COMPANY RESEARCH AND ANALYSIS REPORT

CAC Holdings

4725

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FISCO Ltd. Analyst
Yoshihiro Maeda

FISCO Ltd.
https://www.fisco.co.jp

Index

Summary

An IT and healthcare group whose strength is transformational power. Aiming to establish a high-earnings model based on a management strategy in which strengthening governance is the top priority

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. It expanded its business domain through an active M&A strategy, and today, it has become an IT and healthcare group that is aiming to take a dramatic leap forward in its overseas business (it conducts business through 20 consolidated subsidiaries and 2 equity-method affiliates under the holding company).

It has three reportable segments: the domestic IT business (including systems development and integration services, systems operation and management services, and human resource (HR) BPO at domestic subsidiaries), overseas IT business (such as systems development and integration services, systems operation and management services, and maintenance services at overseas subsidiaries), and CRO business (outsourcing and agency services for clinical trial operations at the time of drug development by a pharmaceutical company and operations after the drug's manufacture and sale). Also, in FY12/19, in order to realize prompt decision-making and the mobile implementation of business, the existing businesses were divided into four domains and one new business domain was added, establishing a total of five business domains.

2. FY12/20 consolidated results were in line with the initial forecasts even during the coronavirus pandemic

In the FY12/20 consolidated results, net sales decreased 4.2% year on year (YoY) to ¥48,539mn, operating income increased 48.2% to ¥1,948mn, ordinary income rose 51.8% to ¥1,909mn, and profit attributable to owners of parent grew 11.3% to ¥1,669mn. Compared to the initial results forecasts (net sales of ¥52,000mn (up 2.6% YoY), operating income of ¥2,000mn (up 52.1%), ordinary income of ¥1,900mn (up 51.1%), and profit attributable to owners of parent of ¥1,400mn (down 6.7%)), although there were differences in performance depending on the segment due to the impact of the novel coronavirus pandemic, overall, the results were basically in line with the forecasts.

Also, looking at trends in the typical indicators of financial stability, each had improved at the end of FY12/20 from the end of the previous period, the equity ratio went from 54.7% to 57.0%, the current ratio from 179.0% to 226.9%, and net cash (cash and deposits – interest-bearing debt (excess cash if positive)) from ¥6,136mn to ¥7,455mn.

3. FY12/21 consolidated results forecasts are for sales to increase 5.1% YoY and operating income to rise 33.4%

For the FY12/21 consolidated results, the Company is forecasting that net sales will increase 5.1% YoY to ¥51,000mn and operating income will rise 33.4% to ¥2,600mn. Forecasts by segment call for net sales to decrease 1.1% to ¥31,500mn and segment profit to increase 2.3% to ¥1,900mn in the domestic IT business, net sales to increase 11.5% to ¥11,000mn and segment profit to increase 0.9% to ¥450mn in the overseas IT business, and net sales to increase 24.6% to ¥8,500mn and segment profit to be ¥250mn (compared to a loss of ¥353mn in the previous period, an improvement of ¥603mn) in the CRO business. So the CRO business will play the role of driving the significant increase in profits.

4. Greatest strength is its "transformational power"

We at FISCO believe that the Company's greatest strength is its "transformational power (corporate reforms)," meaning its ability to transform itself in response to societal needs and issues that change with the times.

It is not content with growing as an independent, specialist software company, and recently it has evolved to become an IT and healthcare services company, 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."

5. In the medium-term strategy, which is in its final fiscal year, the point to focus on is that the ROE target has been revised only to a small extent

Following in-depth discussions in the Board of Directors, the Company revised the medium-term strategy Determination 21, which has FY12/18 as its first fiscal year, and republished it in February 2019 (numerical targets revised in February 2020 and February 2021).

As a result of reviewing and clarifying strategies in response to changes in the management environment, the Company has formulated four basic policies in the latest (current) medium-term strategy: 1) Strengthening governance by separating management and execution, 2) Mobile implementation of business with prompt decision-making, 3) Improving capital efficiency and strengthening returns to shareholders, and 4) Promoting value sharing with shareholders. It has also set three priority measures: establish a high-earnings model, strengthen the investment and financial strategy, and strengthen and promote the response to DX (digital transformation). In FY12/21, which is the strategy's final fiscal year, it has indicated a particular focus on establishing a high-earnings model and strengthening and promoting the response to DX.

The FY12/21 numerical targets are net sales of ¥51bn (initially ¥70bn), operating income of ¥2.6bn (¥4bn), ROE of 7% (8%), and a 50% ratio of digital projects among net sales. The net sales and operating income targets have been significantly lowered over two revisions, but for ROE, which was added in February 2019, and the ratio of digital projects among net sales, which was added in February 2020, the former has been downwardly revised only once to a small extent in February 2021, while the latter's initial target has been maintained. This is worthy of attention as it demonstrates the Company's focus on improving capital efficiency and responding strongly to market changes even during the coronavirus pandemic.

6. Is continuing measures to improve non-financial value even during the coronavirus pandemic

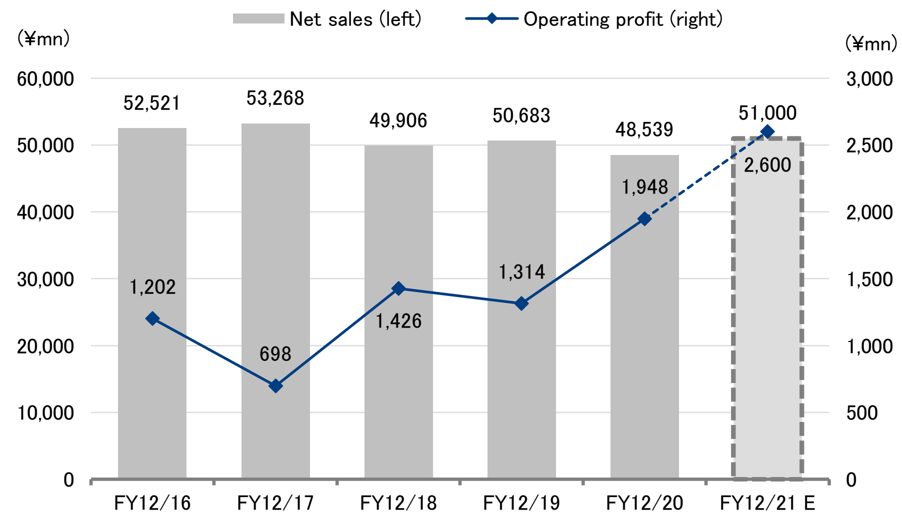
The Company, whose main business pillars are IT and healthcare, is a typical CSV (creating shared value; social contribution through its business) corporate group that solves problems facing society through its main businesses. Since 2016, it has been continuously conducting activities to encourage participation in and to support Boccia, which is a sport for people with disabilities, emphasizing its idea of sincerely working to improve non-financial value.

Even during the coronavirus pandemic, the true value of the Company's workstyle reforms can be recognized. 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 the coronavirus, the core business company CAC Corporation has been actively promoting remote work and has reduced the number of employees working at the head office by approximately 20% compared to normal times, and it is succeeding in continuing to conduct business without any major disruptions. Going forward, we shall be paying attention to the Company's workstyle reforms, which are aiming to achieve both "productivity improvements and cost reductions" and "comfortable working environments."

