

Bridge Report CREO CO., LTD. (9698)

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|---------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------|
|  President and Representative Director Junichi Kakizaki | Company | CREO CO., LTD. |  |
| | 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 |
|-------------|-----------------------------------------------------|------------|------------------|--------------|--------------|
| ¥1,022 | 8,299,353 shares | | ¥8,481 million | 5.9% | 100 shares |
| DPS (Est.) | Dividend yield (Est.) | EPS (Est.) | PER (Est.) | BPS (Actual) | PBR (Actual) |
| ¥20.00 | 2.0% | ¥48.20 | 21.2 times | ¥636.37 | 1.6 times |

*The share price is the closing price on November 5. 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, for the first half of term ending Mar. 2019, and includes the outlook for the term ending Mar. 2019.

1. Company Overview
2. First Half of Fiscal Year March 2019 Earnings Results
3. Mid-term Business Plan (FY3/18 to FY3/20) and Its Progress
4. Fiscal Year March 2019 Earnings Estimates
5. Conclusions

Key Points

- In the first half of the term ending Mar. 2019, sales rose 10.7% year on year, and operating income grew 411.1% year on year. Both sales and profits exceeded the initial forecast. Four out of the company's five businesses grew by over 10%, and sales increased. Profitability in main businesses was also improved. With the contribution of highly profitable, large-scale integrated solutions, profit in the Solutions Service Business rose 61%, and profit in the Systems Operation and Services Business increased by over 83% due to new large-scale projects and improvement in average spending per customer.
- There is no revision to the full-year forecast. Sales and operating income are estimated to rise 6.8% and 38.8%, respectively, year on year. While the company is not particularly worried about prospects in the second half, the company's performance is weighted in the 4th quarter, and the status of orders needs to be ascertained at the end of the 3rd quarter. There may also be further expenses related to the hiring, securing, and training of staff. Due to these reasons, the company did not make any changes to the forecast. The company plans to pay a term-end dividend of 20 yen/share, up 5 yen/share from the previous term. The estimated payout ratio is 41.6%.
- Due to the restructuring of the company group that took place in Apr. 2017, CREO changed their business model. The company is beginning to see positive results from this, which ties into their current strong business performance. As such, it is expected that the favorable trend in orders received is sustainable. The term ending Mar. 2020 is the final year of the mid-term business plan, and targets are set high, with sales of 15 billion yen and an operating income of 1 billion yen. The probability that the company will achieve these targets may increase depending on trends in the second half of the term ending Mar. 2019. Momentum is good, and we are looking forward to how much performance will exceed the initial estimates this 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.

2.First Half of Fiscal Year March 2019 Earnings Results**(1) Consolidated Earnings**

(Unit: Million yen)

| | FY3/18 1H | Ratio to sales | FY3/19 1H | Ratio to sales | YoY Change | Initial Est. | Divergence |
|------------------|-----------|----------------|-----------|----------------|------------|--------------|------------|
| Sales | 5,582 | 100.0% | 6,181 | 100.0% | +10.7% | 6,000 | +3.0% |
| Gross Profit | 1,077 | 19.3% | 1,235 | 20.0% | +14.7% | - | - |
| SG & A | 1,047 | 18.8% | 1,082 | 17.5% | +3.3% | - | - |
| Operating Income | 29 | 0.5% | 152 | 2.5% | +411.1% | 30 | +409.8% |
| Ordinary Income | 58 | 1.0% | 184 | 3.0% | +215.6% | 50 | +269.3% |
| Net Income | 20 | 0.4% | 129 | 2.1% | +522.2% | 20 | +548.9% |

*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 rose 10.7% and 411.1%, respectively, year on year.

Sales increased 10.7% year on year to 6,181 million yen, and main businesses experienced double-digit growth. Sales in the Solution Services Business grew 13.5% due to orders for large-scale comprehensive solutions combining multiple products and services. Sales rose 21.6% in the Contracted Development Business after orders began to increase again, and 14.7% sales growth occurred in the West Japan Business, particularly for solution services such as “ZeeM.” Orders for new large-scale projects and boosted average spending per customer increased sales in the Systems Operation and Services Business by 18.4%. Sales in the Support Services Business also grew 1.7% year on year, offsetting the decline in survey service orders from existing customers.

