COMPANY RESEARCH AND ANALYSIS REPORT

CAC Holdings

4725

Tokyo Stock Exchange Prime Market

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Summary

CAC Holdings has served as an independent group of IT companies persistently seeking transformation since its founding in 1966. Aiming to evolve into an "excellent company known to the world" in alignment with its long-term vision

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, EP Croit Co., Ltd.), 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 serves as a corporate group that concentrates its management resources on the IT business both in Japan and abroad, conducting business through 19 consolidated subsidiaries and 2 equity-method affiliates under the holding company, enlisting 4,249 Group employees.

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 FY12/21 significantly exceeded initial forecasts

In the FY12/21 consolidated results, net sales decreased 1.2% YoY to ¥47,935mn, operating income increased 89.7% to ¥3,697mn, ordinary income rose 92.1% to ¥3,668mn, and profit attributable to owners of parent grew 48.4% to ¥2,476mn. Whereas net sales fell short of the initial forecast as a result of the Company having removed two subsidiaries from the scope of consolidation during the fiscal year, operating income, ordinary income and profit attributable to owners of parent significantly exceeded the initial results forecasts projecting net sales of ¥51,000mn (up 5.1% YoY), operating income of ¥2,600mn (up 33.4%), ordinary income of ¥2,500mn (up 30.9%), and profit attributable to owners of parent of ¥1,700mn (up 1.8%). The significantly better-than-expected results are attributable to favorable performance by the domestic IT business and the elimination of losses from the CRO business. Looking at the trends in the typical indicators of financial stability, we see that each indicator improved. Specifically, the equity ratio increased from 57.0% at the end of FY12/20 to 65.1% at the end of FY12/21, the current ratio improved from 226.9% to 245.6%, and net cash (cash and deposits – interest-bearing debt (excess cash if positive)) rose from ¥7,455mn to ¥7,854mn.

3. FY12/22 consolidated results forecasts are for sales to decrease 6.1% YoY and operating income to decline 18.9%

For the FY12/22 consolidated results, the Company is forecasting that net sales will decrease 6.1% YoY to ¥45,000mn and operating income will decline 18.9% to ¥3,000mn. The Company's forecast projecting lower net sales and operating income results is attributable to a situation where the CRO business, which accounted for net sales of ¥4,841mn and operating income of ¥812mn in FY12/21, has been subject to business transfer and accordingly will no longer contribute to the Company's financial results. Forecasts by segment call for net sales to increase 1.2% to ¥34,000mn and segment profit to decrease 7.0% to ¥2,400mn in the domestic IT business, and net sales to increase 15.7% to ¥11,000mn and segment profit to increase 97.8% to ¥600mn in the overseas IT business. The projection of higher net sales and lower segment profit in the domestic IT business is a result of including approximately ¥450mn in new business start-up costs.

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 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."

5. Release of long-term vision and new Medium-Term Management Plan

In February 2022, the Company released its CAC Vision 2030 long-term vision and its new Medium-Term Management Plan. CAC Vision 2030 cites a corporate vision of "evolving into a corporate group that consistently makes a positive impact on society with technologies and ideas" over the medium to long term, underpinned by a 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. 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. Meanwhile, 2022–2025 (the period covered by the Medium-Term Management Plan) is positioned as Phase 1, devoted to building a products and services platform (framework and business platform for facilitating ongoing establishment of new businesses). The 2026-2030 period is designated as Phase 2 where the Company can achieve high growth and ultimately transform itself into a digital solutions provider with high profitability and growth.