Key Points

- An independent, pioneering SIer with a history of more than 50 years since its establishment. Currently, it has evolved to become an IT and healthcare services company conducting a domestic IT business, overseas IT business, and CRO business. In FY12/19, it divided the existing businesses into four domains and added one new business domain, establishing a total of five business domains
- 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"
- In the latest medium-term strategy, has set four basic policies, with strengthening governance as the top priority. Also, the numerical targets for its final fiscal year (FY12/21), which were revised in February 2021, are net sales of ¥51bn, operating income of ¥2.6bn, and ROE of 7%
- The Company, which is a CSV-type corporate group, is continuously supporting Boccia and workstyle reforms, emphasizing its idea of sincerely working to improve non-financial value

Results trends



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

Company profile

An independent SIer pioneer that continues to change and evolve. Has actively conducted M&A and overseas business development to become an IT and healthcare group

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.

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 SIer 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 (SIer) 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.

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

Within its domestic IT business, the Company's CRO business has a long history, having acquired major pharmaceutical companies as its leading customers. The Company started input operations for clinical trial data in the 1970s, and then in 1990, at which time the business term "CRO" did not yet exist, it began data management, which is one CRO operation. Therefore, CAC Croit Corporation, which is responsible for the CRO business in the Group, is proud to be "in actual terms, Japan's first CRO."

The Company is also expanding the CRO business by utilizing an M&A strategy. Looking at the CRO-related M&A results since 2006, we see that one company after another has been incorporated into the Group, and that it has expanded its service lineup for drug development support. Starting with Arm Systex Co., Ltd. in 2006, these include Medical Ecology Co., Ltd. in 2007, clinical trust Co., Ltd. in 2009, and the CRO business of Moss Institute Co., Ltd. in 2010. After a period of appropriate organizational consolidation and restructuring in 2016, it founded CAC Croit as a pioneering company that combines CRO and IT, which brings its history up to the present day.

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, it transferred all of the shares in Singaporean company (Accel Systems & Technologies Pte. Ltd., owned by AFL) whose main business is building the cybersecurity systems, and Sierra in 2017. It progressed the reconstruction of the overseas business throughout 2018. In September 2019, it 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 it maintained 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.
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 <1670>, 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.

Date	Event
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	Invested in Affectiva, 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.

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

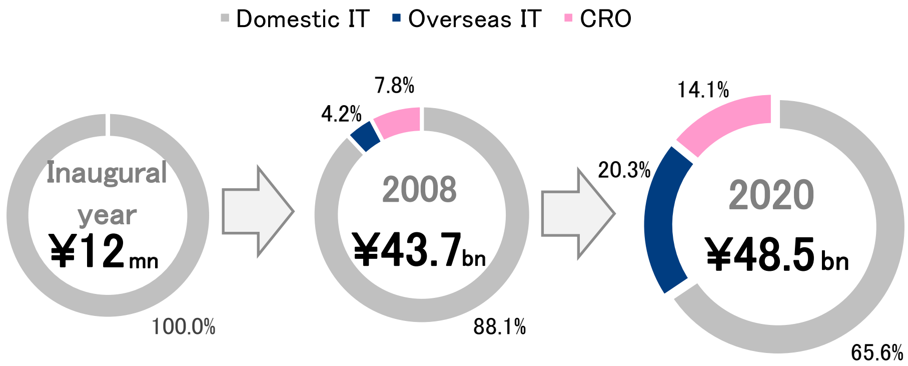
Business description

Conducts the domestic IT business, overseas IT business, and CRO business

In the situation of the Company changing its business portfolio to reflect the needs of the times, it changed its reportable segments in FY12/18, from the previous segments of systems development and integration services, systems operation and management services, and BPO/BTO services to the new segments of the domestic IT business, overseas IT business, and CRO business. It has also been conducting an M&A strategy since FY12/14, and a direct reason for the review of the reportable segments was the fact that net sales from the overseas IT business had reached 20% of total net sales.

Also, in FY12/19, in order to realize prompt decision-making and the mobile execution of business, it divided the existing businesses into four domains (Core ICT Domain, China Domain, India Domain, and Healthcare Domain), and added one new business domain (Future Domain), establishing a total of five business domains.

Trend in the composition of total net sales by reportable segment



Source: Prepared by FISCO from the Company's Annual Report 2020 and financial reports

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

1. Domestic IT business

The domestic IT business, which provides 66% of Company-wide net sales (FY12/20), 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 SIer, 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 around 350 customer companies, and in this situation, it is keeping the prime-contractor rate at around 90% and securing a gross margin at the time of ordering of 25%.

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

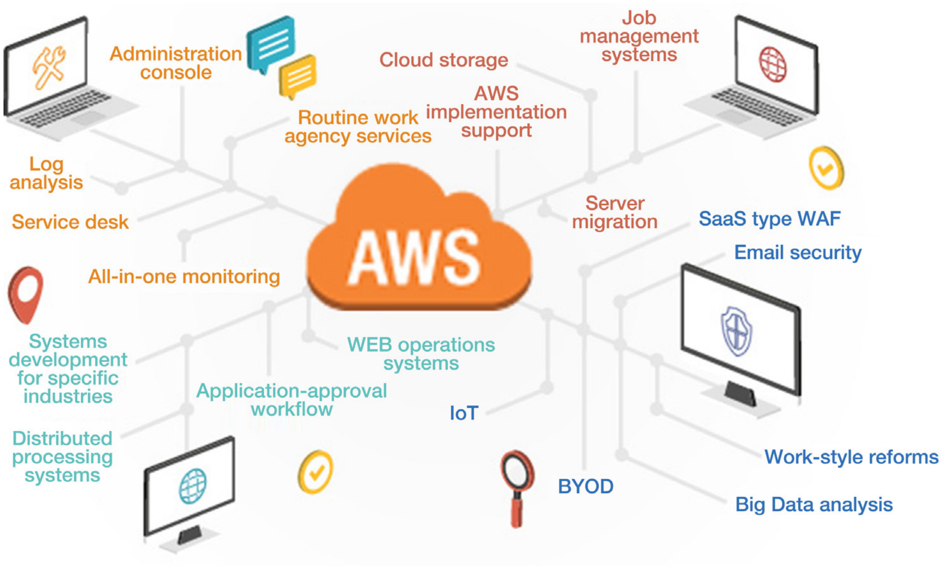
In systems development and integration services, the Company comprehensively develops and integrates companies' information systems, from the planning of information systems through to their design, development, testing, introduction, and maintenance. Among its top-ranking customers in terms of net sales 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.

Also, for AWS (Amazon Web Services), it is focusing on aspects such as systems integration and applications development and has accumulated many achievements as a result of this focus, such as being certified as an APN Advanced Consulting Partner. The Company has also been strengthening its cloud support at a rapid pace since 2012. As a result, it is supporting more than 30 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.