In addition to the increase in sales, profitability improved, and operating income grew 5.2 times year on year to 152 million yen. The profit rate in the Solution Services Business (whose profit rose 61.4% year on year) increased 3.8 points to 12.3%, due to cost reduction and the contribution of highly profitable, large-scale comprehensive solutions. In the Systems Operation and Services Business (whose profit grew 83.1% year on year), the profit rate improved by 2.3 points. The West Japan Business (whose profit grew 35.5% year on year) performed well thanks to sales of package software, and profit rate improved by 1.3 points.

Quarterly sales and operating income

(Unit: Million yen)

| | 17/3-1Q | 2Q | 3Q | 4Q | 18/3-1Q | 2Q | 3Q | 4Q | 19/3-1Q | 2Q |
|-------------------|---------|-------|-------|-------|---------|-------|-------|-------|---------|-------|
| Sales | 2,420 | 2,959 | 2,706 | 3,474 | 2,577 | 3,005 | 2,915 | 3,771 | 2,839 | 3,342 |
| Initial estimates | | | | | | | | | 2,600 | 3,400 |
| Operating income | -118 | 164 | -62 | 312 | -115 | 144 | 85 | 296 | 4 | 148 |
| Initial estimates | | | | | | | | | -85 | 115 |

In the Solution Services Business, deliveries of personnel salary and accounting solutions will be concentrated at the end of this term (end of the 4th quarter) in preparation for the switch taking place next term, and in the Contracted Development Business, system development for public offices that is contracted through the Fujitsu Group will have deadlines concentrated at the end of this term. Because of this, the company's performance will be weighted towards the 4th quarter. Additionally, although operating loss often occurs in the first quarter, this term the company recorded operating income due to receiving large-scale orders in the Solution Services Business.

(2) Trend in each segment

(Unit: Million yen)

| | FY 3/18 1H | Composition ratio/ profit rate | FY 3/19 1H | Composition ratio/ profit rate | YoY Change | Initial Est. | Divergence |
|--------------------------------------|--------------|-----------------------------------|--------------|-----------------------------------|----------------|--------------|----------------|
| Solutions Service | 1,313 | 23.5% | 1,491 | 24.1% | +13.5% | 1,450 | +2.9% |
| Contracted Development | 538 | 9.6% | 654 | 10.6% | +21.6% | 760 | -13.9% |
| West Japan Business | 580 | 10.4% | 665 | 10.8% | +14.7% | 630 | +5.7% |
| Systems Operation and Services | 987 | 17.7% | 1,169 | 18.9% | +18.4% | 1,080 | +8.2% |
| Support Services (adjustment) | 2,162 | 38.7% | 2,200 | 35.6% | +1.7% | 2,200 | +0.0% |
| Consolidated sales | 5,582 | 100.0% | 6,181 | 100.0% | +10.7% | 6,000 | +1.0% |
| Solutions Service | 113 | 8.5% | 183 | 12.3% | +61.4% | 125 | +46.6% |
| Contracted Development | 98 | 18.2% | 114 | 17.5% | +17.0% | 135 | -15.0% |
| West Japan Business | 41 | 7.1% | 56 | 8.4% | +35.5% | 30 | +87.1% |
| Systems Operation and Services | 43 | 4.4% | 78 | 6.7% | +83.1% | 50 | +57.8% |
| Support Services | 98 | 4.6% | 99 | 4.5% | +0.5% | 73 | +35.8% |
| Adjustment | -364 | - | -379 | - | - | -383 | - |
| Consolidated operating income | 29 | 0.5% | 152 | 2.5% | +411.1% | 30 | +409.8% |

The Solution Services Business provides solution services, including the personnel salary and accounting solution “ZeeM.”

Sales were 1,491 million yen, and operating income was 183 million yen, up 13.5% and 61.4%, respectively, year on year. Both exceeded initial estimates. Sales grew due to orders for comprehensive solutions proposing combinations of products and services. Profitability also improved, due to cost reduction and increased sales of highly profitable product licenses centered on comprehensive solutions.

The Contracted Development Business is a contracted systems development service for large companies, including the Fujitsu Group and Amano Corporation.

Sales were 654 million yen and operating income was 114 million yen, up 21.6% and 17.0%, respectively, year on year. As a reaction of losing projects from major existing customers in the same period of the previous term, sales and profits increased, but fell short of initial estimates due to some projects being pushed into the second half.

The West Japan Business provides contracted development services and selling in-house products and services to customers located west of Nagoya.

Sales were 665 million yen, and operating income was 56 million yen, up 14.7% and 35.5%, respectively, year on year. Both exceeded initial estimates. Sales grew with improved profitability following an increase in the sale of solution services such as “ZeeM.”