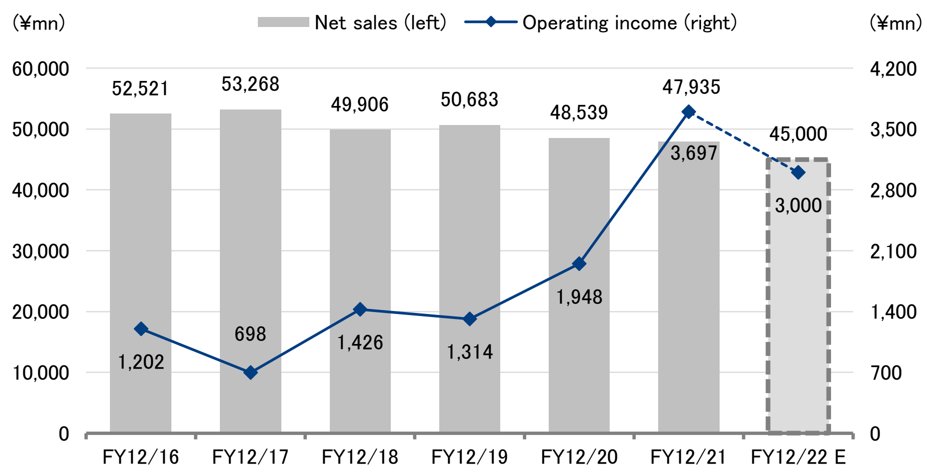
6. Promoting initiatives to increase the Company's non-financial value with contributions to society at the core

The IT business serves as the main business pillar of the Company, which is a typical CSV (creating shared value; social contribution through business) corporate group that solves problems facing society through its main businesses. Since 2016, it has been persistently conducting activities to encourage participation in and support of boccia, which is a sport for people with disabilities, while emphasizing its idea of sincerely working to improve non-financial value. The true value of the Company's workstyle reforms has been affirmed amid the COVID-19 pandemic. With the Japanese government having issued a state of emergency declaration in the spring of 2020 due to the pandemic, CAC Corporation, the core operating company, 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. Nevertheless, the Company has continued to engage in business without any major disruptions. 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."

Key Points

- An independent, pioneering SIer 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"
- The Company has released CAC Vision 2030, under which it has set quantitative targets for FY12/25 for net sales of ¥58bn, operating income of ¥5bn, an operating margin of 8% or higher, and ROE of 10% or higher
- The Company, which is a CSV-type corporate group, is continuously supporting boccia and workstyle reforms, enhancing non-financial assets with a focus on social contribution

Results trends



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

Company profile

Having served as an independent SIer 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.

CAC Holdings is a corporate group that now concentrates its management resources on the IT business both in Japan and abroad (CAC Holdings conducts business through 19 consolidated subsidiaries and 2 equity-method affiliates under the holding company, with 4,249 Group employees).

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. 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.
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.

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	Established CAC Croit Corporation through the merger of CAC EXICARE Corporation and clinical trust Co., Ltd. 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. 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

Business description

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 77.9% of Company-wide net sales (FY12/21), 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 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), and being certified as an APN Advanced Consulting Partner for having accumulated many achievements as a result of this focus. It is supporting more than 40 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.

(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.

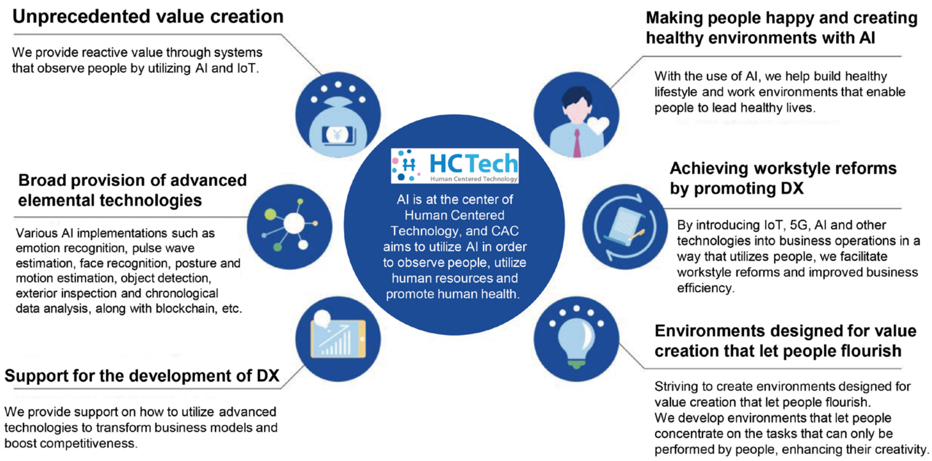
From April 2020, the Nagasaki BPO Center started providing pharmaceutical-related IT services, and from September 2020, it started providing systems development services for financial institutions. In addition to providing employee salary BPO services, the Nagasaki NBC Office engages in research and 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.

