investment.

Progress on medium-to long-term strategy



Source: Prepared by FISCO from the Company's financial results

New clarification on financial indicators and dividend policy to be pursued in Phase 1 of Medium-Term Management Plan

FY2025 target		
	ROE	10% or higher
	Equity spread	2.5% or higher
	DOE	Around 5%

Indicator aimed at high capital efficiency
Equity spread of 2.5% or higher
 shareholder equity costs based on its sturdy financial foundation, the Company is aiming to generate an equity spread (ROE in excess of shareholder equity costs) of 2.5% or higher. It assumes shareholder equity costs of around 7.5%.

Indicator that clarifies shareholder return policy
DOE of around 5%
 The Company's policy is DOE of around 5% as it aims to maintain internal reserves for future growth and provide a stable dividend to shareholders on a continuing basis.

Source: Company's financial results briefing materials

In Phase 1 of its Medium-Term Management Plan, the Company is putting particular focus on “building a framework for continuously producing new products & services.” Net sales in FY12/22 from these new products & services increased ¥0.3.bn to just ¥1.3bn, so the services the Company has traditionally provided still account for the lion's share of its sales. Going forward, the Company intends to strengthen sales and marketing, where resources have been thin, while also considering utilizing outside resources through M&A as it works to achieve its targets in the final year of the plan. However, the details of how it will utilize business investment to achieve these targets is an issue. The Company has ¥15.0bn in investment capital. Along with funds acquired from existing businesses, it will utilize cash and deposits, investment securities, and also borrowings. This investment capital will be used not only for shareholder returns; it plans to commit around ¥6.5bn to human resources investment and around ¥10.0bn for M&A and new business investment. However, FISCO believes the Company needs to place emphasis on investing in the resources it lacks internally through actively hiring professionals in corporate planning for M&A and other such activities, including the CVC investment currently underway (approx. ¥5.5bn invested as of December 31, 2022).

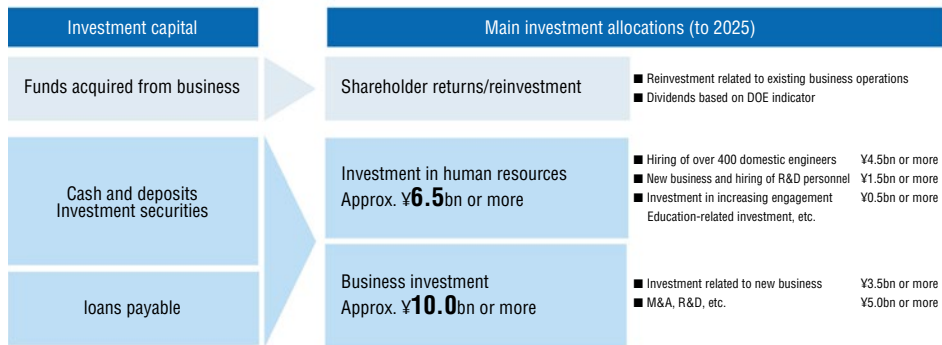
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Progress on medium-to long-term strategy

Promoting business investment of ¥15.0bn

Cash allocation included in current Medium-Term Management Plan

- ✓ Utilize financial assets for investment in human resources and new businesses focused on by the Group
- ✓ For financial assets, the Company will utilize its securities. This will be tied to reducing cross-shareholdings as well.



Source: Company's financial results briefing materials

Initiatives of Medium-Term Management Plan

Category	Initiative	Progress
Growth strategy: Promote products & services business	Launch new businesses on a continuing basis Build framework and business platform	<ul style="list-style-type: none"> • Reorganized sales and marketing, development systems, internal procedures, etc. • 330 new ideas generated, two new services launched (Two services planned for launch in FY2023, as of February 2023)
	Acquire co-creation partners	<ul style="list-style-type: none"> • 15 projects considered; one accomplished, 12 in progress
	Promote business investment	<ul style="list-style-type: none"> • Clarified assets (capital of ¥15.0bn) and investment allocations • M&A projects attempted but not yet realized
Growth strategy: Promote existing contracted business	Take advantage of good market conditions and achieve growth while autonomously enhancing internal reserves	<ul style="list-style-type: none"> • Strengthened hiring for domestic IT business: 94 new graduates (up 40% YoY) and 72 mid-career hires (up 11%) • M&A projects attempted but not yet realized
Reorganization of unprofitable businesses	Reorganization of some overseas businesses	<ul style="list-style-type: none"> • Restructuring projects at overseas subsidiaries currently underway
Improvement of management efficiency	Reducing fixed assets and streamlining	<ul style="list-style-type: none"> • Reduced head office area, etc. to cut ¥1.0bn in costs over two years starting in FY2024

