COMPANY RESEARCH AND ANALYSIS REPORT

CAC Holdings

4725

TOKYO Stock Exchange Prime Market

24-Jun.-2024

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Index

Summary

In existing businesses both domestic IT and overseas IT are progressing steadily. Progress on improving profitability in India, which was an issue to be addressed, is viewed positively; however, challenges remain with shareholder returns and accelerating growth investments

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, leveraging the expansion of its business domain through an aggressive M&A strategy. In June 2021, it transferred its stake in CAC Croit Corporation (currently, EPS Corporation), a consolidated subsidiary engaged in the CRO business involving outsourcing of clinical studies in new development, and agency services for manufacturing and marketing of approved drugs. CAC Holdings now comprises a corporate group that concentrates its management resources on the IT business both in Japan and abroad, conducting business through 20 consolidated subsidiaries and 3 equity-method affiliates under the holding company, enlisting 4,447 Group employees. (All as of December 31, 2023.)

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. FY12/23 consolidated results

In the FY12/23 consolidated results, net sales increased 5.4% YoY to ¥50,539mn, operating income increased 4.4% to ¥3,327mn, ordinary income declined 1.3% to ¥3,118mn and profit attributable to owners of parent increased 18.1% to ¥2,473mn. The Company’s initial results forecasts were net sales of ¥50,000mn (up 4.2% YoY), operating income of ¥3,300mn (up 3.5%), ordinary income of ¥3,200mn (up 1.3%) and profit attributable to owners of parent of ¥2,200mn (up 5.1%). Compared to this, both net sales and operating income achieved the plan, mainly thanks to major projects for the financial industry undertaken by the Company’s Indian subsidiary and the yen’s further depreciation, despite the impacts of deconsolidation of a subsidiary in the domestic IT business. Furthermore, profit attributable to owners of parent was higher than forecast due to recording extraordinary gains in the form of gain on sale of investment securities. The equity ratio increased from 64.7% at the end of FY12/23 to 65.8% and net cash (cash and deposits less interest-bearing debt (excess cash if positive)) decreased from ¥9,885mn to ¥8,563mn. However net cash in the broad sense—adding in ¥17,508mn in investment securities included in non-current assets —remained at a high level at ¥26,071mn. This is 69.4% of the Company’s market capitalization of ¥37,570mn as of March 8, 2024, and the Company is expected to deliver specific strategies such as further strengthening of shareholder returns and acceleration of growth investments such as M&As and new business creation.

3. Outlook for FY12/24

From FY12/24, the Group has adopted adjusted EBITDA, which shows the actual ability of the Company to generate cash from its businesses, as a key performance indicator. Consolidated results forecasts disclose net sales and adjusted EBITDA, with operating income and profit attributable to owners of parent disclosed as reference values. Based on the above, the Company's consolidated results forecast for FY12/24 is for net sales to increase 1.9% YoY to ¥51,500mn and adjusted EBITDA to increase 8.6% to ¥4,500mn. As reference values, the Company forecasts operating income to increase 5.2% to ¥3,500mn and profit attributable to owners of parent to increase 1.1% to ¥2,500mn. Moreover, adjusted EBITDA adds depreciation expenses, goodwill amortization expenses, and share-based payment expenses, which do not involve cash fluctuations, to operating income. In addition, the reason that adjusted EBITDA has a higher growth rate than operating income is because of expected increases in depreciation and share-based payment expenses. By segment, in the domestic IT business, net sales are expected to increase 1.7% to ¥36,500mn and adjusted EBITDA to increase 2.2% to ¥3,800mn, while in the overseas IT business net sales are expected to increase 2.5% to ¥15,000mn and adjusted EBITDA to increase 15.7% to ¥2,000mn.

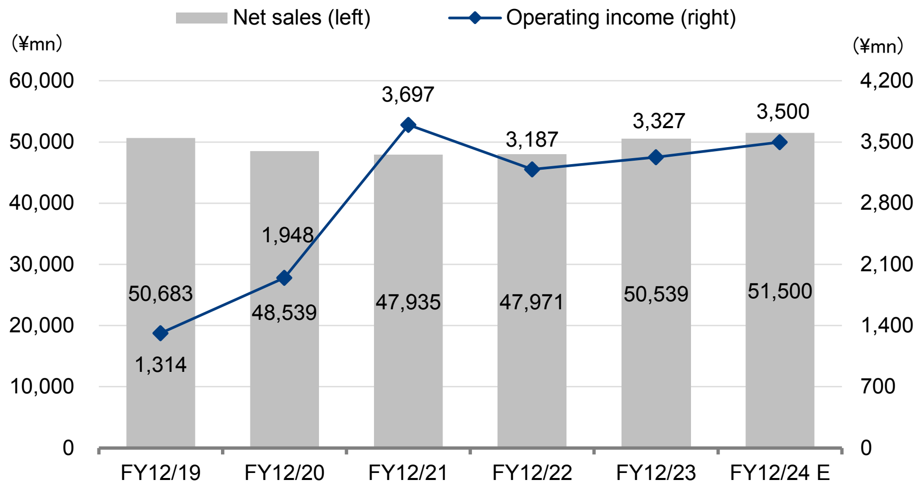
4. Progress of long-term vision and Medium-Term Management Plan