(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 "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.

DX solutions centered on HCTech



Source: Company's financial results briefing materials

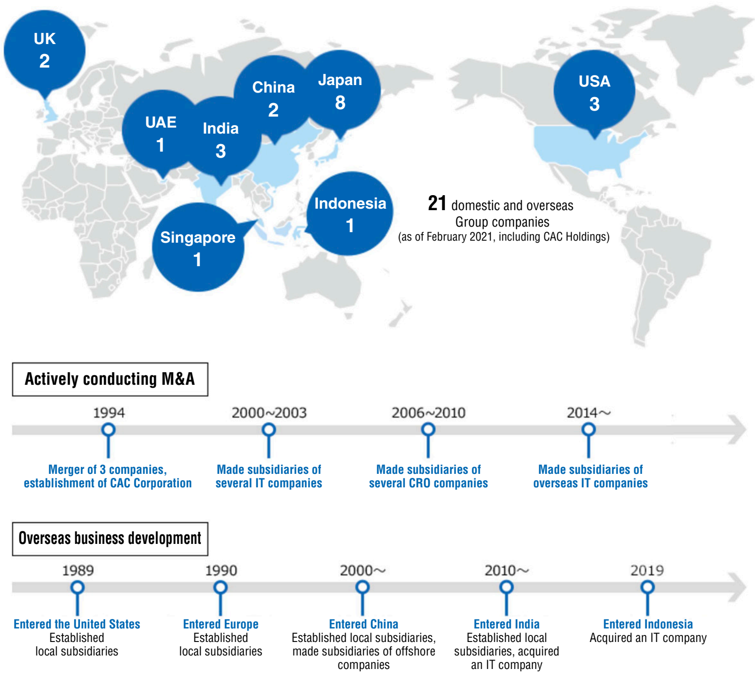
Overseas IT business making progress with business reconstruction

2. Overseas IT business

The Company conducts overseas IT business mainly through its 13 overseas Group companies (as of December 31, 2021) 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. Although overseas sales of ¥9,507mn were only 81% of peak levels, segment profit remained in positive territory at ¥303mn.

A global network and history of overseas business development



Note: As of December 31, 2021, there are 20 domestic and overseas Group companies, 7 of which are in Japan
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. Meanwhile, from FY12/22 onward, business structural reforms of the Indian subsidiary are likely to culminate in eliminating losses. 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 FY12/21. Further improvement also achieved with respect to financial stability

1. FY12/21 consolidated results

In the FY12/21 consolidated results, net sales decreased 1.2% YoY to ¥47,935mn, operating income increased 89.7% to ¥3,697mn, ordinary income rose 92.1% to ¥3,668mn, and profit attributable to owners of parent grew 48.4% to ¥2,476mn. Compared to the initial results forecasts (net sales of ¥51,000mn (up 5.1% YoY), operating income of ¥2,600mn (up 33.4%), ordinary income of ¥2,500mn (up 30.9%), and profit attributable to owners of parent of ¥1,700mn (up 1.8%)), results below the operating income line were all above forecasts despite a shortfall in revenues due to exclusion of two divested subsidiaries from consolidated results, supported by favorable performance of the domestic IT business as well as the elimination of losses from the CRO business.