Overall image of Cloud services using AWS



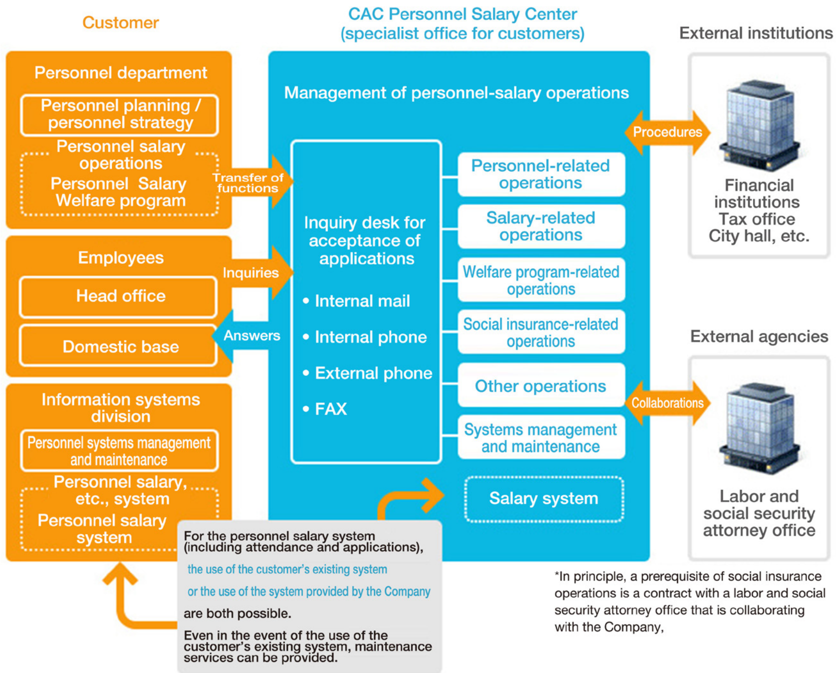
Source: Company website

(3) Human resource BPO services

Human resource (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 July 2019, the Company opened the Nagasaki BPO Center in Nagasaki City, striving for business expansion. 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 base started providing pharmaceutical-related IT services, and from September 2020, it started providing systems development services for financial institutions. So the Company is beginning to develop important nearshore bases in the domestic IT business that go beyond mere BPO centers.

Overall image of HR BPO services



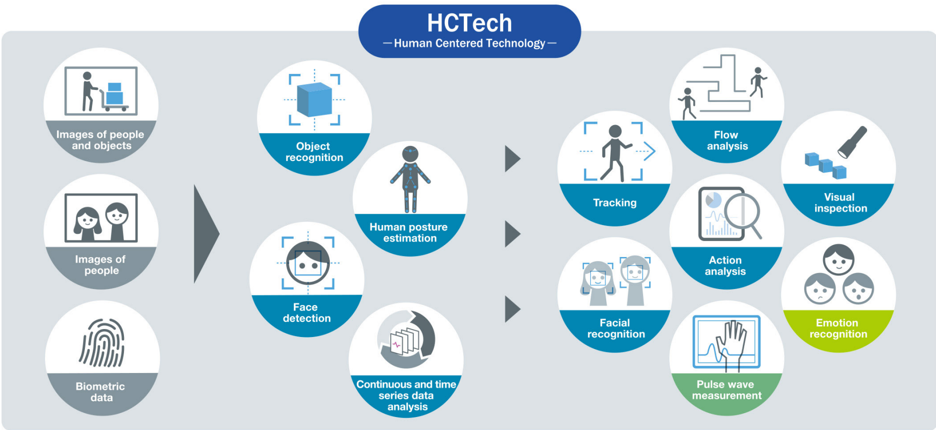
Source: Company website

(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 SIers. 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 "HC Tech (human-centered technology) that utilizes IT to understand people, utilize people, and make people healthy." HC Tech 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.

Main technologies handled by HC Tech



Source: Company's Annual Report 2020

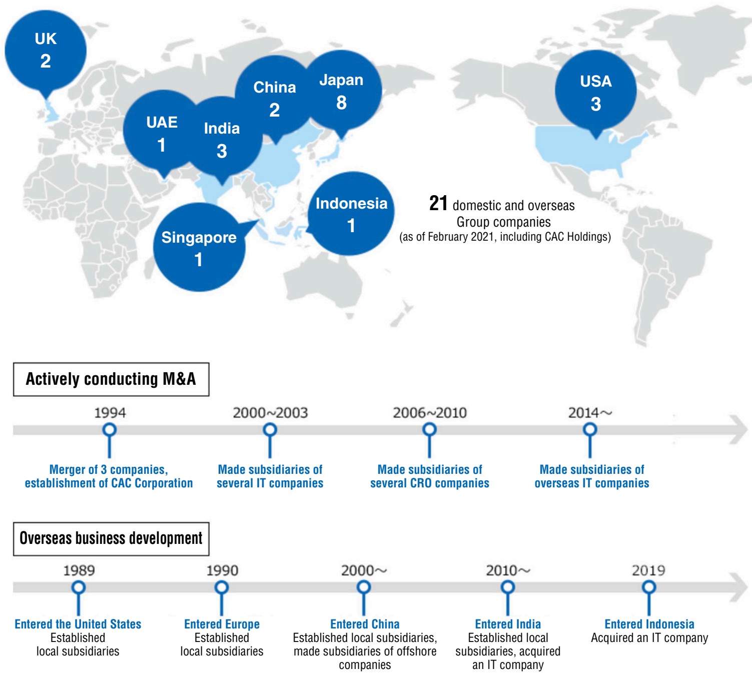
Is developing the overseas IT business based on a solid global structure

2. Overseas IT business

The Company conducts overseas IT business through its 13 overseas Group companies (as of December 31, 2020) and provides systems development and integration services, systems operation and management services, and maintenance services. This business's contribution to total net sales in FY12/20 declined by 1 percentage point (pp) YoY to 20% due to the impact of the coronavirus.

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, the overseas sales ratio had risen to 22% in FY12/17. However, while pursuing rapid expansion in scale, an acquired company unexpectedly incurred losses and business restructuring was conducted in 2017. As a result, in FY12/18, the overseas sales ratio fell to 19%. 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). As a result, segment profit improved significantly to ¥445mn in FY12/20 compared to a loss of ¥600mn in FY12/17. In FY12/21 as well, the forecast is that operating income will increase, and going forward we shall be focusing on the improvement of earnings, which has been an issue for this business.

A global network and history of overseas business development

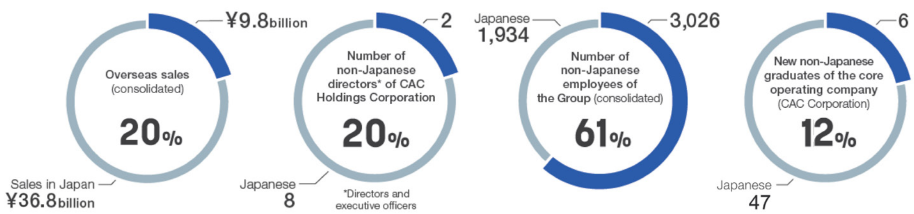


Source: Company website

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 huge local markets, such as India and China. In fact, in 2019, it divided the overseas IT business into three business domains: the Core ICT Domain (Europe and the US), which mainly conducts global support for Japanese companies; China Domain; and India Domain, and is migrating to a system of pursuing business growth in each domain in which the executive officers in charge are responsible for their respective domain. Of these officers, two foreign employees are responsible for the China Domain and India Domain and the percentage of foreign employees in the Group is high at 61%, so the organizational and personnel aspects are in place in order to respond to globalization.

In this business, the focus is particularly on Inspirisys Solutions Limited (formerly, AFL; listed on the Stock Exchange of India), which became a subsidiary in 2014. This is because Inspirisys Solutions Limited has 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 can be highly evaluated for its role of building bridges to open-up local markets overseas. In FY12/20, the future of the Indian economy remained unclear due to the coronavirus, but a recovery is forecast from FY12/21 onwards, and the Company expects this recovery to lead to sales. We shall be paying attention to developments in the future.