The Company has outlined six targets for Phase 1 of CAC Vision 2030. These are FY12/25 net sales of ¥58.0bn, operating income of ¥5.0bn, an operating margin of 8% or higher, ROE of 10% or higher, an equity spread (ROE (return on equity) in excess of shareholders' equity) of 2.5% or higher, and DOE (dividend on equity) at the 5% level. However, considering the unexpected costs that have arisen since the formulation of the plan, such as delays in profitability of new businesses and investments in employee engagement measures, the Company has revised its operating income target for FY12/25 downward from ¥5.0bn to a range of ¥3.6bn-4.3bn (net sales target remains unchanged at ¥58.0bn). This is predicated on adjusted EBIDTA of ¥5.5bn, so FISCO's view is that the Company is factoring in cash generation from companies to be acquired through M&As. In addition, during Phase 1, the Company had expected a growth investment budget of approximately ¥15.0bn for business investments, including human resource investments; however, the amount of investments executed as of the end of FY12/23 was only approximately ¥1.30bn in human resource investment and ¥1.17bn in business investments. The Company is advancing largely in accordance with the plan, but it appears that its progress is somewhat delayed. Therefore, we await the announcement of further specific strategies, including M&As.

Key Points

- For FY12/23, the Company made steady progress in line with its initial plan. Progress on improving profitability in India, which was an issue to be addressed, is viewed positively. On the other hand, the Company still holds significant unrealized gains on holdings of Recruit shares and is expected to make effective use of cash
- For FY12/24 also, gradual expansion is expected in both the domestic IT and overseas IT businesses. On the other hand, to accelerate growth the Company needs to announce a strategy for new business creation and M&A in addition to expanding its existing businesses and it is expected to demonstrate execution capability going forward
- Net cash at the end of FY12/23 stood at ¥8,563mn, with the wider definition of net cash including investment securities standing at ¥26,071mn, almost 70% of total market capitalization. With significant room for executing growth investments and bolstering shareholder returns, the Company holds great appeal from a value investing perspective

Results trends



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

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 launched in August 1966 as Computer Applications Co., Ltd. (CAC) as a pioneering, independent, specialist software company in Japan. Its founding philosophy was "independent/neutral," "fully liable for deliverables" and "user-oriented" with the idea of "creating new value on a global level with the use of the latest ICT" has been handed down as its current corporate philosophy.

CAC Holdings now comprises a corporate group that concentrates its management resources on the IT business both in Japan and abroad through 20 consolidated subsidiaries and 3 equity-method affiliates under the holding company, with 4,447 Group employees. (All as of December 31, 2023).

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 Co., Ltd., 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 (changed name to CAC Knowledge Co., Ltd. and is currently known as YUASA SYSTEM SOLUTIONS Co., Ltd.), and ORBIS CORPORATION (currently, CAC ORBIS Corporation) and MARUHA SYSTEMS CORPORATION (subsequently changed its name to CAC MARUHA NICHIRO SYSTEMS CORPORATION and is now known as Maruha Nichiro Solutions Inc.). 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 a 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 the 1980s, a time when the term "CRO" did not yet exist in the business realm in Japan. The Company later expanded its CRO business enlisting its M&A strategy, and in 2016, launched CAC Croit Corporation (currently, EPS Corporation), 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) 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 (currently, Inspirisys Solutions Limited, hereafter, ISL), an Indian-based 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 Accel Systems & Technologies Pte. Ltd., a Singaporean cybersecurity system company owned by Accel Frontline Limited (currently, ISL). It progressed the reconstruction of the overseas business, and in October 2019, acquired all shares and made a consolidated subsidiary of Mitrais Pte. Ltd. (hereafter, Mitrais) of Singapore, 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 registered system integrator on the launch by MITI (currently, METI) of the Systems Integrator Registration System.
1989	Established CAC America in New York City, US.
1990	Established CAC Europe in London City, UK.
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. In conjunction with merger, data entry business Nihon System Information made into subsidiary (later changed name to CAC Information Services Co., Ltd.).
1995	Was once again certified as a systems integrator company by MITI (currently, METI), as CAC Co., Ltd. Was certified as a "special systems operating company, etc.," by MITI (currently, METI).
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 NSM (Networked Systems Management) 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, US. 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.

Date	Event
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 (later changed its name to CAC MARUHA NICHIRO SYSTEMS CORPORATION and is now known as Maruha Nichiro Solutions Inc.) 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. (currently, Recruit Staffing Information Services Co., Ltd.) to Recruit Staffing Co., Ltd. Established CrossForce Co., Ltd., as a joint venture with Fuji Xerox Co., Ltd. (currently, FUJIFILM Business Innovation Corp.), 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 made Arm Systex and Arm Co., Ltd. subsidiaries of the Company.
2007	Established kizasi Company, Inc., to conduct an Internet-related business. Acquired all of the shares of Medical Ecology Co., Ltd., which conducts CRO operations (subsequently, its company name was changed to CAC ClinIT Co., Ltd.) and made it a subsidiary.
2009	Made an equity method affiliate of MIC Medical Corp., which conducts CRO operations (monitoring). Acquired the shares of clinical trust Co., Ltd., which conducts CRO operations, and made it a subsidiary.
2010	Merger of CAC ClinIT Co., Ltd., Arm Systex Co., Ltd., and Arm Co., Ltd. Made an equity method affiliate of Sogo Rinsho Holdings Co., Ltd., which conducts SMO operations (clinical trial facility support organization). Acquired the CRO business of Moss Institute Co., Ltd., and strengthened clinical DM and statistical analysis. Established CAC India in Mumbai City, India.
2012	Established CAC EXICARE Corporation, which conducts CRO operations, through a company split. Transferred the shares held in MIC Medical Corp. Transferred some of the shares held in Sogo Rinsho Holdings Co., Ltd.
2013	Dissolved CAC Pacific.
2014	Acquired the shares of Accel Frontline Limited (listed on the Bombay Stock Exchange and National Stock Exchange) and made it a subsidiary.
2015	Acquired the shares of Sierra Solutions Pte. Ltd., a Singapore IT company, and made it a subsidiary.
2016	Established CAC Croit Corporation through the merger of CAC EXICARE Corporation and clinical trust Co., Ltd. Invested in 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.
2022	Moved from First Section to the Prime Market with the revision of market categories of the Tokyo Stock Exchange.
2023	Transferred all the shares of CAC MARUHA NICHIRO SYSTEMS CORPORATION (currently Maruha Nichiro Solutions Inc.).