FY12/21 consolidated results

(¥mn)

	FY12/20	FY12/21	Change	YoY
Net sales	48,539	47,935	-603	-1.2%
Cost of sales	37,790	36,036	-1,754	-4.6%
Gross profit	10,748	11,899	1,150	10.7%
SG&A expenses	8,799	8,201	-598	-6.8%
Operating income	1,948	3,697	1,748	89.7%
Ordinary income	1,909	3,668	1,759	92.1%
Profit attributable to owners of parent	1,669	2,476	807	48.4%

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

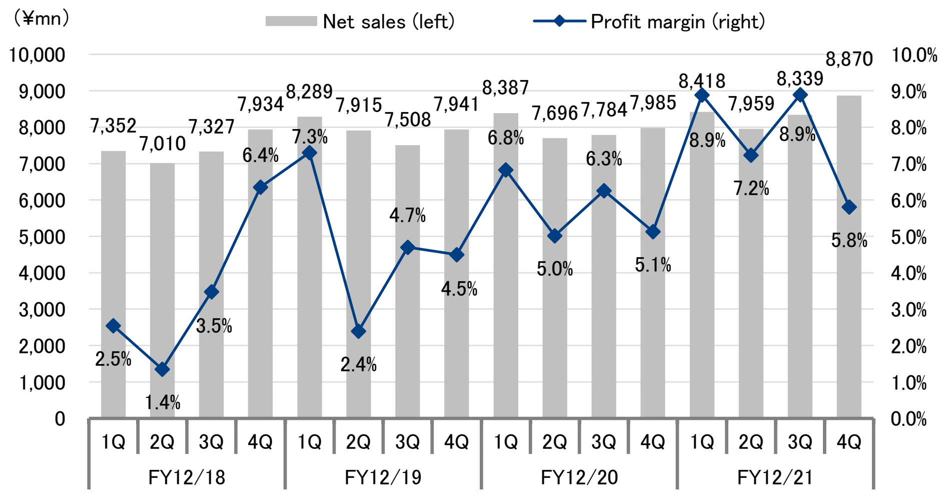
By segment, in the domestic IT business, net sales increased 5.4% YoY to ¥33,586mn and segment profit grew 39.0% to ¥2,581mn. The substantial increase in segment profit is attributable to factors that include strong results from system projects, particularly involving the pharmaceutical and financial industries, and the combined effects of improved capacity utilization rates with respect to engineers and higher sales, despite the impact of a consolidated subsidiary that had posted sales of approximately ¥1.9bn in FY12/20 being made an equity-method affiliate on February 1, 2021. Factors that include an increase in orders for large projects and more new customers culminated in strong performance in the domestic IT business in terms of a 7.6% YoY increase in orders received in FY12/21 and a 10.4% YoY gain in order backlog at the end of FY12/21.

In the overseas IT business, net sales decreased 3.6% YoY to ¥9,507mn and segment profit fell 32.0% to ¥303mn. The decreases in net sales and segment profit are attributable to delayed recovery in earnings of the Company's Indian subsidiary. On the other hand, the Company's Indonesian subsidiary achieved an increase in systems development projects along with growth in earnings results of its Chinese subsidiary. The overseas IT business achieved a 6.8% YoY increase in orders received in FY12/21 and a 14.5% YoY gain in order backlog at the end of FY12/21.

In the CRO business, which was transferred in June 2021, net sales for the first six months of 2021 increased 41.8% YoY to ¥4,841mn and segment profit was ¥812mn (compared to a loss of ¥309mn in the previous period).

With respect to the domestic IT and overseas IT businesses, quarterly results trends indicate that the domestic IT business has been preforming favorably. Meanwhile, the domestic IT business has achieved YoY growth in net sales over the six consecutive quarters starting from 3Q FY12/20, amid upward momentum for rising sales extending through 4Q FY12/21, when the segment marked a double-digit sales gain. Meanwhile, the segment profit margin has achieved YoY gains over four consecutive quarters, with the moving average of the most recent four quarters adjusted for seasonality on a quarterly basis generally trending higher over the past two years.