Breakdown of overseas net sales and human resources at the end of FY12/20



Source: Revised by FISCO from the Company's Annual Report 2020 and based on interviews

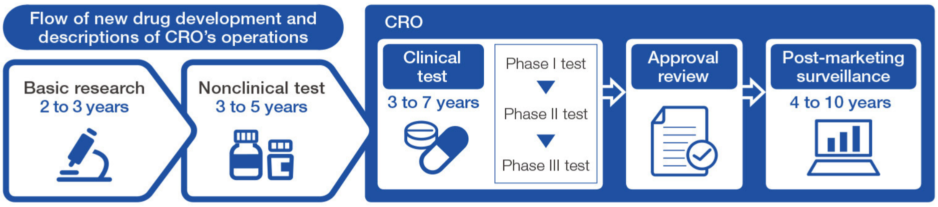
The CRO business will be the second pillar of the CSV-type businesses

3. CRO business

The CRO (contract research organization) business entails conducting clinical trial operations at the time of drug development by the pharmaceutical company and outsourcing and agency services after the drug's manufacture and sale.

This business's contribution to total net sales in FY12/20 was 14.1%, a decline of 7.9pp from FY12/18, the most recent period of strong results (net sales: ¥11,002mn, contribution to net sales: 22.0%), while segment profit also worsened in FY12/20 to a loss of ¥353mn compared to in FY12/18 (profit of ¥693mn). In FY12/21, forecasts call for sales to increase and segment profit to be recorded, but the severe earnings environment itself is continuing, so it will be necessary to monitor developments going forward.

Position of CRO operations in new drug development



Source: Company's annual reports

(1) Slogan of "All you need is CRO × IT"

Direct operations in the CRO business are undertaken by CAC Croit (hereafter, Croit). With the pioneering, independent SIer as the parent organization and under the slogan of "All you need is CRO × IT," it provides comprehensive services from the three directions of operations support, IT, and consulting. The "CRO × IT" approach is expressed in the skill sets of Croit's employees. On the one hand, it employs many specialists such as doctors, pharmacists, and labor and social security attorneys as well as specialist with the skill sets required for CRO operations, including pharmacovigilance, DM and statistical analysis, clinical development, and applications. While on the other hand, it also has many ICT human resources.

Croit provides support to its 140 customer companies in a range of operational fields; specifically, it conducts pharmacovigilance services (contribution to total net sales: around 45%), clinical trial operations (15%), operations after the drug's manufacture and sale (5%) and application-related operations (10%). Among them, it has acquired the leading track record in Japan in terms of results for its mainstay pharmacovigilance services (accumulation of information on the side effects of pharmaceuticals and applications to the authorities) and application-related operations.

(2) Continues to work to improve productivity

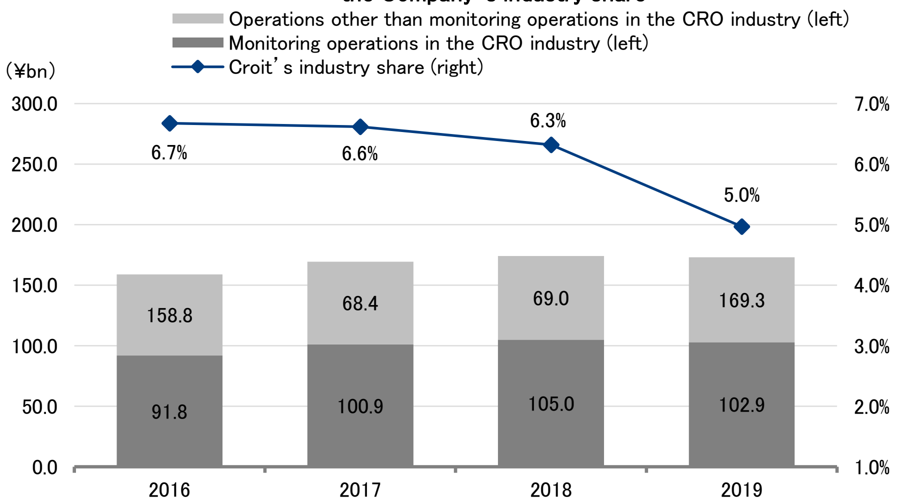
When considering Croit's position in the CRO industry based on the membership data in the Japan CRO Association's Annual Report (2016 to 2019), the following points can be noted: 1) its industry share is trending downward (from 2016 to 2018, it was at a level above 6%, but fell to 5% in 2019) and 2) net sales per capita (¥7mn) are below the industry average (¥10mn).

The point to be aware of here is that monitoring makes up a small portion of Croit's total operations. In monitoring operations, the CRA (clinical research associate) is responsible for a range of work, including visiting the medical institution that is participating in the clinical trial and talking directly with the doctors in charge, explaining the contents of the protocol (trial implementation plan), confirming progress made in the trial, and requesting entries into the trial tables and collecting and checking them. This produces high added value per capita, while at the same time, is notable for trending toward labor-intensive work. The average annual growth rate of net sales in the industry monitoring operations in the last three years was 3.9%, which exceeds that of the overall pharmaceutical development-related operations of 2.9%, and its contribution to total net sales has reached 59%. The differences in the distribution ratio among these operations appears to be the main reason for Croit's declining industry share and low net sales per capita.

Also, Croit's labor productivity improvement ratio, which has exceeded the industry average, has changed due to various factors: 1) a high percentage of the mainstay pharmacovigilance operations can be handled within each business office, so it is actively utilizing what are called nearshore bases in the IT business, and 2) it is leveraging to the greatest possible extent having an independent SIer as its parent organization and progressing efficiency improvements and realization of high precision by utilizing ICT, including RPA (robotic process automation).

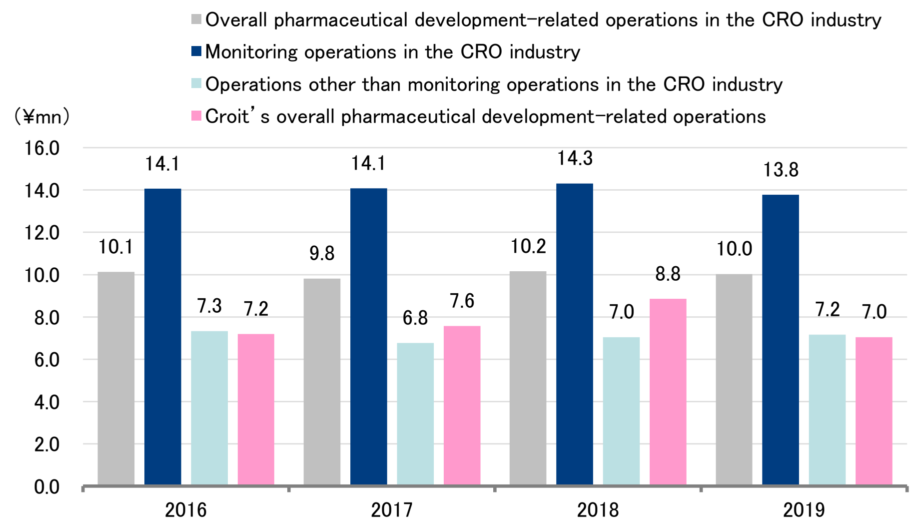
Croit's labor productivity improved by slightly less than 9% in 2016, when the company was established, and continued to improve by slightly more than 5% in 2017 and slightly less than 17% in 2018. In contrast to this, the labor productivity of the industry as a whole for monitoring operations was unchanged in 2016 and 2017, then improved by slightly less than 2% in 2018, while for operations other than monitoring operations, it improved by slightly less than 2% in 2016, worsened by slightly less than 8% in 2017, and improved about 4% in 2018. In 2019, Croit's labor productivity worsened by slightly more than 20% and was greatly inferior to the industry as a whole (monitoring operations worsened by slightly less than 4% and operations other than monitoring operations improved by slightly less than 2%). It would seem necessary to continue to pay attention to this.