The Systems Operation and Services Business includes system development, maintenance and operation services for operators of major portal sites in Japan.

Sales were 1,169 million yen, and operating income was 78 million yen, up 18.4% and 83.1%, respectively, year on year. Both exceeded initial estimates. Sales increased with greater profitability accompanying large-scale orders from new customers and improved unit prices for orders from existing customers.

The Support Services Business provides support services such as help desk and technical support, as well as call center services such as social surveys and market surveys.

Sales were 2.2 billion yen, and operating income was 99 million yen, up 1.7% and 0.5%, respectively, year on year. Despite a decline in orders of survey services from existing customers in the first quarter, sales grew year on year, as per initial estimates. Profits rose due to cost reductions and other factors.

Variations in quarterly sales and profit

(Unit: Million yen)

| | FY 3/18-1Q | 2Q | 3Q | 4Q | FY 3/19-1Q | 2Q |
|--------------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Solutions Service | 626 | 687 | 689 | 1,016 | 683 | 808 |
| Contracted Development | 172 | 366 | 268 | 598 | 255 | 399 |
| West Japan Business | 248 | 332 | 296 | 502 | 295 | 370 |
| Systems Operation and Services | 479 | 508 | 520 | 542 | 572 | 597 |
| Support Services | 1,050 | 1,112 | 1,142 | 1,113 | 1,032 | 1,168 |
| Consolidated sales | 2,577 | 3,005 | 2,915 | 3,771 | 2,839 | 3,342 |
| Solutions Service | 16 | 97 | 88 | 213 | 87 | 96 |
| Contracted Development | 4 | 94 | 37 | 132 | 33 | 81 |
| West Japan Business | 7 | 34 | 27 | 71 | 24 | 32 |
| Systems Operation and Services | 23 | 20 | 28 | 62 | 45 | 33 |
| Support Services | 29 | 69 | 84 | 16 | 12 | 87 |
| Adjustment | -196 | -168 | -179 | -199 | -198 | -181 |
| Consolidated operating income | -115 | 144 | 85 | 296 | 4 | 148 |

(3) Financial Position

(Unit: Million yen)

| | Mar. 2018 | Sep. 2018 | | Mar. 2018 | Sep. 2018 |
|-----------------------|--------------|--------------|--------------------------|--------------|--------------|
| Cash and deposits | 3,483 | 3,879 | Payables | 518 | 509 |
| Receivables | 2,514 | 1,971 | Unpaid expenses | 324 | 283 |
| Inventory assets | 239 | 449 | Advances received | 184 | 365 |
| Current Assets | 6,445 | 6,514 | Bonus reserves | 490 | 510 |
| Noncurrent Assets | 1,079 | 1,058 | Total Liabilities | 2,210 | 2,250 |
| Total assets | 7,525 | 7,573 | Net Assets | 5,315 | 5,323 |

Total assets at the end of the first half were 7,573 million yen, up 48 million yen from the end of the previous term. Cash and deposits increased due to securing free cash flow of 526 million yen (300 million yen in the same period of the previous term). Inventory and advances received also augmented, reflecting favorable orders. The capital-to-asset ratio was 69.8% (70.2% at the end of the previous term).

3. Mid-term Business Plan (FY 3/18 to FY 3/20) and Its Progress

【Basic policy Recognizable growth potential, Comprehensive capability of the corporate group, Stable return to shareholders, and Enhancement of corporate governance.】

| | |
|-------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Recognizable growth potential | Targets for the term ending Mar. 2020 are sales of 15 billion yen and an operating income of 1 billion yen (operating income rate: 6.7%). Operating income is to exceed a record high (880 million yen after the release of Windows 95, which is attributable to "Fudemame"). |
| Comprehensive capability of the corporate group | Enhance cross-selling, strengthen cooperation between departments, and create new business. |
| Stable return to shareholders | Acquire treasury shares with an excess amount over 70% of capital-to-asset ratio as capital, maintaining a payout ratio of 40% |
| Enhancement of corporate governance | Strengthen dialogue with shareholders, revise systems for executives' remunerations, and appoint independent executives (outside directors or auditors). |



In the first half of this term, sales of four out of the company’s five businesses grew by over 10%. They raised operating income by 123 million yen, 5.2 times that of the same period of the previous term, showing the recognizable growth potential. By linking products together, they also actively developed proposal-based sales for comprehensive services, with the aim of increasing market share and exposing customers to a wider range of company products. This led to more orders for large-scale projects, and improved the comprehensive capability of the company group. In addition to launching the “CREO RPA Service,” the company also made investments and worked on future services, that is, new business creation.