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

Business overview

Two segment structure consisting of domestic IT and overseas IT

Effective from FY12/22, the Company has two reportable segments consisting of the domestic IT business and overseas IT business, upon transfer of its CRO business in June 2021. In addition, the Company assigns executive officers to five domains with respect to which they take charge of core ICT, global strategy, new business promotion, Corporate Division and strategic integration 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 71.0% of Company-wide net sales (FY12/23), 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 a prime contractor and an independent SIer, the Company focuses on accurately and directly ascertaining user needs and strengthening its provision of optimal services to end 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 gross profit margin at the time of ordering of about 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. The Company has developed strengths in the form of management expertise accumulated through providing comprehensive services to major pharmaceutical companies and in addressing the needs of various industries (manufacturing industry, trading companies, fishery and foods) through M&A.

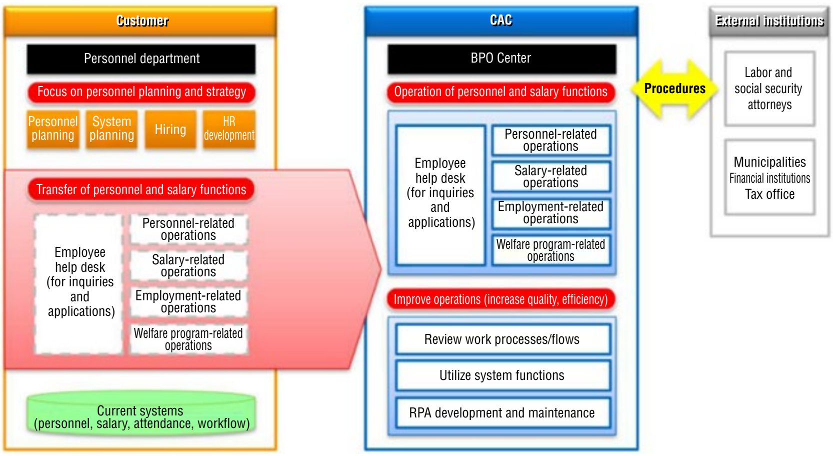
Since 2012, the Company has been strengthening its cloud support at a rapid pace. Due to its extremely strong performance in areas such as system integration and system development for Amazon Web Services (AWS), the Company has been designated an APN Advanced Consulting Partner, and now supports over 40 major financial institutions, pharmaceutical companies, and others. 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 (at Nagasaki BizPORT) in July 2019, followed by Nagasaki NBC Office in November 2021 and worked to expand business. It has considered not only overall HR operations but other operations such as general affairs and accounting and aims to comprehensively conduct consigned back-office operations.

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

Overall image of HR BPO services



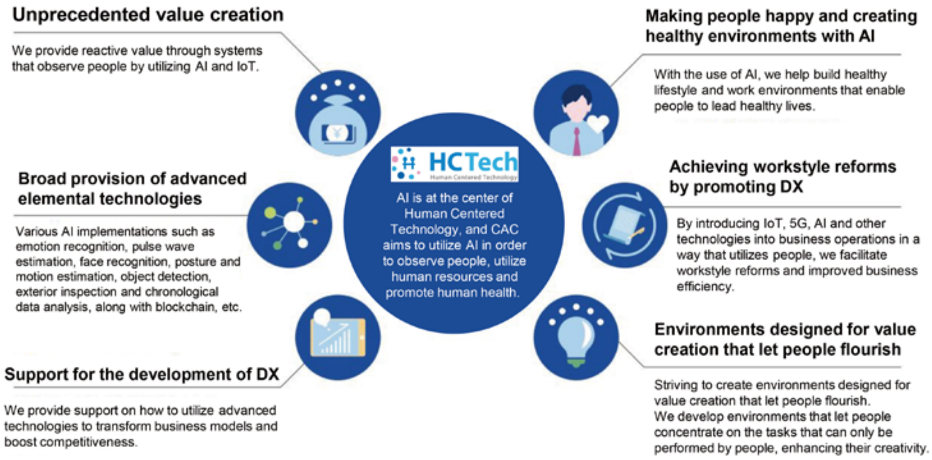
Source: Company website

(4) Measures for DX

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 promotes HCTech (human-centered technology) that utilizes AI "to observe people, utilize human resources, and promote human health." HCTech seeks to use AI for the analysis and identification of images of people, objects and biometric data, which has required an enormous amount of time and expertise.