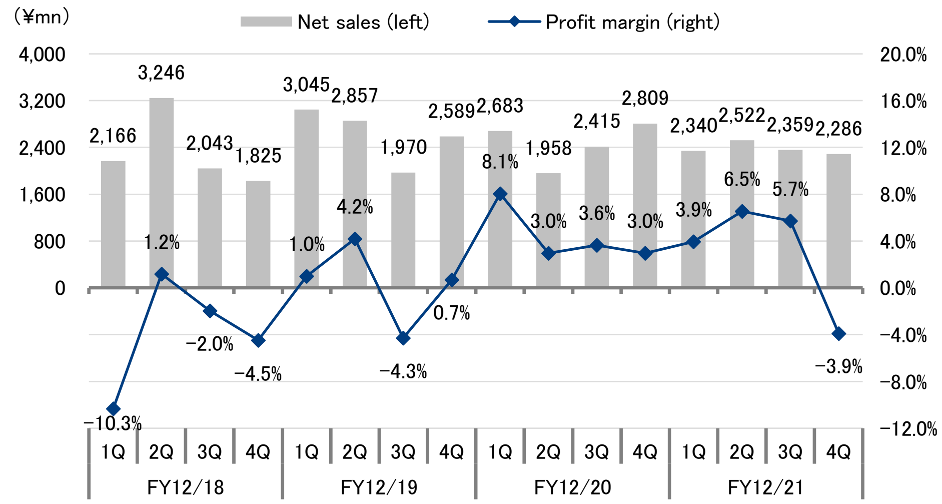
Trends in net sales and the segment profit margin in the domestic IT business



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. Nevertheless, whereas this loss reflected the business structural reforms being carried out by the Indian subsidiary, the Company currently deems that the losses will most likely bottom out in FY12/22.

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

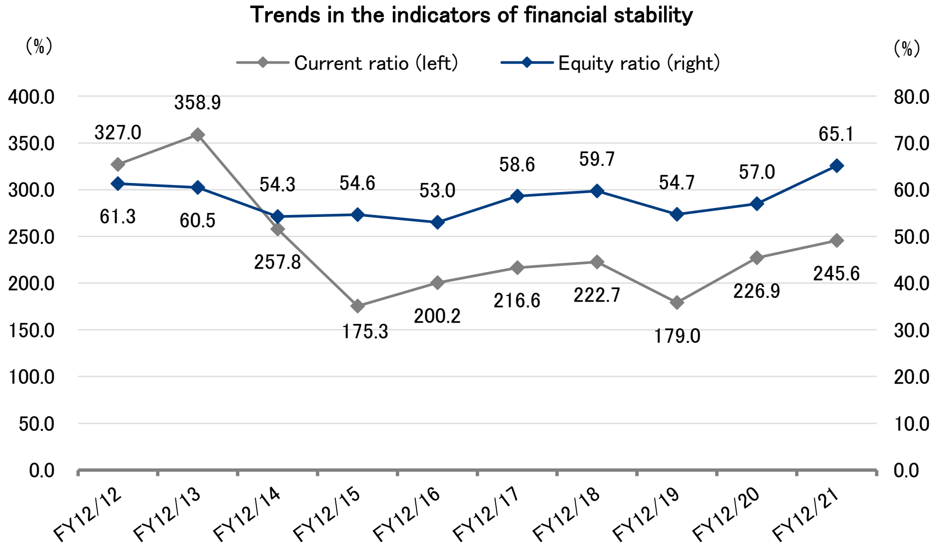
2. Financial condition

Looking at the trends in the typical indicators of financial stability, we see that each indicator improved. Specifically, the equity ratio improved from 57.0% at the end of FY12/20 to 65.1% at the end of FY12/21, the current ratio improved from 226.9% to 245.6%, and net cash (cash and deposits – interest-bearing debt (excess cash if positive)) improved from ¥7,455mn to ¥7,854mn.