Trends in net sales in the CRO industry and the Company's industry share



Source: Japan CRO Association's Annual Report (2016 to 2019)
Prepared by FISCO from CAC Croit's Fact Book 2020

CRO operations net sales per capita



Source: Japan CRO Association's Annual Report (2016 to 2019)
Prepared by FISCO from CAC Croit's Fact Book 2020

(3) QualityLead can be highly evaluated as a model CSV-type business

Croit is aiming to connect the excess capacity it has created in its CRO operations through utilizing ICT to grow a business peripheral to CRO. Specifically, it has been working on the business in which Croit consolidates, manages, and creates a database of the drug discovery and research compounds and information that the pharmaceutical companies individually own and manage (compound library-sharing program; hereafter, QualityLead) since 2018. In 2019, Mitsubishi Tanabe Pharma Corporation (January) and Shionogi & Co., Ltd. <4507> (February) announced their participation, followed by Eisai Co., Ltd. <4523> (January) and ASKA Pharmaceutical Co., Ltd.* (February) in 2020. Also, in November of the same year, the Company announced that from April 2021, it would start the sharing and mutual use of a compound library with Mitsubishi Tanabe Pharma Corporation, Shionogi & Co., Ltd., and Eisai Co., Ltd. This is the first time in Japan that private-sector companies have a business for the continuous sharing and mutual use of pharmaceutical companies' compound libraries, and in the future, it is expected to contribute annual sales of ¥300mn to ¥500mn.

* It was delisted on March 30, 2020, and on April 1, 2020, it became a wholly owned subsidiary of ASKA Pharmaceutical Holdings Co., Ltd. <4886>.

A feature of QualityLead we should pay attention to is the fact that it is a typical example of CSV (creating shared value; social contribution through business), which the Group emphasizes. The effects expected from sharing the use of the database with organizations like pharmaceutical companies, academia, and bio-ventures are greatly reducing the time period and costs for new drug development and increasing drug discovery opportunities. With the arrival of the aging society in Japan, it can be said that improving the efficiency of drug development, which will contribute directly to keeping down the rising medical expenses, is precisely a CSV type of business.

Croit has also started working on utilizing real-world data, which refers to data as a whole that is based on actual medical practices. It includes medical fee receipts data and DPC data (various types of data related to medical expenses in hospital wards), electronic medical records data, and medical examination data. If real-world data can be prepared and utilized as a database, it will clarify aspects such as the efficacy and safety of pharmaceuticals in actual medical treatment and costs versus benefits, which will make it possible to improve the quality and efficiency of medical treatment services. The launch of a business relating to real-world data can naturally be said to be model ICT utilization and CSV, and we shall be paying attention to developments in the future from measures typical of Croit.

Results trends

In FY12/20, net sales decreased 4.2% YoY and operating income increased 48.2%, which were basically in line with the forecasts. In 2H FY12/20, results trended upward in the domestic IT business, overseas IT business, and CRO business

1. FY12/20 consolidated results

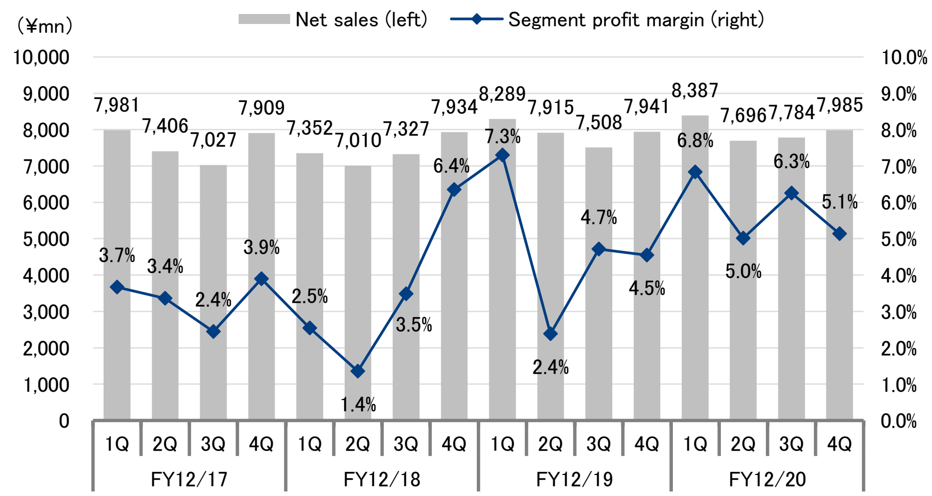
In the FY12/20 consolidated results, net sales decreased 4.2% YoY to ¥48,539mn, operating income increased 48.2% to ¥1,948mn, ordinary income rose 51.8% to ¥1,909mn, and profit attributable to owners of parent grew 11.3% to ¥1,669mn. Compared to the initial results forecasts (net sales of ¥52,000mn (up 2.6% YoY), operating income of ¥2,000mn (up 52.1%), ordinary income of ¥1,900mn (up 51.1%), and profit attributable to owners of parent of ¥1,400mn (down 6.7%)), although there were differences in performance depending on the segment due to the impact of the coronavirus, overall the results were basically in line with the forecasts.

By segment, in the domestic IT business, net sales increased 0.6% YoY to ¥31,852mn and segment profit grew 23.0% to ¥1,856mn. The driver of profit growth in this business was the strong performance of systems development projects. In the overseas IT business, net sales decreased 5.7% to ¥9,865mn and segment profit increased 427.0% to ¥445mn. In this business, the reason for the decline in sales was the impact of the coronavirus on the Indian subsidiary, while the reason for the significant increase in profits was the major contribution of the newly consolidated Indonesian subsidiary. In the CRO business, net sales decreased 20.4% to ¥6,820mn and segment loss was ¥353mn (a loss of ¥278mn in the previous period). In this business, the loss grew and conditions remain severe, but signs of a recovery are starting to appear, as orders for large projects are expected, in addition to cost reductions through business structural reforms.

Also, looking at quarterly trends by segment, results can be read as having trended upward in 2H FY12/20 in each of the domestic IT business, overseas IT business, and CRO business.

In the domestic IT business, the adverse effects of the coronavirus had become apparent in 2Q FY12/20, and the YoY increases in quarterly sales, which had continued since 3Q FY12/18, came to an end. However, sales once again increased from 3Q FY12/20. At the end of FY12/20, the order backlog had also increased 3.2% compared to the end of the previous fiscal period. A moving average of the last four quarters (4qMA) is used to adjust for seasonality in the quarterly results when assessing trends in the segment profit margin. The 4qMA showed the segment profit margin improved gradually over each fiscal period from 2.6% in 2Q FY12/18 to 5.7% in 3Q FY12/20, and had risen 1.0pp in 4Q FY12/20 compared to the same period in the previous fiscal year to 5.8%. So although it is not yet at a satisfactory level, it can be said to be moving in a positive direction.

