



Bridge Report CREO CO., LTD. (9698)

 President and Representative Director Junichi Kakizaki	Company	CREO CO., LTD.	 株式会社クレオ
	Code No.	9698	
	Exchange	JASDAQ	
	Industry	Information and telecommunications	
	President and Representative Director	Junichi Kakizaki	
	Address	Sumitomo Fudosan Shinagawa Building 4-10-27 Higashi-shinagawa, Shinagawa-Ku, Tokyo	
	Business Description	Software company under the umbrella of AMANO and Yahoo Japan. Its core businesses are to undertake development projects and to sell ERP. Sold "Fudemame," and specializes in products targeted at corporations.	
	Year-end	March	
URL	https://www.creo.co.jp/		

— Stock Information —

Share price	Number of shares issued (excluding treasury shares)		Total market cap	ROE (Actual)	Trading Unit
¥1,045	8,299,442 shares		¥8,672 million	6.2%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
¥20.00	1.9%	¥48.20	21.7 times	¥636.37	1.6 times

*The share price is the closing price on May 18. The number of shares issued was obtained by subtracting the number of treasury shares from the number of outstanding shares as of the end of the latest quarter. ROE and BPS are the actual values as of the end of the previous term.

— Consolidated Earnings Trends —

(Units: Million yen, yen)

Fiscal Year	Net Sales	Operating income	Ordinary income	Net income	EPS	DPS
Mar. 2015 (Actual)	11,425	357	380	213	24.66	5.00
Mar. 2016 (Actual)	10,305	348	368	413	47.79	15.00
Mar. 2017 (Actual)	11,559	296	333	267	31.11	13.00
Mar. 2018 (Actual)	12,268	410	457	305	36.79	15.00
Mar. 2019 (Forecast)	13,100	570	590	400	48.20	20.00

*The forecasted values are from the Company. *From the FY 3/16, net income is profit attributable to owners of the parent. Hereinafter the same shall apply.

This Bridge Report overviews the financial results of CREO, which is listed in JASDAQ, for the term ended Mar. 2018, and includes the outlook for the term ending Mar. 2019.

1. Company Overview
2. Fiscal Year March 2018 Earnings Results
3. Mid-term Business Plan and Its Progress
4. Fiscal Year March 2019 Earnings Estimates
5. Conclusions

Key Points

• The mid-term business plan, whose initial year is the term ended Mar. 2018 and whose last year is the term ending Mar. 2020, is ongoing. The basic policies are (1) recognizable growth potential, (2) the comprehensive capability of the corporate group, (3) stable return to shareholders, and (4) the enhancement of corporate governance. For the purpose of exerting the comprehensive capability of a corporate group, CREO merged with 5 consolidated subsidiaries (restructuring its business and organization) at the beginning of the term ended Mar. 2018, and the marketing activities of the subsidiaries for respective products were integrated. The company will strive to increase transactions with the integration solution and boost the sales from existing customers through cross-selling, with the aim of achieving sales of 15 billion yen (11.55 billion yen in the term ended Mar. 2017) and an operating income of 1 billion yen (290 million yen in the term ended Mar. 2017) in the term ending Mar. 2020, which is the last year of the mid-term plan. As for return to shareholders, the company plans to pay dividends with payout ratio being 40%, and acquire treasury shares while keeping capital-to-asset ratio at 70%. The company is improving its organization under the governance code of reaching the level of companies listed in Tokyo Stock Exchange 1st and 2nd section.

• For the term ended Mar. 2018, which is the first year of the mid-term business plan, sales were 12.26 billion yen, up 6.1% year on year, and operating income was 410 million yen, up 38.3% year on year. Sales grew mainly in Solutions Service Business, which is concentrated on again by the company in the mid-term plan, and Systems Operation and Services Business, in which the company conducts the development, maintenance, operation, etc. of server systems. As for profit, operating income rate increased 0.7 points, as the profitability of Solutions Service Business improved considerably thanks to the cost optimization through the restructuring of its business and organization. As for dividends, the company plans to pay a term-end dividend of 15 yen/share, up 2 yen/share from the previous term.

• For the term ending Mar. 2019, sales and operating income are estimated to rise 6.8% and 38.8%, respectively, year on year. Contracted Development Business, whose sales dropped in the previous term due to a special factor, is expected to recover, and sales and profit are projected to increase in all business segments, mainly Solutions Service Business. The company also plans to commercialize and expand new businesses. As for dividends, the company plans to pay a term-end dividend of 20 yen/share, up 5 yen/share from the previous term.

1. Company Overview

CREO is a system integrator that offers a variety of solutions. The company offers business solutions, including “ZeeM Series,” a business package software used by over 2,000 enterprises (Enterprise Resource Planning (ERP) for human resources, accounting, asset management, etc.) and “BIZ PLATFORM,” for business process management (BPM), which contributes to the streamlining of business operation and cost reduction, develops systems for governmental offices, municipalities, public-interest corporations, and large companies, produces and operates web systems for leading portal site operators in Japan, provides loyal clients with call-center services, and so on.

The corporate group is composed of CREO, and four consolidated subsidiaries: CoCoTo Co., Ltd., CREATE LAB Co., Ltd., ITI Co., Ltd., and Adams Communications Co., Ltd. Amano (6436) and Yahoo Japan (4689) holds 30.57% and 12.71% of shares of CREO, respectively. CREO is an equity-method affiliate of Amano. In the term ended Mar. 2018, the sales toward Fujitsu and its group companies accounted for 30.3% of consolidated sales, while the sales toward Yahoo Japan made up 13.8%.

【Corporate ethos】

We aim to trigger changes that would “impress people” and actualize an affluent society, by combining “human imagination” and “technologies around the world.”

【Philosophy infused into the logo】



The logo of CREO is infused with the three philosophies: “sensation,” “creation,” and “eternity.”

Sensation—The logo is imbued with the stance of always exceeding expectations from surrounding people and astonishing them. The logo is modeled after the exclamation mark, and the sphere represents the company itself. It denotes the spirit of co-creation through talking, thinking, and growing together.

Creation—The logo also represents the resolution to discover new combinations of knowledge, technologies, and relations (= innovations), and keep creating things. From the sphere, which depicts CREO, human resources, products, and services that would lead the next generation will be born, and grow large. With the aim of surviving for 100 years, the company will keep changing in response to changes of the times.