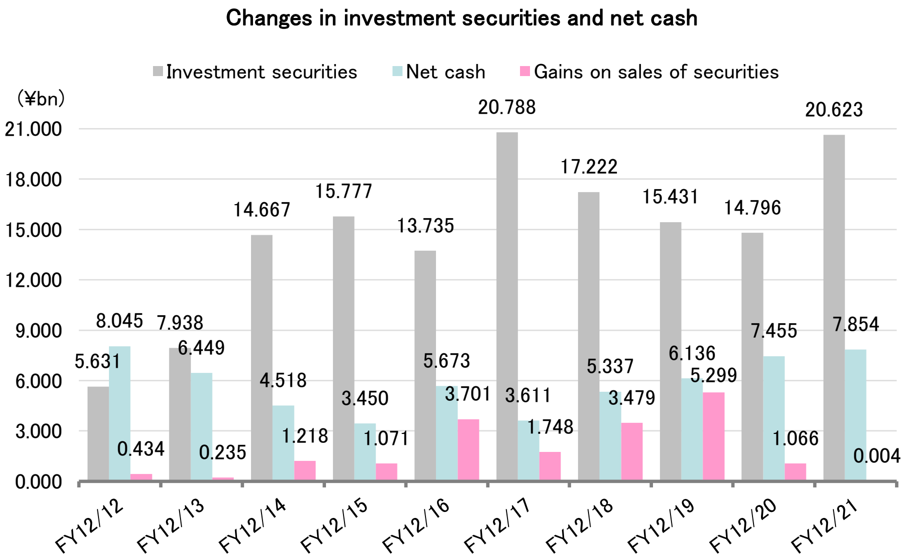
In the last few years, the Company has continuously sold the shares of Recruit Holdings Co., Ltd. <6098> (hereafter, Recruit), which have a low acquisition book value, and while supplementing the financial foundation, it has conducted M&A and business structural reforms. In FY 12/19, from perspectives 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.

In other words, the improvement in financial structure achieved in FY12/21 stemmed from organic profit growth and business activities encompassing moves to concentrate management resources (transfer of the CRO business). Moreover, 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 FY12/21).

Results trends



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



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

Simplified consolidated balance sheet

(¥mn)

	FY12/19	FY12/20	FY12/21	Change
Current assets	22,471	22,915	21,804	-1,111
Cash and deposits	9,313	10,125	10,532	407
Notes and accounts receivable - trade	9,607	9,796	8,568	-1,228
Non-current assets	23,155	21,650	25,457	3,807
Property, plant and equipment	2,639	2,362	1,313	-1,049
Intangible assets	1,992	1,895	1,679	-216
Investments and other assets	18,522	17,392	22,464	5,072
Total assets	45,626	44,565	47,261	2,696
Current liabilities	12,554	10,098	8,879	-1,219
Notes and accounts payable - trade	3,440	3,661	2,701	-960
Short-term loans payable	3,160	670	678	8
Non-current liabilities	7,275	8,230	6,982	-1,247
Bonds payable, convertible bonds	0	0	0	0
Long-term loans payable	17	2,000	2,000	0
Total liabilities	19,829	18,329	15,862	-2,466
(Interest-bearing debt)	3,177	2,670	2,678	8
Total net assets	25,797	26,236	31,398	5,162

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

Business outlook

The FY12/22 consolidated results forecasts are for net sales to decrease 6.1% YoY and operating income to decline 18.9%

For the FY12/22 consolidated results, the Company forecasts a decrease in net sales of 6.1% YoY to ¥45,000mn and a decline in operating income of 18.9% to ¥3,000mn. The Company's forecast of lower net sales and operating income results is attributable to a situation where the CRO business, which accounted for net sales of ¥4,841mn and operating income of ¥812mn in FY12/21, has been subject to business transfer and accordingly will no longer contribute to the Company's financial results.

Forecasts by segment call for net sales to increase 1.2% to ¥34,000mn and segment profit to decrease 7.0% to ¥2,400mn in the domestic IT business, and net sales to increase 15.7% to ¥11,000mn and segment profit to increase 97.8% to ¥600mn in the overseas IT business. The projection of higher net sales and lower segment profit in the domestic IT business is a result of including approximately ¥450mn in new business start-up costs.

Meanwhile, the dividend forecast calls for an annual dividend of ¥60 per share for FY12/22 (interim dividend of ¥30 per share and year-end dividend of ¥30 per share), which is unchanged relative to the level of FY12/21, despite the lower profit projection.