DX solutions centered on HCTech



Source: Company's financial results briefing materials

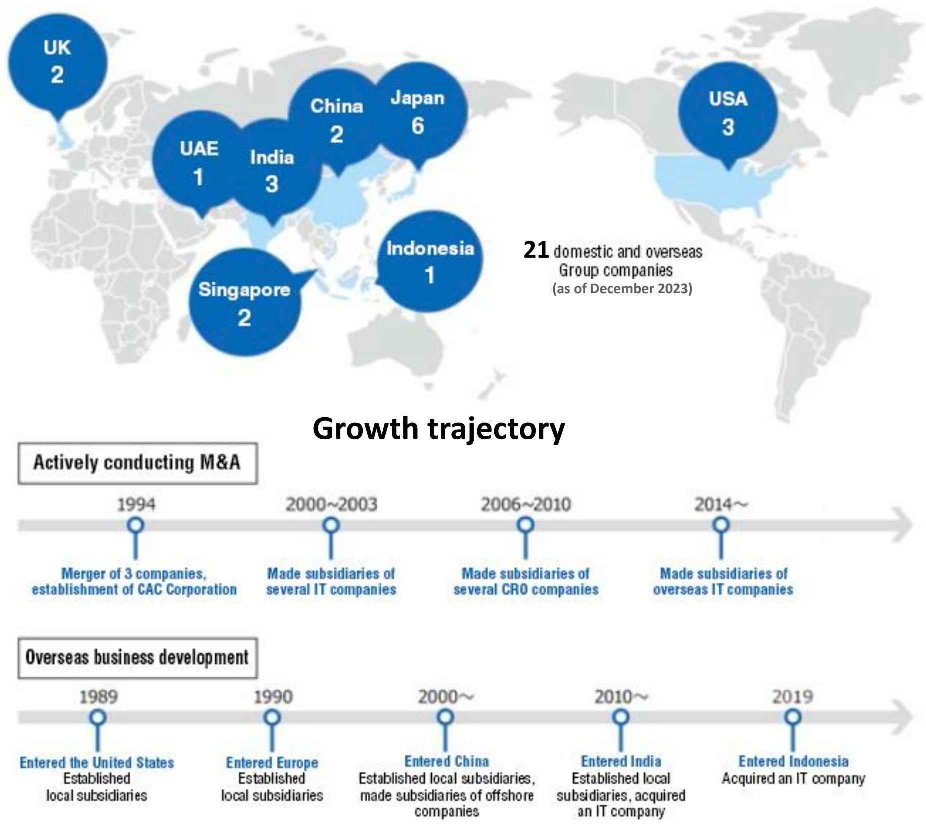
Overseas IT business making progress with business reconstruction

2. Overseas IT business

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

The Company ascertained at an early stage that overseas markets were a growth frontier, including that it entered overseas markets during the 1980s in advance of other companies. Due to actively conducting M&A and other measures, overseas IT business 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 (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 ISL (listed on the Stock Exchange of India; hereafter, "Indian subsidiary"), which had been subject to a persisting slump. However, sales of ¥9,507mn were 81% of peak levels, and segment income was ¥303mn. In FY12/22, sales benefited from further yen depreciation and the strong performance of the Indonesian and Indian subsidiaries, and profit was positively impacted by the improved profitability of the Indian subsidiary. As a result, sales rose ¥21.6% YoY to ¥11,565mn and segment income was ¥711mn. (The Company changed its method of calculating segment income from the method used in FY12/23 to present corporate expenses not allocated to each segment as an adjustment amount. For reference, segment income for FY12/22 reflecting this change would have been ¥1,089mn). In FY12/23, both sales and segment income continued to improve steadily, with sales increasing 26.5% YoY to ¥14,633mn while segment income rose 30.4% to ¥1,420mn (compared to restated FY12/22 segment income after reflecting the change in calculation method).

Group network



Note: As of December 31, 2023
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 on the Company's Indian subsidiary and Indonesian subsidiary. Although the Company's Indian subsidiary is in the process of carrying out structural reforms, it has retained excellent customers in regions such as the US, including financial and government-related institutions in its home country of India. Moreover, it has potential with respect to its role of serving as a bridge to local markets overseas. On the other hand, the Company's Indonesian subsidiary has been steadily achieving business expansion led by business targeting Australia, and has been steadily gaining an increased presence in the overseas IT business. In FY12/22, the Indian subsidiary posted a slight loss before the change in method for calculating segment income in FY12/23, but profit improved in FY12/23 as a result of structural reforms. As such, we will keep an eye on the Company's future developments centered on both subsidiaries.

Results trends

FY12/23 consolidated results were broadly in line with the initial plan

1. FY12/23 consolidated results

In the FY12/23 consolidated results, net sales increased 5.4% YoY to ¥50,539mn, operating income increased 4.4% to ¥3,327mn, ordinary income declined 1.3% to ¥3,118mn, and profit attributable to owners of parent increased 18.1% to ¥2,473mn. The initial results forecasts were net sales of ¥50,000mn (up 4.2% YoY), operating income of ¥3,300mn (up 3.5%), ordinary income of ¥3,200mn (up 1.3%), and profit attributable to owners of parent of ¥2,200mn (up 5.1%). Compared to this, both net sales and operating income achieved the plan, mainly thanks to major projects for the financial industry undertaken by the Company's Indian subsidiary and the yen's further depreciation, despite the impact of deconsolidation of a subsidiary in the domestic IT business. Furthermore, profit attributable to owners of parent was higher than forecast due to recording extraordinary gains in the form of gain on sale of investment securities.