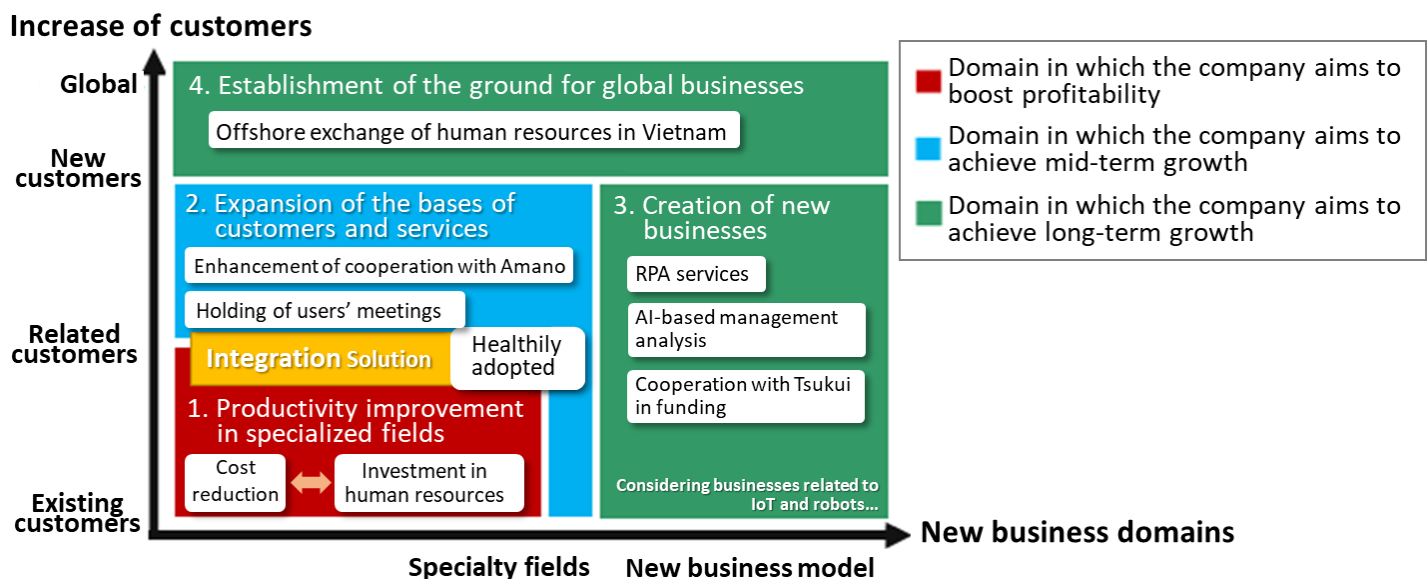
【Numerical goals and results】

| (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 (In-company estimates 13,500) | 15,000 |
| Operating income | 296 | 410 | 570 (650) | 1,000 |

In the term ending Mar. 2020, the company aims to achieve sales of 15 billion yen, an operating income of 1 billion yen, an ordinary income of 1,010 million yen, a net income of 680 million yen, and an ROE of 11.5%. Driven by the Solution Services Business, CREO will realize profit growth across all current businesses, and will use it as a capital to invest in new businesses.

【Schematic diagram of growth strategies and their progress】

Schematic diagram of growth strategies



While increasing transactions with personnel affairs and management sections, which are existing contact points, the company aims to boost productivity in the specialty domains by offering services also to business administration and IT sections through the promotion of integrated solutions. In order to expand the ranges of clients and services based on these activities, the company renewed “the association of ZeeM users (personnel affairs and accounting sections)” only for ZeeM users as “the association of CREO users” for management, IT, and business sections and all users of CREO products. In addition, the company will cement the cooperation with Amano and strive to cross-sell CREO products, such as ZeeM, to users of Amano products, such as employment management systems, cross-sell Amano products to users of CREO products, and increase new customers by utilizing Amano products. Through these efforts, the company will reel in related customers and new ones, to operate global business in the long term and expand the customer base.

Through new businesses and global operation expecting the coming of the digital era, the company will broaden its specialty domain and develop new business models. As for new businesses, the RPA service and AI-based management analysis have been already launched, and the company invested in the fund of the Tsukui Group, which leads the Japanese nursing-care industry, to facilitate open innovation.