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

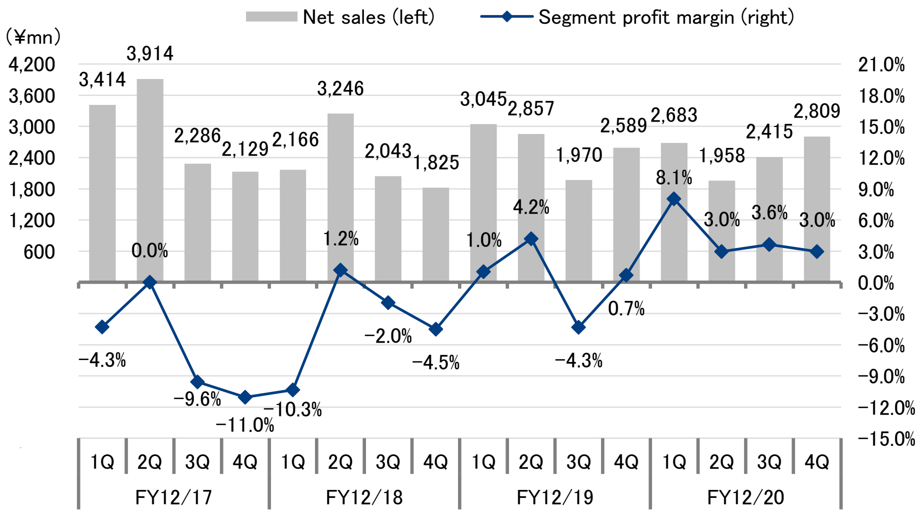


Source: Prepared by FISCO from the Company's financial results

In the overseas IT business, due to the costs of the business structural reforms of Inspirisys Solutions Limited and Sierra's recording of large loss-making projects, segment profit had trended basically at a low level up to 1Q FY12/18. However, the rebuilding of the overseas IT business, including the sale of all Sierra shares in December 2017, had completed a cycle, and since 1Q FY12/18, when YoY comparisons became possible, net sales have continued to trend in a volatile manner due to the effects of corporate transfers and acquisitions and moreover the impact of the coronavirus. Segment profit improved compared to the same quarter in the previous fiscal year in 6 out of 12 fiscal quarters.

In FY12/20, compared to the same quarter in the previous fiscal year, net sales decreased 11.9% in 1Q, decreased 31.5% in 2Q, increased 22.6% in 3Q, and increased 8.5% in 4Q, while segment profit was secured in all four quarters. The 4qMA for the most recent segment profit margin was 2.7% in 1Q, 2.3% in 2Q, 3.9% in 3Q and 4.5% in 4Q, and it can be confirmed to have recovered in 2H FY12/20.

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



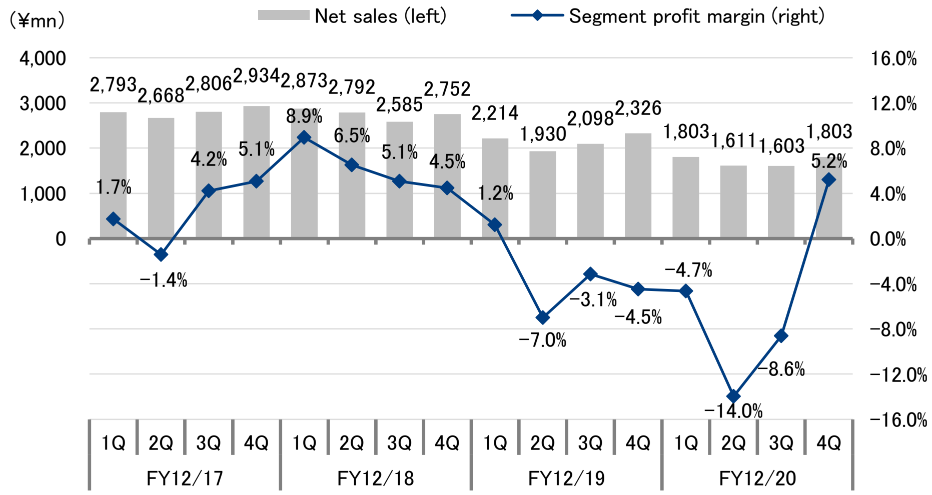
Source: Prepared by FISCO from the Company's financial results

In the CRO business, due to changes in the business environment, including the offensive measures of overseas companies that are highly capable of responding to global CRO operations, sales decreased compared to the same quarter in the previous fiscal year for 10 consecutive quarters from 3Q FY12/18. For segment profit also, losses were recorded continuously from 2Q FY12/19 onwards, but a recovery was realized and segment profit was recorded for the first time in 7 quarters in 4Q FY12/20.

The Company has reduced costs through business structural reforms, while reviewing the contract types with pharmaceutical companies and implementing measures that utilize ICT. As a result, in 4Q FY12/20, the segment profit margin had improved rapidly to 5.2%, the same level as 3Q FY12/18. This can be said to be a positive sign looking toward FY12/21. Nevertheless, there has been no change in the severity of the business environment, and we shall be paying attention to the next step taken from a medium- to long-term perspective.

Results trends

Trends in net sales and the segment profit margin in the CRO business



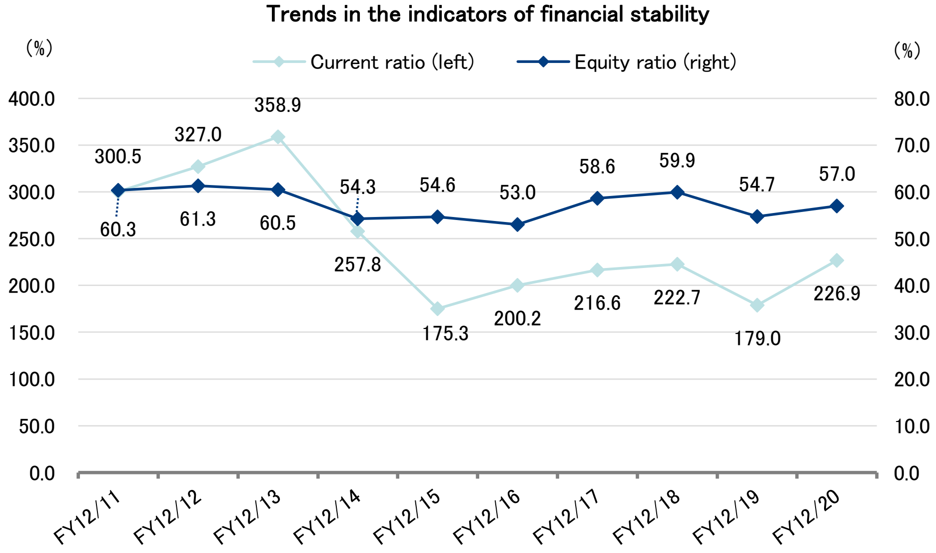
Source: Prepared by FISCO from the Company's financial results