Eternity—The logo embraces a hope of being an enterprise serving stakeholders. The sphere denotes the company serving the customers, society, and shareholders. It indicates that CREO hopes to keep offering value that would contribute to society.

【Business details and group companies】

Its business is classified into Solutions Service Business, Contracted Development Business, West Japan Business, and subsidiaries' business domains: Systems Operation and Services Business and Support Services Business. They account for 25%, 11%, 11%, 17%, and 36% of total sales in the term ended Mar. 2018, respectively.

Solutions Service Business

The company offers “ZeeM Series,” a business package software used by over 2,000 medium-sized enterprises (enterprise resource planning (ERP) for human resources, accounting, and asset management), “BIZ PLATFORM,” for business process management (BPM), which contributes to the streamlining of business operation and cost reduction, the RPA solution for actualizing business processes that use manpower and robots by combining the know-how of ERP and BPM and the robotic process automation (RPA) technology for automating the routine tasks of white-collar workers, and so on.

Increase of new clients through the enhancement of capabilities of giving proposals and selling products, and boost of sales from existing clients through cross-selling

Under the holding company structure, each product was handled by a different subsidiary, and so there was no synergy. In Apr. 2017, the company restructured its business and organization, integrating its products in Solutions Service Business and starting integration solutions on full-scale basis. As the businesses were integrated into CREO, it became easier to cooperate with Amano (6436), which is the largest shareholder, in selling activities. Some clients of AMANO are users of CREO, and so their selling capability is expected to be brushed up (direct sale was conducted previously). As for “ZeeM Series,” which has been installed in over 2,000 enterprises, the number of users that adopted all options of human resources, accounting, asset management, etc. is not large. In this situation, the company plans to increase sales from existing clients by cross-selling “BIZ PLATFORM” and RPA solutions.

Contracted Development Business

The company undertakes the development of systems for large companies, governmental offices, and municipalities, typesetting systems for newspaper publishers, odds systems for professional sports organized by the government, etc., which require reliability and experience. As a characteristic, the transactions made via Fujitsu are dominant, and so stable growth can be expected, although there are some short-term fluctuations. It is essential to secure “manpower,” including subcontractors.

West Japan Business

This is a mini-CREO business that offers Solution Services and Contracted Development Services to clients in Nagoya and regions to the west of it. Stable growth can be expected.

Systems Operation and Services Business

This is the business domain of the consolidated subsidiary CoCoTo Co., Ltd. The company offers operation services, including the development, maintenance, and anti-hacking operation of server systems for portal sites and web services, to mainly the leading Japanese portal-site operator Yahoo Japan (4689) and its group companies. Previously, this business was operated by several group companies under the holding company, but they were integrated into CoCoTo Co., Ltd., which was established in Apr. 2016. Then, it became possible to exert the capability of the corporate group in marketing and development, and the company is making transactions with the group companies of Yahoo Japan. The company plans to boost sales from Yahoo Japan and approach its group companies, to expand its business.

Support Services Business

The company offers support services, including help desk and technical support services, and call-center services (making and receiving calls), including election exit polls, social surveys, and market research. A strength of this business is that the company offers technical services to loyal clients, including those related to Fujitsu and NEC, with a good balance. This business can be expected to grow stably, but it is necessary to secure “human resources.” Accordingly, the company makes efforts to recruit foreign workers, too.

Group Companies

Group company	Business details	Voting right
CoCoTo Co., Ltd.	Systems Operation and Services Business, including the development of systems and networks, the support for development and operation of business apps, and clerical tasks for system operation	100.0%
CREATE LAB Co., Ltd.	Support Services Business (mainly help desk services), including support services, such as technical support regarding computers and help desk services, the development of systems, and support for sale	97.5%
ITI Co., Ltd.	Support Services Business (mainly the development, operation, and maintenance of systems), including the development, operation, management, and maintenance of computer systems, and the design, building, operation, and maintenance of network systems	90.0%
Adams Communications Co., Ltd.	Support Services Business (mainly marketing research and call center services), including the planning, implementation, summarization, and analysis of surveys on public opinion, society, and markets, and the provision of inside sales and call center services	100.0%

* For CREATE LAB Co., Ltd., the employee shareholding association holds 2.5% of voting rights. ITI Co., Ltd. and Adams Communications Co., Ltd. are subsidiaries of CREATE LAB Co., Ltd.

【Corporate History】

In Mar. 1974, the company was established under the name of Tokai Create CO., LTD. for the purpose of offering information services, and in May 1980, it made inroads into the PC package software field. In Apr. 1989, it was renamed CREO CO., LTD. In Sep. 1990, it released over-the-counter shares, and in Oct. 1990, it started selling the “Fudemame” series, software for printing calligraphic characters. The sales of PC package software, mainly the “Fudemame” series, expanded, but the company also concentrated on the enterprise field, and released “CREO Business Manager Series (CBMS),” a full-scale business package software under an open environment in Feb. 1993. Then, the company diversified its business while focusing on the products for PCs targeted at individuals and the enterprise business field.

In Jan. 2005, CREO formed capital and business tie-ups with Yahoo Japan, which then became its largest shareholder. In Jun. 2007, it announced the new business brand “ZeeM” of business package software. In Apr. 2011, CREO CO., LTD. transformed into a holding company, and transferred all businesses, excluding the businesses related to governance and shares, to newly split companies (Creo Marketing Inc., Creo Solution Co., Ltd., and Fudemame Co., Ltd.), and one absorption-type split company (Creo Networks Co., Ltd.), to launch a new corporate group structure with the above 5 companies and 1 existing subsidiary (CreateLab Co., Ltd.).

In Mar. 2013, some shares were transferred from Yahoo Japan Corporation to AMANO Corporation, which then became the largest shareholder of CREO. In May 2014, the company formed a business tie-up with AMANO Corporation. In Mar. 2015, it transferred all shares of Fudemame Co., Ltd. to FPJ Co., Ltd. In Apr. 2017, it absorbed 5 consolidated subsidiaries, and launched a new corporate group structure composed of CREO and 4 consolidated subsidiaries.

Mar. 1974 Established as Tokai Create CO., LTD.

Apr. 1989 Changed name to CREO CO., LTD.