FY12/23 consolidated results

(¥mn)

	FY12/22		FY12/23				
	Results	% of sales	Forecast	Results	% of sales	YoY	Vs. forecast
Net sales	47,971	100.0%	50,000	50,539	100.0%	5.4%	1.1%
Cost of sales	36,370	75.8%	-	38,253	75.7%	5.2%	-
Gross profit	11,601	24.2%	-	12,285	24.3%	5.9%	-
SG&A expenses	8,414	17.5%	-	8,958	17.7%	6.5%	-
Operating income	3,187	6.6%	3,300	3,327	6.6%	4.4%	0.8%
Ordinary income	3,158	6.6%	3,200	3,118	6.2%	-1.3%	-2.6%
Profit attributable to owners of parent	2,093	4.4%	2,200	2,473	4.9%	18.1%	12.4%

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

By segment, in the domestic IT business, net sales declined 1.4% YoY to ¥35,905mn and segment income declined 5.5% to ¥3,468mn. In 2H FY12/23, CAC MARUHANICHIRO SYSTEMS (currently Maruha Nichiro Solutions Inc.) was deconsolidated, with impacts on net sales of approximately ¥1.7bn and operating income of approximately ¥0.13bn, respectively. On a real basis, excluding these impacts, segment growth appears to be on par with the market. While segment income on a real basis excluding the deconsolidation impact was somewhat dampened, this can be seen as an impact of continued upfront investments. Order backlog at the end of the period was solid, up 11.5% YoY to ¥10,519mn.

Meanwhile, in the overseas IT business, net sales increased 26.5% YoY to ¥14,633mn and segment income increased 30.4% to ¥1,420mn. Along with the yen's depreciation on foreign exchange markets, strong performance by the Indian subsidiary was also a contributing factor. With regard to segment income, profits at the Indian subsidiary improved due to progress on structural reforms. Orders received during FY12/23 increased 43.0% to ¥17,117mn, and order backlog at the end of FY12/23 climbed steadily, up 64.7% YoY to ¥6,139mn.

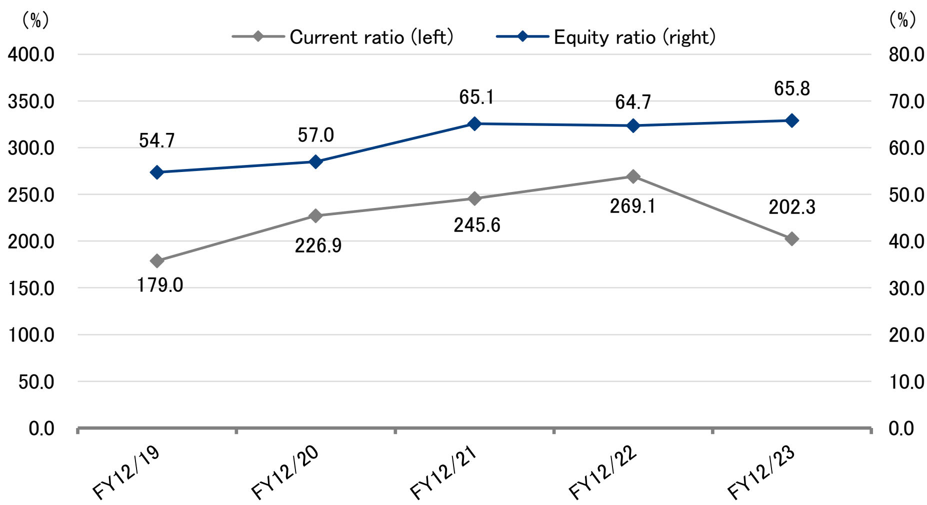
Steered to a financial strategy that prioritizes capital efficiency through enhancing the financial base

2. Financial condition

The equity ratio edged up from 64.7% at the end of FY12/22 to 65.8% at the end of FY12/23, the current ratio decreased from 269.1% to 202.3%, and net cash (cash and deposits less interest-bearing debt (excess cash if positive)) changed from ¥9,885mn to ¥8,563mn. Net cash continues to remain at a high level. Net cash in the broad sense—adding in ¥17,508mn in investment securities included in non-current assets—reached ¥26,071mn. This is 69.4% of the Company's market capitalization of ¥37,570mn as of March 8, 2024, and the Company is expected to deliver specific strategies such as further strengthening of shareholder returns and acceleration of growth investments such as M&As and new business creation.

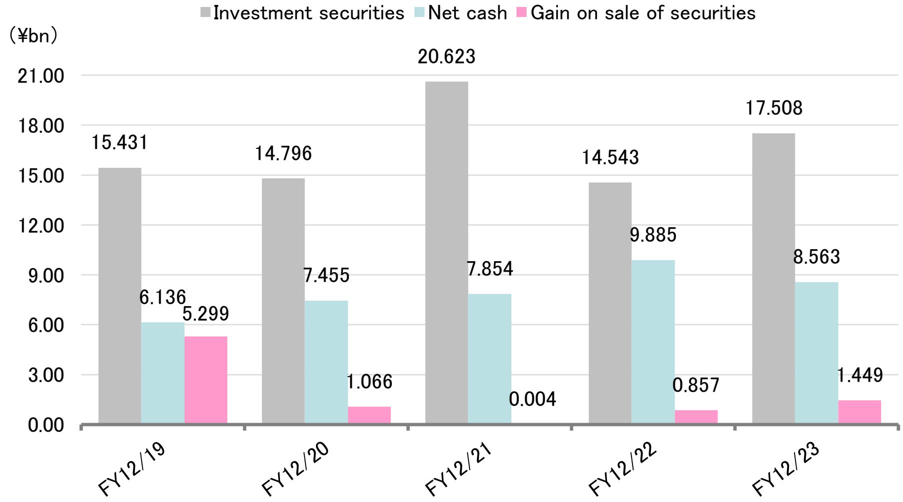
In the last few years, the Company has continuously sold the shares of Recruit Holdings Co., Ltd. <6098> (hereafter, Recruit), which have a low acquisition book value, and while supplementing the financial foundation, it has conducted M&A and structural reforms. In FY 12/19, from perspectives including improving capital efficiency, it decided to sell 2,000,000 shares (total price: ¥5,970mn, gain on sale: ¥5,291mn), in FY12/20, but it sold only 150,000 shares and sold none in FY12/21. Subsequently the Company resumed ongoing sales, however, the balance sheet continues to hold a large amount of investment securities.