FY12/22 financial results forecast

(¥mn)

	FY12/21	FY12/22 E	Change	YoY
Net sales	47,935	45,000	-2,935	-6.1%
Operating income	3,697	3,000	-697	-18.9%
Ordinary income	3,668	2,900	-768	-20.9%
Profit attributable to owners of parent	2,476	2,000	-476	-19.2%
EPS (¥)	146.76	118.45	-28.31	-

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 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

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.

Medium-to long-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

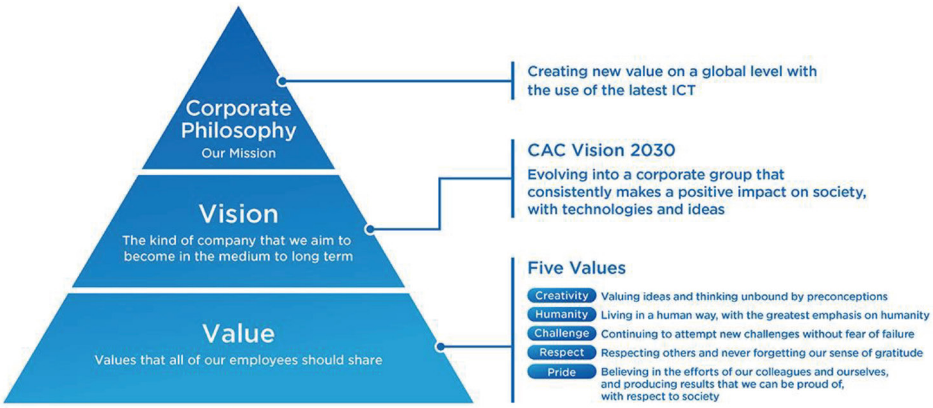
1. Articulating values shared amongst all employees of the Company upon establishing the long-term vision

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.

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

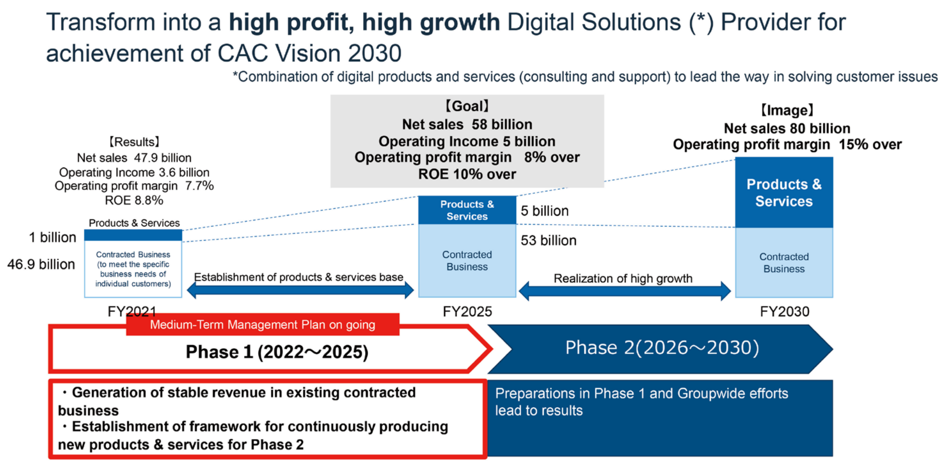
Under CAC Vision 2030, the Company has established quantitative targets for FY12/25 with respect to achieving net sales of ¥58bn, operating income of ¥5bn, an operating margin of 8% or higher, and ROE of 10% or higher, with the years 2022–2025 (the period covered by the Medium-Term Management Plan) positioned 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 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.