Sept. 1990 Registered for trading on the over-the-counter market

Oct. 1990 Started sales of the Fudemame series of ink brush printing software

Feb. 1993 Started sales of full-fledged business process package software in an open system environment, CREO Business Manager Series (CBMS)

Jan. 2005 Formed capital and business alliance with Yahoo Japan Corporation

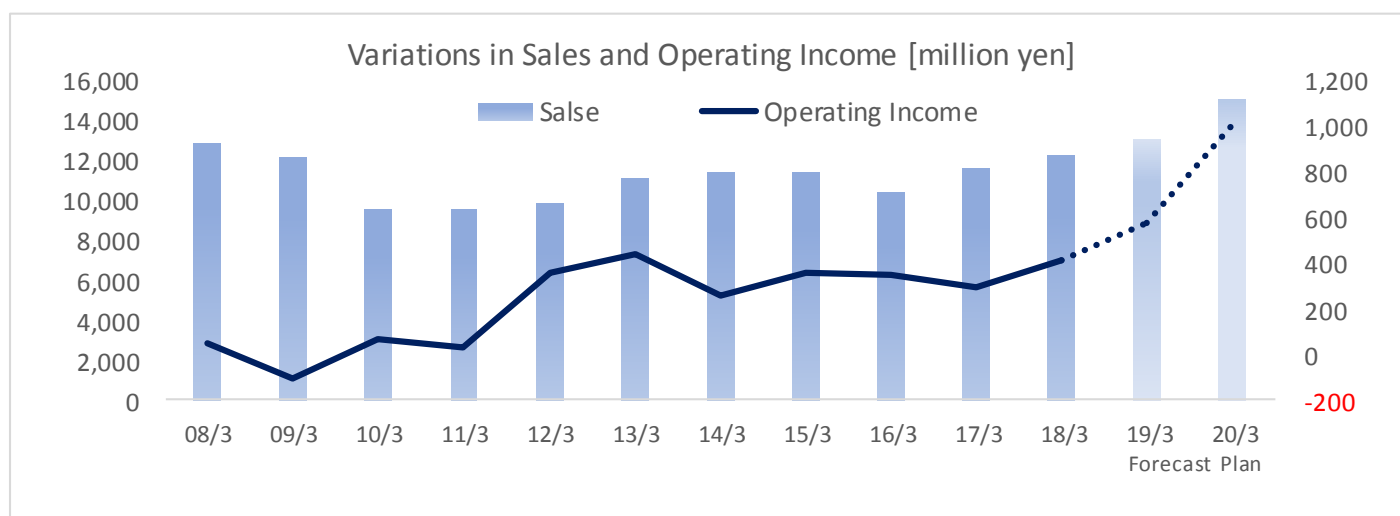
Jun. 2007 Announced the new brand “ZeeM” of business package software.

Apr. 2011 Shifted to a corporate group structure with CREO CO., LTD. being a holding company.

May 2014 Business partnership with Amano Corporation

Mar. 2015 Transferred all shares of Fudemame Co., Ltd. to FPJ Co., Ltd.

Apr. 2017 Merged 5 consolidated subsidiaries, launched new Group structure



2. Fiscal Year March 2018 Earnings Results

(1) Consolidated Earnings

(Unit: Million yen)

	FY3/17	Ratio to sales	FY3/18	Ratio to sales	YoY Change	Initial Est.	Divergence
Sales	11,559	100.0%	12,268	100.0%	+6.1%	12,500	-1.9%
Gross Profit	2,287	19.8%	2,545	20.7%	+11.3%	-	-
SG & A	1,990	17.2%	2,134	17.4%	+7.2%	-	-
Operating Income	296	2.6%	410	3.3%	+38.3%	400	+2.7%
Ordinary Income	333	2.9%	457	3.7%	+37.3%	410	+11.7%
Net Income	267	2.3%	305	2.5%	+14.4%	280	+9.2%

*Figures include reference figures calculated by Investment Bridge Co., Ltd. Actual results may differ (same applies to all tables in this report).

Sales and operating income grew 6.1% and 38.3%, respectively, year on year.

Sales were 12,268 million yen, up 6.1% year on year. As the sales of Systems Operation and Services Business rose 19.2% year on year, due to the increase of orders from major clients, all businesses saw sales growth, except Contracted Development Business, which was affected by the loss of large-scale transactions.

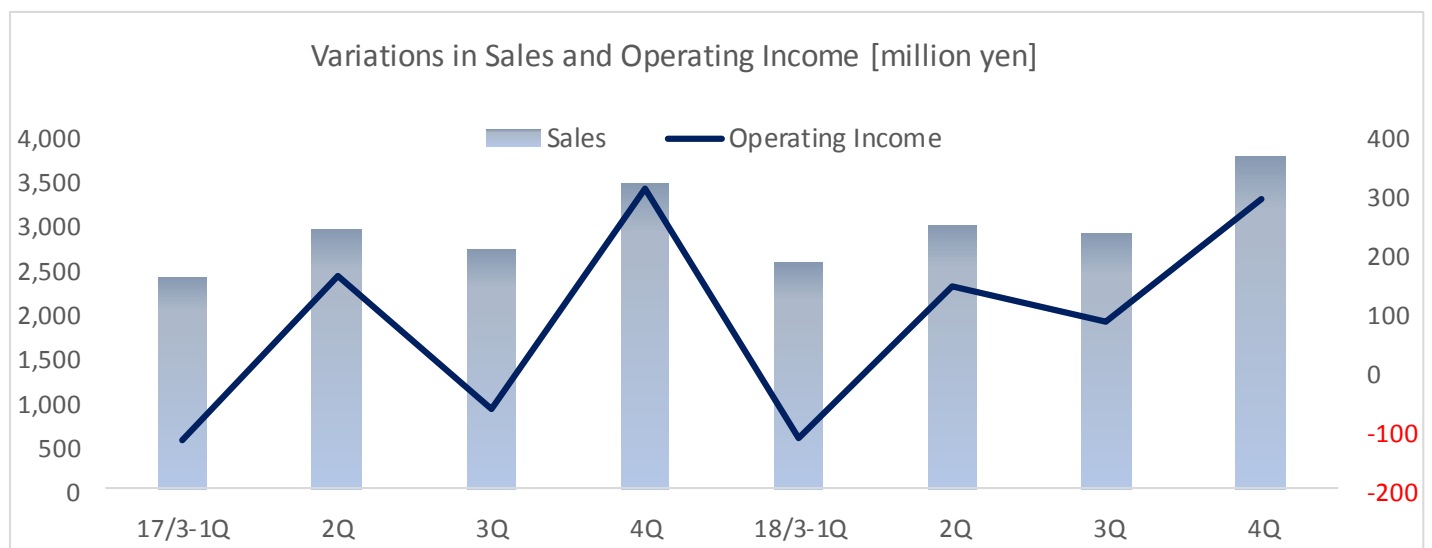
As for profit, operating income rate improved thanks to the cost optimization through the restructuring of its business and organization, although SG&A ratio augmented, due to the about 5% increase of base salaries and the rise in investment and expenses. The growth rate of net income was only 14.4%, because the gain from the termination of the retirement benefit scheme and the gain from sale of investment securities dropped and tax burden ratio augmented from 26% to 29%.