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

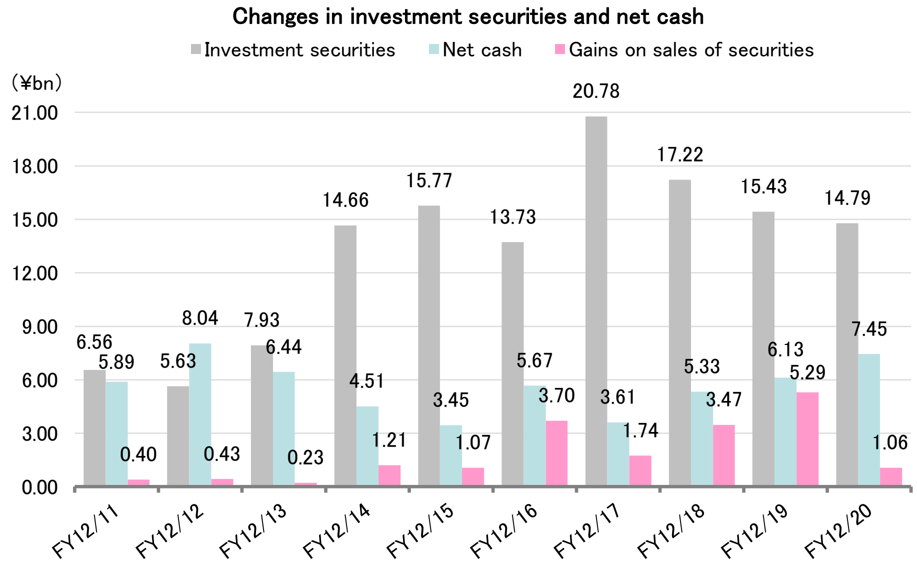
2. Financial condition

Looking at the trends in the typical indicators of financial stability, we see that each indicator improved. Specifically, the equity ratio improved from 54.7% at the end of FY12/19 to 57.0% at the end of FY12/20, the current ratio improved from 179.0% to 226.9%, and net cash (cash and deposits – interest-bearing debt (excess cash if positive)) improved from ¥6,136mn to ¥7,455mn.

In the last few years, the Company has continuously sold the shares of Recruit Holdings Co., Ltd. <6098> (hereafter, Recruit), which have a low acquisition book value, and while supplementing the financial foundation, it has conducted M&A and business structural reforms. In September 2019, 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, but even so, the Company still holds 1,719,000 Recruit shares (Fair value at the end of FY12/20: ¥7,427mn).



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



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

Results trends

Simplified consolidated statements of income

(¥mn)

	FY12/17	FY12/18	FY12/19	FY12/20	FY12/21 E
Net sales	53,268	49,906	50,683	48,539	51,000
YoY	1.4%	-6.3%	1.6%	-4.2%	5.1%
Cost of sales	42,996	39,425	40,124	37,790	-
YoY	2.3%	-8.3%	1.8%	-5.8%	-
Gross profit	10,272	10,481	10,558	10,748	-
YoY	-2.0%	2.0%	0.7%	1.8%	-
SG&A expenses	9,573	9,054	9,243	8,799	-
YoY	3.2%	-5.4%	2.1%	-4.8%	-
Operating income	698	1,426	1,314	1,948	2,600
YoY	-41.9%	104.3%	-7.9%	48.2%	33.4%
Ordinary income	717	1,368	1,257	1,909	2,500
YoY	-23.4%	90.6%	-8.1%	51.8%	30.9%
Profit attributable to owners of parent	1,100	1,319	1,500	1,669	1,700
YoY	-46.0%	19.9%	13.7%	11.3%	1.8%

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

Simplified consolidated balance sheet

(¥mn)

	FY12/17	FY12/18	FY12/19	FY12/20	Change
Current assets	24,084	23,963	22,471	22,915	443
Cash and deposits	8,551	9,387	9,313	10,125	811
Notes and accounts receivable - trade	10,440	8,605	9,607	9,796	188
Non-current assets	30,041	23,005	23,155	21,650	-1,504
Property, plant and equipment	1,392	1,228	2,639	2,362	-277
Intangible assets	3,871	1,577	1,992	1,895	-97
Investments and other assets	24,777	20,199	18,522	17,392	-1,130
Total assets	54,125	46,968	45,626	44,565	-1,061
Current liabilities	11,120	10,760	12,554	10,098	-2,455
Notes and accounts payable - trade	3,431	2,928	3,440	3,661	221
Short-term loans payable, bonds payable	2,856	2,034	3,160	670	-2,490
Non-current liabilities	10,576	7,350	7,275	8,230	955
Bonds payable, convertible bonds	0	0	0	0	0
Long-term loans payable	2,084	2,016	17	2,000	1,983
Total liabilities	21,696	18,111	19,829	18,329	-1,499
(Interest-bearing debt)	4,940	4,050	3,177	2,670	-507
Total net assets	32,429	28,857	25,797	26,236	438

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

Business outlook

The FY12/21 consolidated results forecasts are for net sales to increase 5.1% YoY and operating income to grow 33.4%

For the FY12/21 consolidated results, the Company is forecasting that net sales will increase 5.1% YoY to ¥51,000mn, operating income will rise 33.4% to ¥2,600mn, ordinary income will grow 30.9% to ¥2,500mn, and profit attributable to owners of parent will increase 1.8% to ¥1,700mn. The CRO business will play the role of driving the major increases in operating income and ordinary income for the full fiscal year results. The dividend forecast calls for a dividend per share of ¥60, the same as in the previous period. The Company has not disclosed results forecasts for 1H FY12/21, but it seems results are expected to be concentrated in 2H.

In forecasts by segment, in the domestic IT business, net sales will decrease 1.1% YoY to ¥31,500mn and segment profit will increase 2.3% to ¥1,900mn. The main reason for the forecast sales decrease in this business is changes in the scope of consolidation (negatively affecting sales by approximately ¥2,000mn), but at FISCO, we do not consider this to be a cause for concern. In the overseas IT business, the forecasts are for net sales to increase 11.5% to ¥11,000mn and segment profit to grow 0.9% to ¥450mn. With regard to this business, the forecasts incorporate the recovery trend from the coronavirus as the benefits of new consolidation wear off. As for profits, the forecast seems to consider the severity of the competitive environment and changes to the product mix. In the CRO business, the forecasts are for net sales to increase 24.6% to ¥8,500mn and segment profit of ¥250mn (compared to a loss of ¥353mn in the previous period, an improvement of ¥603mn). In this business, the outlook is for sales to increase based on positive response in orders, and it seems that effects of the business structural reforms are expected to become apparent.

Financial results forecast

(¥mn)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
		YoY		YoY		YoY		YoY
FY12/19	50,683	1.6%	1,314	-7.9%	1,257	-8.1%	1,500	13.7%
FY12/20	48,539	-4.2%	1,948	48.2%	1,909	51.8%	1,669	11.3%
FY12/21 E	51,000	5.1%	2,600	33.4%	2,500	30.9%	1,700	1.8%

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 "transformational power"

What is apparent on 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 recently it has evolved to become an IT and healthcare services company, 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 newly entering the CRO business domain 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 SIer. 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

When it initially formulated the medium-term strategy Determination 21, the issues facing the Company were 1) continuously creating business profits, 2) strengthening Group governance, and 3) responding to DX. Additionally, in the Company's 2019 Annual Report, Mr. Tokihiko Mori, who has been appointed as an outside director of the Company in 2018, stated, "I think that greater preparations are necessary for discussing M&A and business investment projects," "I also think increasing the operating margin is the important first step toward enhancing corporate value," and "I would like to encourage reforms that increase the motivation to enhance shareholder value through offensive governance."