Trends in the indicators of financial stability



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

Changes in investment securities and net cash



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

Simplified consolidated balance sheet

(¥mn)

	FY12/20	FY12/21	FY12/22	FY12/23	Change
Current assets	22,915	21,804	24,758	25,408	649
Cash and deposits	10,125	10,532	12,491	11,039	-1,452
Notes and accounts receivable – trade and contract assets	9,796	8,568	9,287	11,934	2,646
Non-current assets	21,650	25,457	19,454	23,124	3,669
Property, plant and equipment	2,362	1,313	1,489	1,701	212
Intangible assets	1,895	1,679	1,856	1,901	45
Investments and other assets	17,392	22,464	16,108	19,522	3,414
Total assets	44,565	47,261	44,213	48,532	4,319
Current liabilities	10,098	8,879	9,199	12,558	3,358
Notes and accounts payable - trade	3,661	2,701	3,172	4,356	1,184
Short-term loans payable (including long-term borrowings scheduled for repayment within one year)	670	678	606	2,476	1,870
Non-current liabilities	8,230	6,982	5,713	3,627	-2,085
Bonds payable, convertible bonds	0	0	0	0	0
Long-term loans payable	2,000	2,000	2,000	-	-2,000
Total liabilities	18,329	15,862	14,912	16,185	1,272
Short-term borrowings and current portion of long-term borrowings	2,670	2,678	2,606	2,476	-130
Total net assets	26,236	31,398	29,300	32,346	3,046

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

Business outlook

From FY12/24, the Group has adopted adjusted EBITDA as a key performance indicator. Gradual expansion expected to continue for both domestic IT business and overseas IT business

From FY12/24, the Group has adopted adjusted EBITDA, which shows the actual ability of the Company to generate cash from its businesses, as a key performance indicator. Consolidated results forecasts disclose sales and adjusted EBITDA, with operating income and net profit attributable to owners of parent disclosed as reference values. Based on the above, the Company's consolidated results forecast for FY12/24 is for net sales to increase 1.9% YoY to ¥51,500mn and adjusted EBITDA to increase 8.6% to ¥4,500mn. As reference values, the Company forecasts operating profit to increase 5.2% to ¥3,500mn and profit attributable to owners of parent to increase 1.1% to ¥2,500mn. Moreover, adjusted EBITDA is calculated by adding depreciation expenses, goodwill amortization expenses, and share-based payment expenses, which do not involve cash fluctuations, to operating income. In addition, the reason that adjusted EBITDA has a higher growth rate than operating income is because of expected increases in depreciation and share-based payment expenses.

By segment, in the domestic IT business, net sales are expected to increase 1.7% to ¥36,500mn and adjusted EBITDA to increase 2.2% to ¥3,800mn, while in the overseas IT business net sales are expected to increase 2.5% to ¥15,000mn and adjusted EBITDA to increase 15.7% to ¥2,000mn.

FY12/24 financial results forecast

(¥mn)

	FY12/23	FY12/24 E	Change	YoY
Net sales	50,539	51,500	961	1.9%
Adjusted EBITDA	4,143	4,500	357	8.6%
Operating income	3,327	3,500	173	5.2%
Profit attributable to owners of parent	2,473	2,500	27	1.1%
EPS (¥)	145.24	146.66	1.42	

Note: Operating income and profit attributable to owners of parent are reference values
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"

We at FISCO believe that the Company's 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 "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 (Creating Shared Value; social contribution through business)," 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 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 aims for the Company 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."

Progress of medium- to long-term strategy

Realizing Company transformation through the future-focused long-term vision

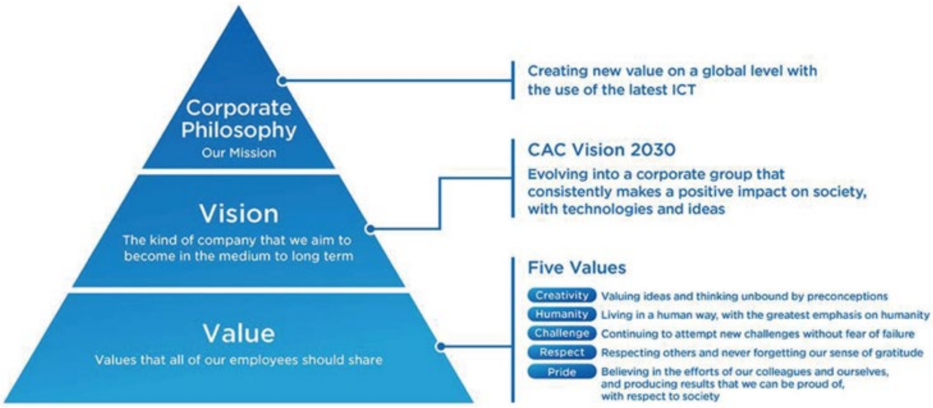
1. Articulating values shared amongst all employees of the Company upon establishing the long-term vision

In February 2022, the Company released its CAC Vision 2030 long-term vision and its Medium-Term Management Plan. CAC Vision 2030 has been drawn up with the aim of aligning the vectors of the Group's operations by formulating and sharing the kind of Group it wants to be in 2030 and the direction it must head, based on its corporate philosophy of "creating new value on a global level with the use of the latest ICT."