As for dividends, the company plans to pay a term-end dividend of 15 yen/share, up 1 yen/share from the initial estimate or up 2 yen/share from the previous term (payout ratio: 40.8%). In the ongoing mid-term business plan, CREO aims to “keep payout ratio at 40%.”

Breakdown of SG&A

(Unit: Million yen)

	FY3/17	Composition ratio	FY3/18	Composition ratio	Increase/decrease	Increase/decrease (%)
Sales promotion cost	5	0.3%	4	0.2%	-1	-
Advertisement cost	59	3.0%	79	3.7%	+20	-
Personnel expenses	755	37.9%	916	42.9%	+161	+21.3%
Other	1,169	58.7%	1,134	53.1%	-35	-3.0%
Total	1,990	100.0%	2,134	100.0%	+144	+7.2%



The deadlines for solutions of human resources, salaries, and accounting in Solutions Service Business and the deadlines for system development for governmental offices outsourced via the Fujitsu Group are concentrated around the end of the fiscal year, and so the sales in the fourth quarter tend to be larger than those in the other quarters.

(2) Trend in each segment

(Unit: Million yen)

	FY 3/17	Composition ratio/ profit rate	FY 3/18	Composition ratio/ profit rate	YoY Change	Initial Est.	Divergence
Solutions Service	2,866	24.8%	3,018	24.6%	+5.3%	3,160	-4.5%
Contracted Development	1,537	13.3%	1,404	11.4%	-8.7%	1,750	-19.7%
West Japan Business	1,234	10.7%	1,378	11.2%	+11.6%	1,320	+4.4%
Systems Operation and Services	1,719	14.9%	2,049	16.7%	+19.2%	1,990	+3.0%
Support Services (adjustment)	4,200	36.3%	4,417	36.0%	+5.2%	4,280(-120)	+3.2%
Consolidated sales	11,559	100.0%	12,268	100.0%	+6.1%	12,500	-1.9%
Solutions Service	199	6.9%	414	13.7%	+108.2%	384	+7.9%
Contracted Development	351	22.8%	267	19.0%	-23.8%	377	-29.1%
West Japan Business	100	8.1%	139	10.1%	+39.0%	108	+29.4%
Systems Operation and Services	120	7.0%	133	6.5%	+11.4%	130	+3.0%
Support Services	176	4.2%	198	4.5%	+12.2%	130	+52.5%
Adjustment	-650	-	-742	-	-	-729	-
Consolidated operating income	296	2.6%	410	3.3%	+38.3%	400	+2.7%

Solutions Service Business, including “ZeeM Series,” earned sales of 3,018 million yen (up 5.3% year on year), and an operating income of 414 million yen (up 108.2%). The sales grew, thanks to the shift of sales and marketing strategies (integration solution = proposals for combined marketing for product and services) after the restructuring of its business and organization at the beginning of the term. Operating income rate increased, due to sales growth and the effects of the withdrawal from unprofitable businesses, optimization of expenditure, etc.

As for Contracted Development Business, in which CREO is entrusted with system development by large companies, governmental offices, municipalities, public institutions, etc., the loss of orders for transactions with the Fujitsu Group in the first quarter affected its performance, and sales declined 8.7% year on year to 1,404 million yen and operating income dropped 23.8% year on year to 267 million yen. The amount of orders was as initially estimated, as it increased in the fourth quarter.

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As for West Japan Business, in which the company sells products and services and undertakes development for clients in Nagoya and regions to the west of it, sales grew 11.6% year on year to 1,378 million yen and operating income rose 39.0% year on year to 139 million yen, due to the increase of development projects entrusted by existing clients, etc.

As for Systems Operation and Services Business, in which the company develops, maintains, and operates systems for mainly Yahoo Japan and its group companies, sales increased 19.2% year on year to 2,049 million yen and operating income rose 11.4% year on year to 133 million yen, as it received orders from major clients, etc.

As for Support Services Business, which offers help desk, technical support, and call center services, sales grew 5.2% year on year to 4,417 million yen and operating income increased 12.2% year on year to 198 million yen, as the number of orders for call center services rose.

Variations in quarterly sales and profit

(Unit: Million yen)

	FY 3/17-1Q	2Q	3Q	4Q	FY 3/18-1Q	2Q	3Q	4Q
Solutions Service	609	764	594	899	626	687	689	1,016
Contracted Development	274	387	302	574	172	366	268	598
West Japan Business	210	327	321	376	248	332	296	502
Systems Operation and Services	395	443	431	450	479	508	520	542
Support Services	929	1,039	1,058	1,174	1,050	1,112	1,142	1,113
Consolidated sales	2,420	2,959	2,706	3,473	2,577	3,004	2,915	3,770
Solutions Service	-3	77	-38	163	16	97	88	213
Contracted Development	17	126	59	149	4	94	37	132
West Japan Business	-1	22	13	66	7	34	27	71
Systems Operation and Services	-4	49	25	50	23	20	28	62
Support Services	37	39	53	47	29	69	84	16
Adjustment	-164	-150	-175	-161	-196	-168	-179	-199
Consolidated operating income	-119	165	-62	313	-115	145	84	296

(3) Financial Position and Cash Flow

Financial Position

(Unit: Million yen)

	Mar. 2017	Mar. 2018		Mar. 2017	Mar. 2018
Cash and deposits	3,328	3,483	Payables	531	518
Receivables	2,234	2,514	Unpaid expenses	291	324
Inventory assets	147	239	Unpaid taxes	65	119
Current Assets	5,990	6,457	Bonus reserves	399	490
Tangible assets	352	328	Current Liabilities	1,941	2,067
Intangible assets	600	463	Noncurrent Liabilities	154	142
Investments, others	312	276	Net Assets	5,160	5,315
Noncurrent Assets	1,265	1,068	Total Liabilities, Net Assets	7,255	7,525

Term-end total assets were 7,525 million yen, up 270 million yen from the end of the previous term. Cash and deposits account for 46.3% of total assets (45.9% at the end of the previous term), and current ratio was 312.4% (308.6% at the end of the previous term). Namely, its financial standing is highly liquid. Capital-to-asset ratio was as high as 70.2% (70.7% at the end of the previous term), indicating high financial stability. Return on invested capital was 5.6%, up 1.3 points from the end of the previous term (4.3% at the end of the term ended Mar. 2017). We would like to expect that the performance of CREO will improve further, as it will expand its business, mainly Solutions Service Business, through cross-selling, etc. and improve profitability.