Results are starting to appear to a certain extent from implementing the latest medium-term strategy, which positions strengthening governance as the most important basic policy. The points to focus on in FY12/21, which is the strategy's final fiscal year, include establishing a high-earnings model and strengthening and promoting the response to DX. In order to achieve them, the biggest issue facing the Company would seem to be "how to increase profitability."

Medium-term strategy

The medium-term strategy is achieving a certain level of results. Attention is on the new strategy to be announced in the spring of 2022

Following in-depth discussions by the Board of Directors, the Company revised the medium-term strategy Determination 21, which has FY12/18 as its first fiscal year, and republished it in February 2019 (numerical targets revised in February 2020 and February 2021).

As a result of reviewing and clarifying strategies in response to changes in the management environment, the Company has formulated four basic policies in the latest medium-term strategy: 1) Strengthening governance by separating management and execution, 2) Mobile implementation of business with prompt decision-making, 3) Improving capital efficiency and strengthening returns to shareholders, and 4) Promoting value sharing with shareholders. It also set three priority measures: establish a high-earnings model, strengthen the investment and financial strategy, and strengthen and promote the response to DX (digital transformation). In FY12/21, which is the strategy's final fiscal year, it has indicated a particular focus on establishing a high-earnings model and strengthening and promoting the response to DX.

The FY12/21 numerical targets are net sales of ¥51bn (initially ¥70bn), operating income of ¥2.6bn (¥4bn), ROE of 7% (8%), and a 50% ratio of digital projects among net sales. The net sales and operating income targets have been significantly lowered over two revisions, but for ROE, which was added in February 2019, and the ratio of digital projects among net sales, which was added in February 2020, the former has been downwardly revised only once to a small extent in February 2021, while the latter's initial target has been maintained. This is worthy of attention as it demonstrates the Company's focus on improving capital efficiency and responding strongly to market changes even during the coronavirus pandemic.

The medium-term strategy implemented alongside the four basic policies is producing results to a certain extent. First, for 1 and 2 of the basic policies, it reduced the number of directors from eight (of whom, three were outside directors) to five (unchanged) in FY12/19, thereby shifting to a system with a Board of Directors, where outside directors are in the majority, that decides strategy and monitors the execution of operations. At the same time, five executive officers were appointed to be solely responsible for the execution of operations in accordance with the policies of the Board of Directors, and since FY12/19, they have been working to flexibly execute operations in the five business domains (Core ICT Domain, China Domain, India Domain, Healthcare Domain, and Future Domain), facilitating decision-making such as for restarting overseas M&A and conducting structural reforms in the CRO business.

For 3, while aiming for sustainable profit growth, the Company increased the dividend for three consecutive periods (dividend per share: FY12/17 ¥36 → FY12/18 ¥38 → FY12/19 ¥50 → FY12/20 ¥60). In addition, in December 2018, it cancelled 1 million treasury shares, and then in FY12/19, it acquired treasury shares worth nearly ¥3bn. The acquired treasury shares are being cancelled appropriately and utilized for business strategy for business and capital alliances (third-party allotments through disposal of treasury shares). For 4, it has introduced a restricted stock compensation plan and is more actively conducting IR activities.

Based on the latest medium-term strategy, which sets strengthening governance as the most important basic policy, the Board of Directors conducts decision-making and supervision and holds discussions, while monitoring several KPIs (key performance indicators). It can be said that the biggest issue for the Company is "how to increase profitability." We expect this to be clarified in the next medium-term strategy (scheduled to be announced in the spring of 2022), formulation of which is being led by Ryota Nishimori who was appointed President and CEO in January 2021.

President Nishimori, while working as the President and CEO of CAC Corporation (present position) since 2018, the Group's core business company, from March 2020 concurrently worked as the executive officer responsible for the Company's Core ICT Domain. We shall be watching his progress as the new head of the management team fully versed in the domestic IT business with high expectations to see how he will utilize the Company's strength of "transformational power."

ESG

Continues to work to improve non-financial value even during the coronavirus pandemic

1. "Boccia support" is starting to produce some significant results

The Company, whose main business pillars are IT and healthcare, is a typical CSV (creating shared value; social contribution through its business) corporate group that solves the problems facing society through its main businesses. Since 2016, it has been continuously conducting activities to encourage participation in and to support Boccia, which is a sport for people with disabilities. In our interview with the Company, we became aware that its passion for Boccia is greater than we had anticipated.

The Company started these activities from the opportunity provided by the 50th anniversary of its foundation, but why did it choose Boccia? In advance of the Tokyo Olympics and Paralympics, there seems no doubt that the Company's support for Boccia reflects the voices heard in society and that its aim is to improve its name recognition. However, it does not simply provide financial support, as it also continues activities with an emphasis on employees conducting the planning and implementation.

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 coronavirus pandemic, the Group has continued to work on measures such as holding online classrooms over Zoom and disseminating information via SNS. Moreover, it ambitiously intends to hold real events in 2021 by taking various measures.

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 five 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, and was certified as a Sports Yell Company by the Japan Sports Agency in January 2021 for the fourth consecutive year (623 companies were certified in FY12/20).

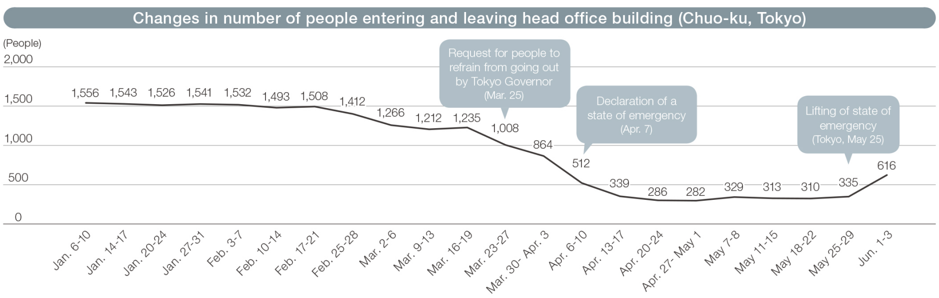
The Company's measures for Boccia go beyond the framework of encouraging participation and support, and include facilitating communication among Group employees and improving their awareness of social contribution. Although the situation surrounding the Tokyo Olympics and Paralympics remains unclear, the continuous efforts to communicate the appeal of Boccia both inside and outside the Group, including the benefits of interacting with people with disabilities, appear to be producing some unexpectedly major results. Therefore, it is considered that the reason the Company selected Boccia as an initiative for the 50th anniversary of its foundation is its idea of improving non-financial value, which it calls "invisible assets."

2. Effects of the Company's workstyle reforms have been confirmed during the coronavirus 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 work styles 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 coronavirus 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 the coronavirus, the core business company CAC Corporation has been actively promoting remote work and has reduced the number 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. Moreover, since the state of emergency was lifted in June 2020, it has targeted reducing the rate of employees working at offices by around 50% compared to normal times, and in July 2020, it introduced a work-at-home allowance (¥5,000/month) and a work style selection system (home or office).

Trend in the number of employees working at an office during the coronavirus pandemic (employees entering and exiting the Company's head office building)



*The number of people entering and leaving the building is the average number for weekdays.

Source: Company's Annual Report 2020

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■ For inquiry, please contact: ■
FISCO Ltd.
5-13-3 Minami Aoyama, Minato-ku, Tokyo, Japan 107-0062
Phone: 03-5774-2443 (IR Consulting Business Division)
Email: support@fisco.co.jp