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 believe the vision and the values will make sense 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 evolving into a customer-oriented and CSV-focused corporate group.

Meanwhile, the Company shared its CAC Vision 2030 internally at the end of 2021, prior to its public release. President & CEO Ryota 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 2030 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

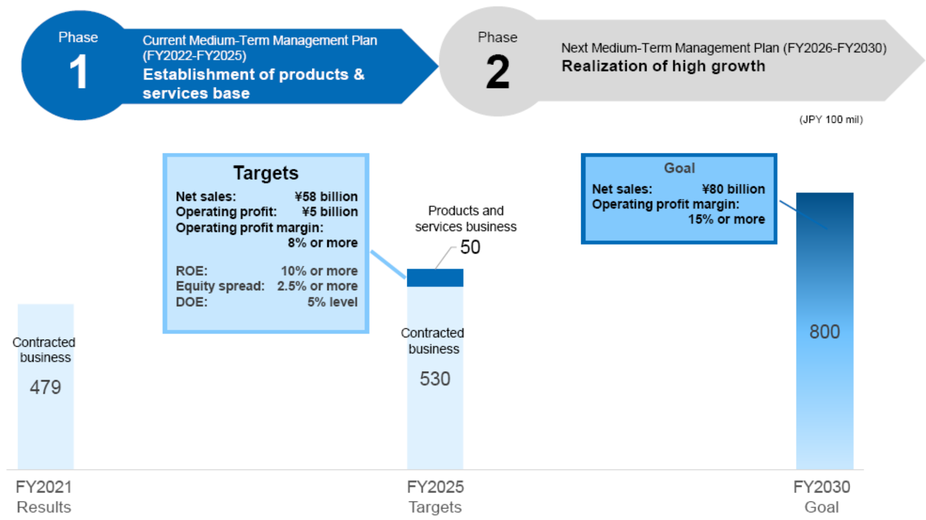
2. Seeking to build a new business model for FY12/22–FY12/25

Under CAC Vision 2030, the Company has established quantitative targets for FY12/25 with respect to achieving net sales of ¥58.0bn, operating income of ¥5.0bn, an operating margin of 8% or higher, and ROE of 10% or higher (target values were subsequently adjusted), with the years FY12/22–FY12/25 (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 FY12/26-FY12/30.

The Company defines "digital solutions" as constituting a combination of digital products and services (consulting and support) that lead the way to addressing customer and social 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 its outline of the Medium-Term Management Plan, the Company indicates that it is poised to complete approximately ¥15.0bn investment over the Phase 1 period to business investment and promoting human resources with the aim of building a new business platform. Organizational restructuring in January 2023 established a new "Corporate Division," "Global Strategy Division," "Financial Strategy Division" (changed to "Financial Strategy Department" under the "Corporate Division" from March 2024), and "Strategic Integration Division," and specific investment and product strategies are now being developed. We will also monitor developments with respect to investment as such initiatives materialize going forward.

Positioning of the Medium-Term Management Plan for achieving the Vision, and net sales projection



Source: Company's financial results briefing materials

Outline of Medium-Term Management Plan (Phase 1: FY12/22–FY12/25)

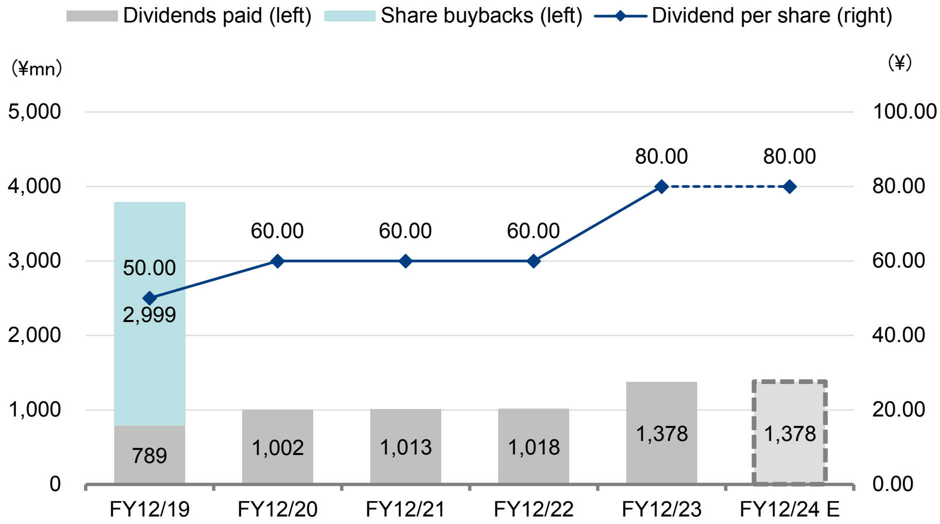
Growth strategies	[New business: Products and services] ・Building of framework/business base for continuously establishing new businesses ・Collaborative creation based on the concept Human Centered Technology ・Implementation of business investment and investment in human resources Approx. 15 billion yen [Existing contracted business] ・Expansion of internal resources and growth
High-profit strategy	・Reorganization of unprofitable business ・Improvement of management efficiency Improvement of approx. 1 billion yen
Corporate	・Review of Group governance structure and operating method ・Reform of organizational culture