Cash Flow (CF)

(Unit: Million yen)

	FY 3/17	FY 3/18	YoY Change	
Operating cash flow (A)	502	429	-73	-14.5%
Investing cash flow (B)	-529	-109	+420	-
Free cash flow (A+B)	-27	320	+347	-
Financing cash flow	-243	-165	+78	-
Cash, equivalents at end term	3,328	3,483	+155	+4.7%

The surplus of operating CF declined due to the increase of working capital through business expansion, but the deficit of investment CF shrank as there were no longer guarantee money deposited, equipment investment, or the like accompanying the relocation of the headquarters. Accordingly, the company secured a free CF of 320 million yen,

Reference: ROE Analysis

	FY 3/14	FY 3/15	FY 3/16	FY 3/17	FY 3/18
ROE	0.96%	4.57%	8.36%	5.21%	5.86%
Net income rate	0.39%	1.86%	4.01%	2.31%	2.49%
Total asset turnover (times)	1.71	1.64	1.45	1.61	1.66
Leverage (times)	1.46	1.49	1.44	1.40	1.42

* ROE (Return on equity) is obtained by multiplying “net income rate (net income ÷ sales),” “total asset turnover (sales ÷ total assets),” and “leverage (total assets ÷ equity capital, or the reciprocal of capital-to-asset ratio).” ROE = Net Income Rate × Total Asset Turnover × Leverage

* The above values were calculated based on the data of brief financial reports and securities reports. The total assets and equity capital used for the calculation were the average values of the balances as of the end of the previous term and as of the end of the current term. (Since the capital-to-asset ratio posted in brief financial reports and securities reports is the term-end value, and so its reciprocal does not necessarily equal the above average.)

ROE improved 0.65 points, thanks to sales growth and the rise in profitability through the restructuring of its business and organization. In the ongoing mid-term business plan, one of numerical goals in the term ending Mar. 2020, which is the final fiscal year of the plan, is an ROE of 11.5%. The company hopes to attain its goals by increasing total asset turnover by boosting the top line to 15 billion yen (expanding leverage as well) and raising operating income rate to 6.7% by strengthening its earning capability.

3. Mid-term Business Plan (FY 3/18 to FY 3/20) and Its Progress**【Basic policy】**

The basic policies are (1) recognizable growth potential, (2) the comprehensive capability of the corporate group, (3) stable return to shareholders, and (4) the enhancement of corporate governance.

As for (1) recognizable growth potential, the company aims to achieve sales of 15 billion yen and an operating income of 1 billion yen (operating income rate: 6.7%) in the term ended Mar. 2020, which is the final year of the mid-term plan, marking a record high exceeding the operating income of 880 million yen after the release of Windows 95, which is attributable to “Fudemame.” As for (2) the comprehensive capability of the corporate group, CREO will enhance cross-selling and inter-sectoral cooperation, while creating new businesses. As for (3) stable return to shareholders, the company will keep payout ratio at 40%, and acquire treasury shares with excess over a capital-to-asset ratio of 70%. As for (4) the enhancement of corporate governance, the company plans to promote dialogue with shareholders, revise systems for executives’ remunerations, and appoint independent executives (outside directors or auditors).

【Progress in the term ended Mar. 2018】

In the term ended Mar. 2018, which is the first year of the mid-term business plan, CREO merged with 5 consolidated subsidiaries at the beginning of the term, established three businesses: Solutions Service Business, Contracted Development Business, and West Japan Business, and operated them.

For the basic policies, the company achieved the following: (1) As for recognizable growth potential, it achieved the initial estimate of operating income, as cost optimization progressed after the merger. (2) As for the comprehensive capability of the corporate group, the company succeeded

in receiving orders for large-scale transactions, as it actively proposed integration services combining products (“development of a base for personnel utilization after the merger of businesses” of Tobe Top Tours Co., Ltd.). In addition, the company released “CREO RPA Service*” as a new business. (3) As for stable return to shareholders, the company raised the dividend amount from 14 yen/share, which is the initial estimate, to 15 yen/share, up 2 yen/share from 13 yen/share in the previous term, in order to keep payout ratio over 40%. (4) As for the enhancement of corporate governance, the company continued upgrading its advisory function, and appointed Mr. Hiroshi Amano, the former representative director and president of Fujitsu Software Technologies Ltd. as an independent outside director in Jun. 2017. In addition, the company strives to enrich the documents related to its business performance and financial results, including its website, and improve its IR activities.

* CREO RPA Service

Robotic Process Automation (RPA) technology, which is called digital labor, is attracting attention as a business automation solution with high convenience and cost performance, and has been already adopted by some enterprises on a full-scale basis. On the other hand, many enterprises are reluctant to install the RPA technology, because it is cumbersome to develop operational processes for the coexistence between human workers and RPA robots and revise the IT control systems, and it is difficult to estimate the return on investment (ROI) for this new technology. CREO RPA Service is a cloud-type RPA service that enables the automation of mission-critical tasks by combining the know-how of ERP and BPM and the RPA technology. This technology was developed and merchandized, under the concept of “RPA that can be adopted by many enterprises without worry.” Its five features are (1) the visualization of operational processes involving human workers and robots, and the actualization of their control, (2) the automation of mission-critical tasks with comprehensive IT control, (3) the provision of business consulting services for accounting, human resources, and IT sections for utilizing RPA, (4) the provision of services of supporting proof of concept (PoC), and (5) the contribution to ROI rationalization with a pay-as-you-go system according to the time of use of robots.