Progress**Productivity improvement in the specialty domains**

As the company improved the competitiveness of integrated solutions combining existing products for personnel affairs, salaries, employment management, accounting, and BPM, and enhanced proposal-based marketing, it succeeded in receiving large-scale orders for multiple products and services (increasing the average spending per customer), and considerably increased the profit of the solution service business in the first quarter (Apr. to Jun.) of this term. The company also worked on offshore product development.

Expansion of the bases for customers and services

In the collaboration with Amano, the company posted sales comparable to the annual sales in the previous term in the field of product cross-selling in the first half. The sales of the system for personnel affairs and salaries of CREO to users of Amano products via Amano expanded, and the sales of employment management products supplied by Amano as an OEM contributed to the increase of new customers. It seems that the company received orders for the customization of parking systems, contracted development, etc.

For expanding the customer base, the company held “CREO User’s Forum 2018” targeted at member enterprises of “the association of CREO users” at Belle Salle Tokyo Nihonbashi on Oct. 26. The company invited over 200 CREO users related to the sections of IT, finance, accounting, personnel affairs, and business, and made efforts to increase engagement and introduce the solution concept of products and services.

As a new activity, the company launched “CREO Integration-Platform for DX,” which supports digital transformation (DX) in the cycle from (management) innovation to (business operation) improvement to co-creation. DX means that a company creates new value with new technologies, such as cloud computing, and establishes competitive advantages. As the objective of IT investment is shifting from the maintenance of existing systems for streamlining business operation, reducing costs, etc. to management innovation for creating new value by utilizing new technologies, such as cloud computing, social media, big data, and mobility, and establishing competitive advantage, the company will develop a new service structure while promoting the brands of products and services again.

Structures of products and services constituting DX

| | Series | Effects of installation | Products/services | |
|--------------------------------|--------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------|
| Management innovation | Management strategy | Data utilization (BI/BA) | CDX-Analytics (analysis of forecasts and results) TalentPlette (personnel analysis) | |
| | Business process optimization | Business process automation and optimization | CREO-RPA (RPAXERP, RPAXOCR, RPAXBPM) BIZ- PLATFORM | |
| Business operation improvement | Streamlining of business operation | (Personnel affairs division) Measures for reform of work style Streamlining of business operation | ZeeM (personnel affairs, salaries, employment V2, employment contract management, and social insurance outsourcing) ZeeM on Azure BIZ- PLATFORM-ERP FRONT | |
| | | (Accounting division) Early account settlement Promotion of digitization Cost structure improvement Data utilization | ZeeM (accounting and management of fixed assets) ZeeM on Azure BIZ- PLATFORM-ERP FRONT Project-type cost control system QuickBinder | |
| | Operational optimization | (IT division) Cloud shift Improvement in quality of IT service management | SmartStage ServiceDesk SmartStage IT-Outsourcing SmartStage N-Cloud | |
| | Settlement of problems with the business section | (Business division) Business expansion | | Cloud business supporting solution Mission-critical system integration |
| | | | | |

Creation of new businesses

The company is developing RPA services and AI-based management analysis methods. In the third quarter (on Oct. 30), it invested in Tsukui Caretech Fund for facilitating open innovation.

As for RPA services, the company offers services for internal control, such as the prevention of improper use of robots, and the sales measures focused on the development of RPA personnel, which began in the second half, are highly evaluated. In Oct., the company talked business with 25 companies, and plans to launch optional services by the end of Nov. As for AI-based management analysis, the company automates the analysis of factors that cause a gap between forecasts and results and the proposal for measures based on AI-based analysis logic. In preparation for the release in Jul. 2019, the company plans to offer a trial version in Jan. 2019. The investment in Tsukui Caretech Fund of the Tsukui Group, which leads the nursing-care industry, is not mere investment, but aimed at seeking businesses that would contribute to the reform of work style in the nursing-care field, by utilizing systems for personnel affairs, salaries, and employment management.

Development of the foundation for global businesses

On Nov. 1, the company concluded a basic agreement for capital and business tie-ups with a Vietnamese IT enterprise named Ominext Joint Stock Company (headquarters: Hanoi, Vietnam; representative director & president: Trần Quốc Dũng; hereinafter referred to as “Ominext”). Ominext is a rapidly growing startup firm, which has plenty of experience of developing medical and healthcare systems for Japanese enterprises and was listed in “Vietnam’s 50 Leading IT Companies” selected by Vietnam Software Association for 3 consecutive years from 2016 to 2018. In addition to offshore development, the company plans to develop global personnel for future global business operation, proceed with collaborative research and development, engage in “reverse innovation,” and so on, through personnel exchange and the establishment of joint ventures. Firstly, the company will secure engineers for meeting the demand inside Japan.