Source: Prepared by FISCO from the Company's financial results briefing materials

ESG

Promoting initiatives to increase the Company's non-financial value with contributions to society at the core

1. Boccia support ongoing since 2016

With the IT business serving as its main business pillar, the Company is a typical CSV-type corporate group that solves problems facing society through its main businesses. Since 2016, it has been continuously engaging in activities to encourage participation in and support of boccia, which is a sport for people with disabilities. In so doing, the Company places emphasis on the employees conducting planning and implementation, above and beyond merely providing financial support.

ESG

Boccia is a sport proposed for people with disabilities that is spreading throughout the world (officially adopted into the Paralympics in 1988), and requires strategy that can be enjoyed by all, including those with and without a disability, young and old, men and women, and in the East and West. Considering this feature, the Company has not only adopted an in-house boccia curriculum for new employee and Company-wide training, but has also made it possible to provide employees' families and others with opportunities to experience boccia. Today, practically every member of the Group has experienced boccia, and even during the COVID-19 pandemic, the Group has continued to work on measures such as holding online classrooms over Zoom and disseminating information via SNS. Amid prevailing difficulties in holding physical events due to the COVID-19 pandemic, the Company has continued to provide support in a manner distinctive to an IT company, which has involved free provision of Boccia Measure, its in-house developed Android smartphone app, for measuring the distance between boccia balls through Google Play.

The Company has been highly evaluated for these achievements, and the Metropolitan Tokyo Government has certified it as a Sports Promotion Company in Tokyo for seven consecutive years. In March 2021, it received an award for being a "Model Company for Sports Promotion in Tokyo" in which approximately 10 companies are selected every year.

The Company's measures for boccia go beyond the framework of encouraging participation and support, and include facilitating communication among Group employees and improving their awareness of social contribution. Therefore, it is considered that the reason the Company selected supporting boccia as a commemorative event for its 50th anniversary of foundation and continuing this activity is its idea of improving non-financial value, which it calls "invisible assets."

2. The Company's workstyle reforms have achieved further progress amid the COVID-19 pandemic

The CAC Group is implementing workstyle reforms with the aims of achieving both "productivity improvements and cost reductions" and "comfortable work environments." Specifically, since 2011, it has promoted measures including utilizing IT tools such as for creating systems for workflows and online meetings and shifting to paperless operations. In 2012, it established a teleworking environment and a system to conduct work "anytime, anywhere, and with anyone" and introduced a free-address (hot desking) system for the floors of the sales and administrative departments and made it possible to work from home. In addition to this, it has established diverse workstyles tailored to individuals so they can achieve a work-life balance, and as a result, the Ministry of Internal Affairs and Communications included CAC Corporation, the core business company, in its 100 Teleworking Pioneers in 2016.

During the COVID-19 pandemic also, the Company has further progressed its workstyle reforms. Following the governor of Tokyo's urge for self-restraint and the Japanese government's declaration of a state of emergency in the spring of 2020 due to COVID-19, the core business company CAC Corporation has been actively promoting remote work and has reduced the ratio of employees working at the head office by approximately 20% compared to normal times, and it has succeeded in continuing to conduct business without any major disruptions. In July 2020, it introduced a work-at-home allowance (¥5,000/month) and a workstyle selection system (home or office). Given that CAC has been successfully maintaining operations with fewer than 50% of its employees working on-site Company-wide (including those stationed with customers) from August 2021 onward, we will pay close attention to the Company's workstyle reforms going forward, under which the Company aims to strike a balance between "productivity improvements and cost reductions" and "comfortable working environments."



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