【Numerical goals and results】

(Unit: Million yen)

	Results for FY 3/17	Results for FY 3/18 (initial year)	Forecast for FY 3/19 (middle year)	Plan for FY 3/20 (final year)
		Resetting of goals	Time of change	To prove capability
Sales	11,559	12,268	13,100	15,000
Operating income	296	410	570	1,000

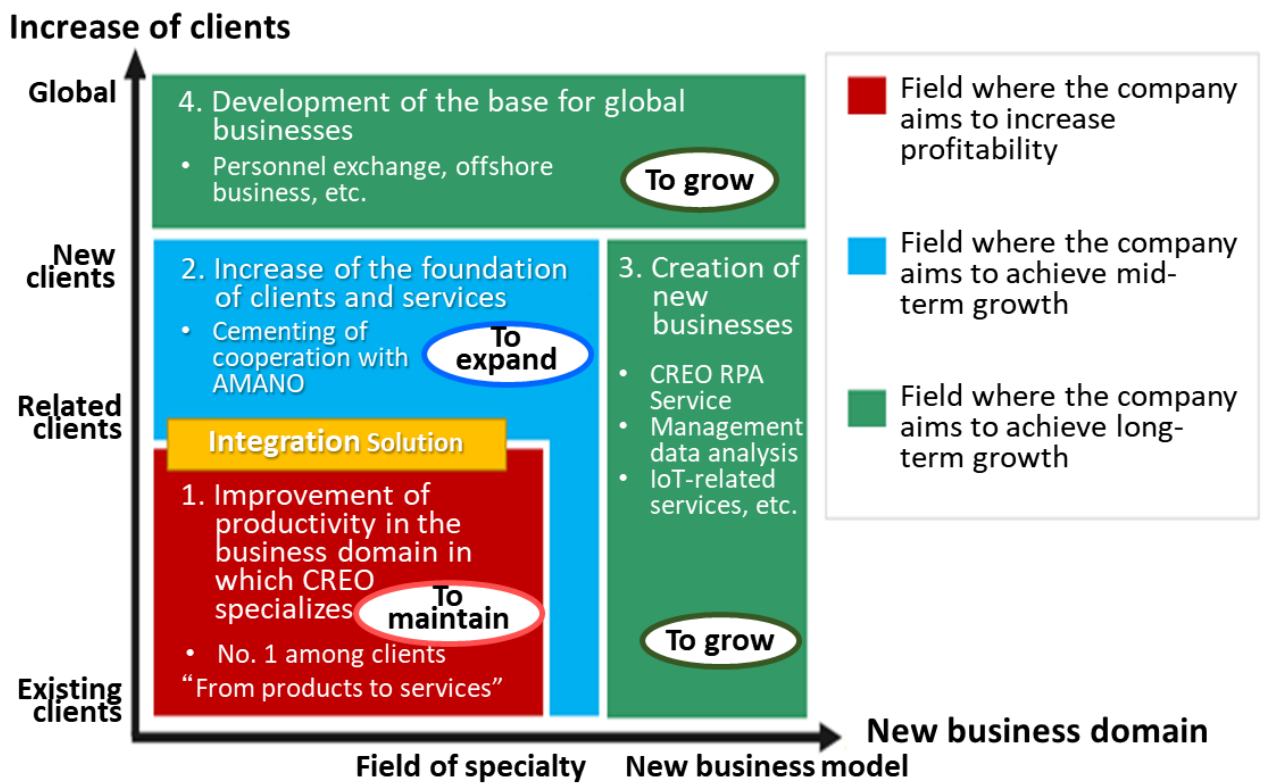
CREO evaluated the results for the term ended Mar. 2018, mentioning “The business operation based on the mid-term business plan produced some results, as risks were dispersed and mutual complement was conducted appropriately among several businesses under the new structure.”

For the term ending Mar. 2019, it is expected that the sales and profitability of Solutions Service Business will improve, Contracted Development Business will recover, and other businesses, too, will be healthy. The company plans to invest funds into new businesses, such as “CREO RPA Service” by using profits from the existing businesses.

For the term ending Mar. 2020, it is expected that the sales and profitability of Solutions Service Business will improve, as integration solutions and cross-selling will get on track. As for Contracted Development Business, West Japan Business, Systems Operation and Services Business, and Support Services Business, it will be necessary to secure personnel for some businesses, but the products targeted at existing loyal clients and group companies are expected to sell well.



【Conceptual diagram of growth strategies】



(Taken from the reference material of the company)

Efforts to become the company most liked by clients, through the shift from “products” to “services”

CREO will shift to “integration solutions” for not only selling products, such as the business package software “ZeeM Series,” BPM “BIZ PLATFORM,” and “CREO RPA Service,” but also services for solving problems in each enterprise. To do so, the company will enrich the lineup of other makers’ products, too, and offer them by connecting products, which are “points,” to draw “lines.”