In addition to the above-mentioned efforts, the company puts energy into the investment (recruitment and training) in “human resources,” which are the most important assets for executing strategies. As for recruitment, the company has recruited new graduates steadily, and the number of new graduates scheduled to join the company in 2019 is 30, which is 1.5 times larger than that in 2018. It seems that the recruitment activities utilizing internship and SNS attracted students (Especially, SNS facilitated registration and communication with students). Since Oct. 2015, the company has been operating a Facebook page for recruiting new graduates, and in Mar. 2018, it created an account LINE@ for new graduate recruitment. As for personnel development, the company puts energy into the development of personnel who will lead digital transformation (DX), and emphasizes the mastering of skills for creating BtoB value, including design thinking and agile development for enterprises.

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% |

No revision to the full-year forecast. Annual sales and operating income are estimated to increase 6.8% and 38.8%, respectively, year on year.

Sales and profits in the first half were higher than expected, thanks to the contribution of large-scale comprehensive solution sales in the first quarter. There are no issues in particular to be concerned about, and the company is expected to perform well in the second half. However, because their performance is weighted in the 4th quarter, the status of orders needs to be ascertained at the end of the 3rd quarter. There may also be further expenses related to the hiring, securing, and training of staff. Due to these reasons, the company remained conservative and did not make any changes to the forecast.

The company plans to pay a term-end dividend of 20 yen/share, up 5 yen/share from the previous term (with an estimated payout ratio of 41.6%). They will return to shareholders while balancing financial stability and growth investment by maintaining a payout ratio of 40% for dividends, and acquiring treasury shares by using an excess amount over 70% of capital-to-asset ratio as capital.

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 | Progress at 2Q |
|--------------------------------|------------------------|-----------------------------------|-------------------------|-----------------------------------|------------|----------------|
| Solutions Service | 3,047 | 24.8% | 3,400 | 26.0% | +11.6% | 43.9% |
| Contracted Development | 1,404 | 11.4% | 1,700 | 13.0% | +21.1% | 38.5% |
| West Japan Business | 1,379 | 11.2% | 1,500 | 11.5% | +8.7% | 44.3% |
| Systems Operation and Services | 2,057 | 16.8% | 2,200 | 16.8% | +7.0% | 53.1% |
| Support Services | 4,596 | 37.5% | 4,500 | 34.4% | -2.1% | 48.9% |
| Adjustment | -216 | - | -200 | - | - | - |
| Consolidated Sales | 12,268 | 100.0% | 13,100 | 100.0% | +6.8% | 47.2% |
| Solutions Service | 414 | 13.6% | 500 | 14.7% | +20.8% | 36.6% |
| Contracted Development | 267 | 19.0% | 360 | 21.2% | +34.8% | 31.7% |
| West Japan Business | 139 | 10.1% | 140 | 9.3% | +0.7% | 40.0% |
| Systems Operation and Services | 133 | 6.5% | 150 | 6.8% | +12.8% | 52.0% |
| Support Services | 198 | 4.3% | 210 | 4.7% | +6.1% | 47.1% |
| Adjustment | -742 | - | -790 | - | - | - |
| Consolidated Operating Income | 410 | 3.3% | 570 | 4.4% | +38.8% | 26.7% |

5. Conclusions

Due to the restructuring of the company group that took place in Apr. 2017, CREO changed their business model, and the company is beginning to see positive results. Before the restructuring took place, companies within the group that sold products would focus only on selling, and companies that provided solutions would focus only on those solutions. For this reason, in the first year after restructuring, during the first half of the term, the company worked on awareness reform and made efforts to propose solutions that utilized the company's products. With this approach, in addition to expanding the range of proposals, it has become possible to meet a wider range of user needs, and the way users view the company seems to have changed. As a result, CREO is now able to capture needs which they previously could not. In this situation, strong business performance can be expected to continue. Also, the records of business performance kept here will become the foundation for the "CREO Integration-Platform for DX," which supports digital transformation (DX), so there is greater potential for growth. In the second half, we would like to see CREO achieve their goals by maintaining the pace of the first half, and get a head start towards the next term.

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 3 outside ones |
| Auditors | 3 auditors, including 2 outside ones |

◎ Corporate Governance Report**Updated on Jun. 28, 2018****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.

Bridge Report



<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.

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

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

<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/>

TSE Corporate Governance Information Service: <http://www2.tse.or.jp/tseHpFront/CGK010010Action.do?Show=Show>

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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