Source: Company's financial results briefing materials

3. Completed second year of Medium-Term Management Plan

The Company has outlined six targets for Phase 1 of the Medium Management Plan. These are FY12/25 net sales of ¥58.0mn, operating income of ¥5.0bn, an operating margin of 8% or higher, ROE of 10% or higher, an equity spread of 2.5% or higher, and DOE at the 5% level. However, considering the unexpected costs that have arisen since the formulation of the plan, such as delays in profitability of new businesses and investments in employee engagement measures, the Company has revised its operating income target for FY12/25 downward from ¥5.0bn to a range of ¥3.6bn-4.3bn (net sales target remains unchanged at ¥58.0bn). This is predicated on adjusted EBIDTA of ¥5.5bn, and therefore the Company is factoring in cash generation from companies to be acquired through M&As. In addition, during Phase 1, the Company had expected a growth investment budget of approximately ¥15.0bn for business investments, including human resource investments; however, the amount of investments executed as of the end of FY12/23 was only approximately ¥1.30bn in human resource investment and ¥1.17bn in business investments. The Company is advancing largely in accordance with the plan, but looking only in financial terms, it appears that its progress is somewhat delayed. Therefore, we await the announcement of further specific strategies, including M&As.

Dividends and share buybacks



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

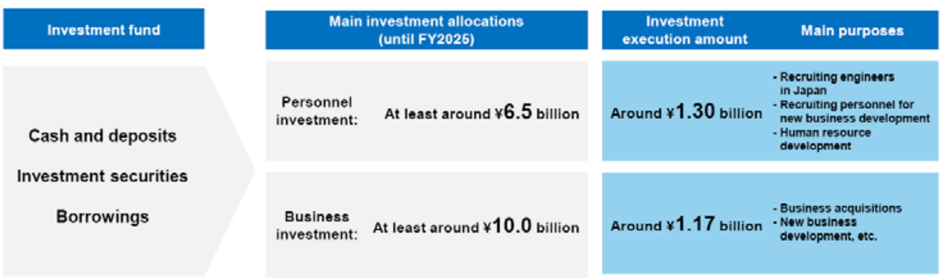
Financial indicators for FY12/25

(JPY mil)		FY2021 Results	FY2022 Results	FY2023 Results	FY2024 Forecast	[Before change] FY2025 Targets	FY2025 Targets
Net sales		47,935	47,971	50,539	51,500	58,000	58,000
Adjusted EBITDA*		4,482	4,029	4,143	4,500	–	5,500
	(Profit margin)	9.4%	8.4%	8.2%	8.7%		9.5%
Reference value Forecasts are for reference purposes only as it is difficult to make predictions about the future	Depreciation	614	580	555	600	–	600-700
	Goodwill amortization	96	196	146	150	–	200-800
	Share-based compensation, etc.	75	65	114	250	–	400-700
	Operating profit	3,697	3,187	3,327	3,500	5,000	3,600-4,300
	(Profit margin)	7.7%	6.6%	6.6%	6.8%	8% or more	6.2%-7.4%
	Profit	2,476	2,093	2,473	2,500	–	3,000-3,400
	(Profit margin)	5.2%	4.4%	4.9%	4.9%		5.2%-5.9%

* Adjusted EBITDA: Operating profit + Depreciation + Goodwill amortization + Share-based payment expenses

Source: Company's financial results briefing materials

Progress of business investment of ¥15.0bn



Source: Company's financial results briefing materials

ESG

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

1. Boccia support ongoing since 2016

With the IT business serving as its main business pillar, the Company is a typical CSV-type corporate group that solves problems facing society through its main businesses. As part of its ESG activities, the Company has been promoting and supporting the sport of boccia for people with disabilities since 2016. Through this initiative, the Company aims to foster connections between its employees and the community, thereby contributing to society. 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). While it can be enjoyed by people with and without disabilities, regardless of age or nationality, it also requires strategic thinking. Considering this feature, the Company has not only adopted an in-house boccia curriculum for new employees and Company-wide training, but has also provided employees' families and others with opportunities to experience boccia. Today, many members of the Group in Japan have experienced boccia, and even during the COVID-19 pandemic, the Group has continued to work on measures such as holding online classrooms and disseminating information via social networks. The Company has continued to provide support in a manner distinctive of an IT company, which includes 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 Tokyo Metropolitan Government has certified it as a Tokyo Sports Promotion Company for six consecutive years. In February 2024, it received an award for being a "Model Company for Sports Promotion in Tokyo," a distinction given to approximately 10 companies each year from among the Tokyo Sports Promotion Model Companies, marking its second recognition following the first in 2020.

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. 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 Top Hundred Telework Pioneers in 2016.

During the COVID-19 pandemic, 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, CAC Corporation has been actively promoting remote work and has reduced the ratio of employees working at the head office to approximately 20% of 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). 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.

Disclaimer

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