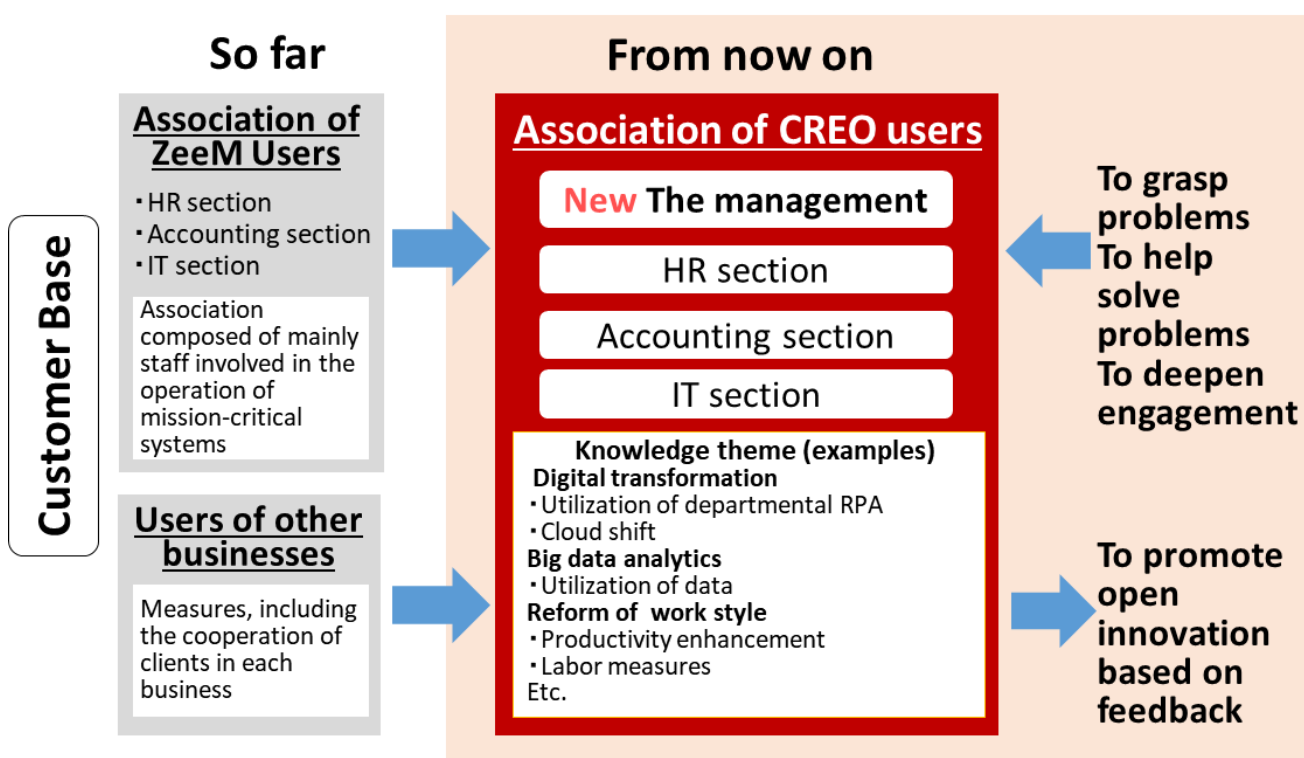
For example, in a large-scale project for integration solutions outsourced by Tobu Top Tours Co., Ltd. in the term ended Mar. 2018, the client highly evaluated the proposal for the development of a business base with “ZeeM Jinji-kyuuyo (human resources and salaries),” “TimePro-VG,” which is a system for employment management of AMANO, and “BIZ PLATFORM,” which is a business process management tool. Tobu Top Tours Co., Ltd. is a comprehensive travel agency established through the merger of Tobu Travel and Top Tour in 2015. The company has been striving to reform the systems for human resources, labor affairs, and objectives management, to improve human resources and reform of work style.

“CREO RPA Service,” the service on which the company concentrates

As described above, “CREO RPA Service” is a cloud-type RPA service that enables the automation of mission-critical tasks based on internal control functions (management of robot production, release, and inquiries) by combining the know-how of ERP and BPM and the RPA technology. By visualizing operational processes involving human workers and robots and actualizing their control, it is possible to prepare for digital transformation through the installation of AI. It is equipped as standard with robot templates for each of the accounting, human resources, and IT sections. For installation, the company offers consulting services (for the early commencement of operation of RPA and the rationalization of business operation). The proof-of-concept (PoC) support service is also available, and the company adopted the pay-as-you-go system according to the period of use of robots (contributing to the rationalization of ROI).

Deepening of engagement with clients

The company will also deepen the engagement with clients via the association of CREO users. “The association of ZeeM users (human resources and accounting sections),” which had been the association only for ZeeM users, will include all CREO users, based on the experience and know-how accumulated so far, and will be renewed as “the association of CREO users.” With the aim of being most liked by clients, the company will offer helpful information to the sections of human resources, business administration, and IT, and employers, as an IT concierge that can provide consultation for solving problems with business administration and operation.



(Taken from the reference material of the company)

Investment in human resources for enabling the implementation of strategies

While reforming its workstyle, CREO will take measures to become a healthy company. For reforming its workstyle, the company aims to improve the working environment by revising human resources systems, and will tentatively adopt “telework” for increasing the degree of freedom of working. In addition, the company will raise base salaries. For becoming a healthy company, CREO will continue to support daily exercise with a pedometer and survey health indicators, to improve them.

In Feb. 2018, the subsidiary Create Lab Group obtained “White 500, the certification as a healthy, excellent corporation” (section of large-scale corporations). “Excellent corporations with healthy management—White 500” is a system targeted at large-scale corporations for certifying excellent corporations with healthy management and jointly organized by the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi.

4. Fiscal Year March 2019 Earnings Estimates

Consolidated Earnings

(Unit: Million yen)

	FY3/18 Act.	Ratio to sales	FY3/19 Est.	Ratio to sales	YoY Change
Sales	12,268	100.0%	13,100	100.0%	+6.8%
Operating Income	410	3.3%	570	4.4%	+38.8%
Ordinary Income	457	3.7%	590	4.5%	+28.8%
Net Income	305	2.5%	400	3.1%	+30.9%

Sales and operating income are estimated to grow 6.8% and 38.8%, respectively, year on year.

Sales are projected to rise 6.8% year on year to 13.1 billion yen. Considering the tight demand and supply of labor force, it is conservatively forecasted that the sales of Support Services Business will increase 1.9%, while the sales of Solutions Service Business are projected to grow 12.7% year on year thanks to the transactions for integration solutions made in the previous term, and the sales of Contracted Development Business are estimated to rise 21.1% year on year due to the recovery of the number of orders. The sales of West Japan Business, Systems Operation and Services Business, which have loyal clients, are estimated to increase as high as 7 to 9%, as the company will promote sales from existing clients.