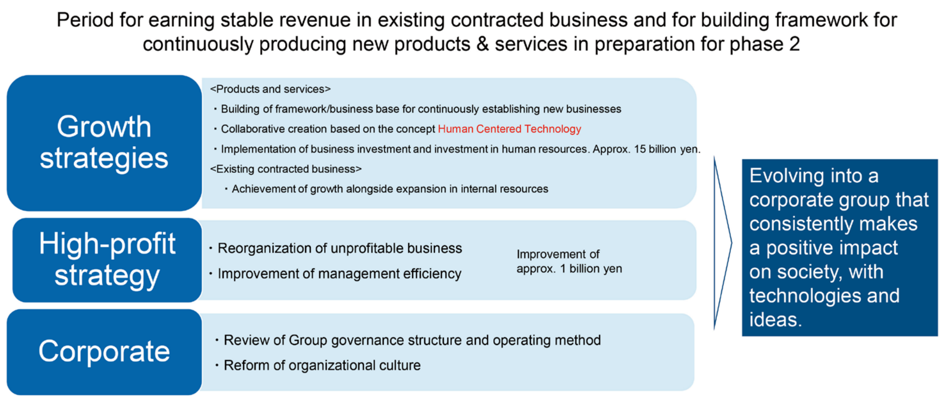
In its outline of the Medium-Term Management Plan, the Company indicates that it intends to allocate approximately ¥15bn over the next four years to business investment and promoting human resources with the aim of building a new business platform. The Company's restructuring efforts in January 2022 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 refoserms in the overseas IT business. We will also monitor developments with respect to investment as such initiatives materialize going forward.

Quantitative depiction of the CAC Vision 2030 timeline



Source: Company's financial results briefing materials

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



Source: Company's financial results briefing materials

3. Developing products and services businesses that facilitate the Company's evolution toward becoming an "excellent company known to the world"

In the CEO Message of the Company's 2021 Annual Report, President & CEO Nishimori noted that back when he joined the company it was listed in a book of unknown good companies, and went on to say that he wants CAC Holdings to become an "excellent company known to the world."

Accordingly, CAC Vision 2030 sets forth the Company's medium- to long-term goal of achieving substantial growth and high profitability by developing products and services businesses. In that regard, exceptional products and services with brand names such as Walkman, Famicom, TA-Q-BIN, Windows, and iPhone have the power to boost corporate brand strengths and name recognition. This may be somewhat of a stretch, but we believe that President & CEO Nishimori has chosen to focus on products and services businesses in part because of his strong desire to ensure that the Company becomes an "excellent company known to the world." Creating products and services bearing the CAC brand would be an effective approach for achieving the aim of becoming well-known worldwide. Moreover, developing substantial brand strengths directly translates to greater pricing power and positive effects in terms of man-hour unit pricing in the outsourcing services business. Although the prospect of evolving into an "excellent company known to the world" will not be easy, we see this challenge as a worthy goal for the Company, which has been undergoing transformation continuously.

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.

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 six 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).

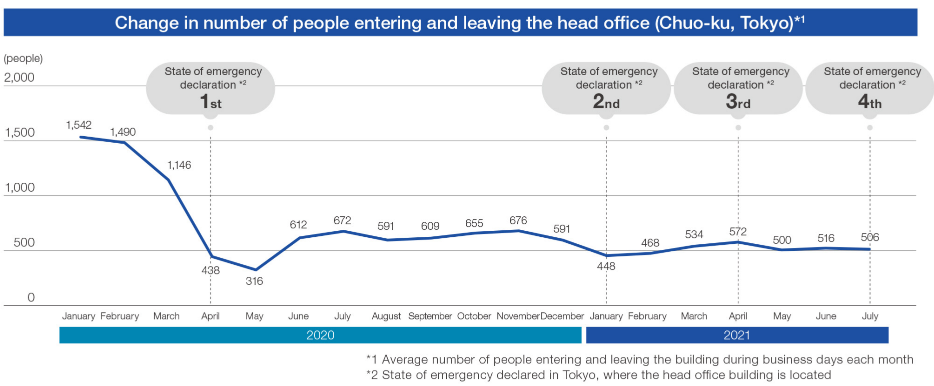
The Company's measures for boccia go beyond the framework of encouraging participation and support, and include facilitating communication among Group employees and improving their awareness of social contribution. Therefore, it is considered that the reason the Company selected supporting boccia as 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."

Trend in the number of employees working at an office during the COVID-19 pandemic (employees entering and exiting the Company's head office building)



Source: Company's Annual Report 2021

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