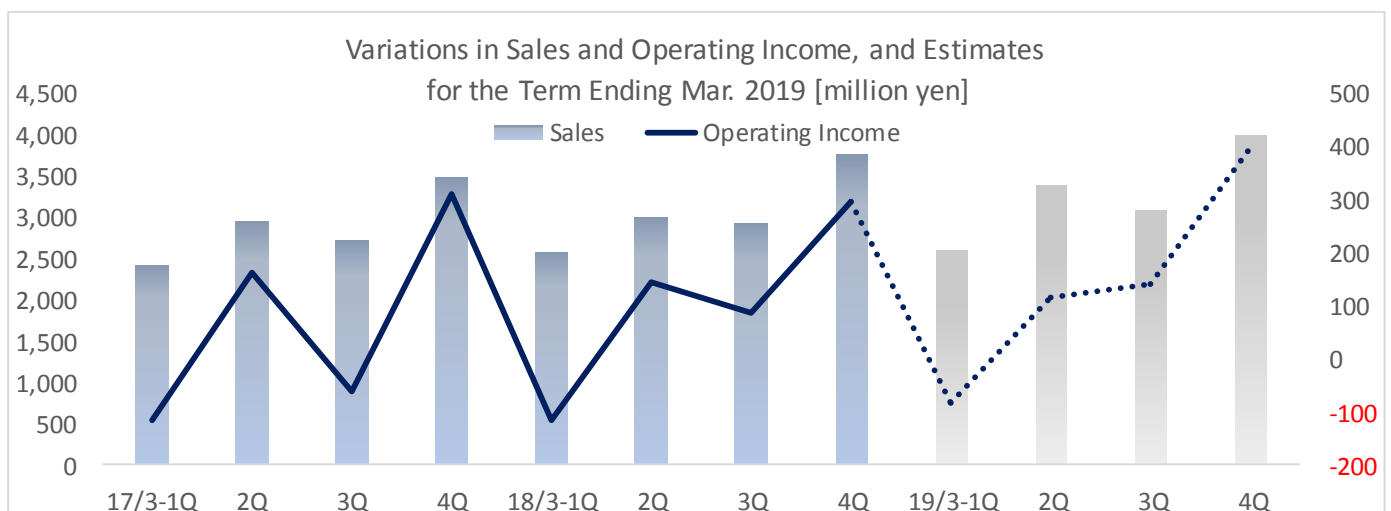
Operating income is forecasted to grow 38.8% year on year to 570 million yen. Solutions Service Business, whose profitability will be improved further, and Contracted Development Business, whose sales will grow due to the recovery of the number of orders, will contribute. West Japan Business, Systems Operation and Services Business, and Support Services Business are forecasted to keep increasing profit, despite the augmentation of cost for securing personnel, etc.

For dividends, the company plans to pay a term-end dividend of 20 yen/share, up 5 yen/share from the previous term (estimated payout ratio: 41.6%).

Sales and profit in each segment

(Unit: Million yen)

	Results for FY 3/18	Composition ratio/ profit rate	Estimate for FY 3/19	Composition ratio/ Profit rate	YoY Change
Solutions Service	3,018	24.6%	3,400	26.0%	+12.7%
Contracted Development	1,404	11.4%	1,700	13.0%	+21.1%
West Japan Business	1,378	11.2%	1,500	11.5%	+8.9%
Systems Operation and Services	2,049	16.7%	2,200	16.8%	+7.4%
Support Services	4,417	36.0%	4,500	34.4%	+1.9%
Adjustment	-	-	-200	-	-
Consolidated Sales	12,268	100.0%	13,100	100.0%	+6.8%
Solutions Service	414	13.7%	500	14.7%	+20.8%
Contracted Development	267	19.0%	360	21.2%	+34.8%
West Japan Business	139	10.1%	140	9.3%	+0.7%
Systems Operation and Services	133	6.5%	150	6.8%	+12.8%
Support Services	198	4.5%	210	4.7%	+6.1%
Adjustment	-742	-	-791	-	-
Consolidated Operating Income	410	3.3%	570	4.4%	+39.0%



5. Conclusions

At the session for briefing financial results, President Kakizaki summarized the results for the term ended Mar. 2018, “The performance in the initial year of the mid-term business plan was healthy, although there were no remarkable changes.” Actually, their efforts based on the basic policies paid off, as each profit exceeded the initial estimate and the marketing with proposals for integration solutions led to the receipt of orders for large-scale transactions (which will contribute to the revenue in the term ending Mar. 2019). Operating income rate was 3.3%, much lower than 6.7%, which is the target value in the mid-term business plan. This is mainly because the improvement in productivity in the major business field has just began after the shift from “products” to “services.” Considering the performance of its competitors, the hurdle can be overcome, and it is important that the company will proceed with their activities. Fortunately, their business environment is good. The information and communication technology (ICT) service market, on which CREO focuses, is expected to keep growing, due to the sophistication of social infrastructure with ICT, the utilization of IoT, big data, AI, robot technology, etc. in a broad range of industries, the use of ICT for reforming work style, etc. In the field of reform of work style, the company possesses competitive products and experience. We would like to pay attention to the effects of their capital and business tie-ups with AMANO and business operation utilizing their corporate group’s comprehensive capability.

Reference: Regarding Corporate Governance

◎ Organization type, and the composition of directors and auditors

Organization type	Company with audit and supervisory board
Directors	7 directors, including 2 outside ones
Auditors	3 auditors, including 2 outside ones

◎ Corporate Governance Report

Updated on Jun. 22, 2017

Basic policy

Our company believes that establishing appropriate corporate governance systems and striving to improve them constantly would improve the transparency and fairness of our business administration, and our corporate value. While considering that the observance of the corporate governance code would contribute to the establishment of our better governance, we will adopt the supplementary principles and the principles other than the basic 5 principles, too, one after another. The details of the already adopted principles are written in this report.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

As a company listed in JASDAQ, our company follows all of the basic principles of the corporate governance code. As for supplementary principles and the principles other than the basic ones that need to be disclosed and that are already followed by our company, they are outlined in the “Disclosure Based on the Principles of the Corporate Governance Code” below.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

<Principle 1-3 Basic policy for capital measures>

Our basic policy for capital measures, especially the policy for return to shareholders, has been disclosed in our website and mid-term business plan.

Regarding return to shareholders and dividends

<https://www.creo.co.jp/ir/stock-info/stock-reduction/>

<Principle 1-4 Disclosure of policies for strategically held shares>

As for strategically held shares, we set policies for shareholding and exercising voting rights, and disclose them through the timely disclosure below. In principle, we will not hold new shares, and plan to reduce currently held shares step by step.

Dated Jul. 29, 2016

Notification on the basic policy regarding strategically held shares and the state of shareholding

<https://www.creo.co.jp/news/n160729-2/>

Bridge Report



<Principle 3-1 Enrichment of information disclosure>

Out of the items to be disclosed specified in this principle, “(i) Corporate vision (ethos, etc.), management strategies, and plans” are disclosed as follows.

Corporate ethos and guidelines for action

<https://www.creo.co.jp/corporate/concept/>

Mid-term business plan (FY 2017 to FY 2019)

<https://www.creo.co.jp/ir/plan/>

This report is intended solely for informational purposes, and is not intended as a solicitation to invest in the shares of this company. The information and opinions contained within this report are based on data made publicly available by the Company, and comes from sources that we judge to be reliable. However we cannot guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and or opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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