

1st half FY2016
Consolidated Financial Results
– Six Months Ended June 30, 2016 –

CAC Holdings Corporation

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I . Overview of Financial Results for 1H FY2016

Highlights of Financial Results for the 1st Half of FY2016

[Net sales]

- A decrease in system development for financial services
- Sales increased, reflecting a rise in pharmaceutical development support services (pharmaceutical BTO) and the consolidation of Sierra Solutions Pte. Ltd.

[Income]

- Operating income increased slightly, reflecting the decrease in sales of system development for financial services, despite a recovery in pharmaceutical BTO in Q1.
- Net income decreased significantly due to the posting of business foundation improvement costs (extraordinary loss) for Accel Frontline Limited.

Consolidated P/L

(JPY mil.)

	1st half FY2015	1st half FY2016	YoY Change	
			Amount	%
Net sales	25,598	26,681	+1,082	+4.2%
Gross profit	4,608	5,290	+681	+14.8%
(profit margin)	18.0%	19.8%	+1.8pt	
SG&A	4,158	4,756	+598	+14.4%
Operating income	450	533	+83	+18.6%
(profit margin)	1.8%	2.0%	+0.2pt	
Non-operating income or expenses	13	(144)	(158)	—
Ordinary income	463	388	(74)	(16.2%)
(profit margin)	1.8%	1.5%	(-0.4pt)	
Net income	740	38	(701)	(94.8%)
(profit margin)	2.9%	0.1%	(-2.7pt)	

◆ Gross profit

Increased as a result of increased sales.

◆ Selling, general and administrative expenses

Increased year on year due to the new consolidation and reclassification of expense items in some of the subsidiaries.

◆ Non-operating expenses (income)

Foreign exchange losses of ¥136 million are posted, affected by the further appreciation of the yen and the decline in the value of the U.S. dollar.

◆ Extraordinary income

Posted a gain on sales of investment securities of ¥720 million, compared to a gain on sales of investment securities of ¥1,007 million a year ago.

◆ Extraordinary losses

Posted a loss on business of subsidiaries and associates of ¥602 million.

Consolidated Results by Segment

Net sales

(JPY mil.)

	1st half FY2015		1st half FY2016		YoY Change	
	Amount	vs Total	Amount	vs Total	Amount	%
Systems Development and Integration	11,555	45.1%	11,729	44.0%	+174	+1.5%
Systems Operation and Management	8,965	35.0%	9,037	33.9%	+72	+0.8%
BPO/BTO	5,078	19.9%	5,913	22.1%	+835	+16.5%
Total	25,598	100.0%	26,681	100.0%	+1,082	+4.2%

Operating income

	Amount	%	Amount	%	Amount	%
Systems Development and Integration	503	4.4%	252	2.2%	(250)	(49.7%)
Systems Operation and Management	(24)	—	89	1.0%	+114	—
BPO/BTO	(28)	—	191	3.2%	+219	—
Total	450	1.8%	533	2.0%	+83	+18.6%

Consolidated Sales by Customer Industry

(JPY mil.)

	1st half FY2015		1st half FY2016		YoY Chage	
	Amount	vs Total	Amount	vs Total	Amount	%
Financial services	4,114	16.1%	3,853	14.4%	(260)	(6.3%)
Trust banks	2,204	8.6%	2,160	8.1%	(44)	(2.0%)
Pharmaceuticals	7,185	28.1%	8,820	33.1%	+1,634	+22.7%
Food services	2,090	8.2%	1,902	7.1%	(187)	(9.0%)
Manufacturing	1,736	6.8%	1,525	5.7%	(211)	(12.2%)
Service and others	8,266	32.2%	8,418	31.6%	+151	+1.8%
Total	25,598	100.0%	26,681	100.0%	+1,082	+4.2%

Consolidated Orders Received & Backlog

■ Orders Received

(JPY mil.)

	1st half FY2015	1st half FY2016	YoY Change	
			Amount	%
Systems Development and Integration	12,233	10,853	(1,379)	(11.3%)
Systems Operation and Management	9,087	8,899	(188)	(2.1%)
BPO/BTO	6,906	5,762	(1,144)	(16.6%)
Financial services	4,520	3,569	(951)	(21.0%)
Trust banks	2,299	2,263	(35)	(1.5%)
Pharmaceuticals	9,151	7,802	(1,348)	(14.7%)
Food services	2,522	1,982	(539)	(21.4%)
Manufacturing	1,468	1,525	+56	+3.8%
Service and others	8,265	8,371	+106	+1.3%
Total	28,227	25,515	(2,712)	(9.6%)
■ Backlog				
Total	17,015	17,334	+318	+1.9%

Consolidated P/L (Quarterly)

(JPY mil.)

	FY 2015				FY 2016	
	Q1	Q2	Q3	Q4	Q1	Q2
Net sales	13,341	12,257	12,760	13,746	13,632	13,048
Gross profit	2,490	2,117	2,406	2,775	2,710	2,580
(profit margin)	18.7%	17.3%	18.9%	20.2%	19.9%	19.8%
Operating income	431	18	433	325	433	100
(profit margin)	3.2%	0.2%	3.4%	2.4%	3.2%	0.8%
Ordinary income	362	101	340	276	304	84
(profit margin)	2.7%	0.8%	2.7%	2.0%	2.2%	0.6%
Net income	264	476	182	▲ 1,064	▲ 64	102
(profit margin)	2.0%	3.9%	1.4%	—	—	0.8%

Losses in relation to AFL

■ Total amount of loss: ¥2,652 million

[January 2015 to December 2015]

- Allowance for doubtful accounts, etc. ¥661 million
(Selling, general and administrative expenses)
- Loss on business of subsidiaries and associates,
including allowance for doubtful accounts ¥736 million (Extraordinary loss)
- Impairment loss of goodwill associated with AFL ¥653 million (Extraordinary loss)

[January 2016 to June 2016]

- Business foundation improvement costs (Loss on business of subsidiaries and associates)
First quarter: said costs for the head office of AFL ¥317 million (Extraordinary loss)
Second quarter: said costs expanded to branch offices and subsidiaries of AFL ¥285 million (Extraordinary loss)

Total

¥2,652 million

Brief Summary of Measures to Prevent Recurrence

Enhancement of corporate acquisition process

Exercise due diligence that fully takes into account the individual legal and tax systems and accounting standards as they vary from country to country and assign appropriate contractors for the implementation of due diligence.

Improvement of integration process after corporate acquisition

Develop a system to gain control of the state of the business and head office departments of the acquired company.

Exercise due diligence, etc. after acquisition.

Formulate a policy for selecting an audit corporation for the acquired company.

Enhancement of control over overseas subsidiaries

Consider establishing an organization exclusively in charge of managing overseas subsidiaries and hiring external professionals.

Conducting periodic on-site inspections of the financial and legal affairs of overseas subsidiaries.

Develop and adopt minimum accounting procedures to be followed by overseas subsidiaries (minimum rules).

Improve education and training concerning risk management, compliance with laws and corporate governance.

Strengthen internal control and develop an internal whistle-blowing system, etc.

Accel Frontline Limited P/L

(JPY mil.)

	1st half	1st half	YoY Change	
	FY2015	FY2016	Amount	%
Net sales	4,566	4,515	▲ 51	▲ 1.1%
Gross profit	669	585	▲ 83	▲ 12.5%
(profit margin)	14.7%	13.0%	-1.7pt	
SG&A	649	624	▲ 25	▲ 3.9%
Operating income	20	▲ 38	▲ 58	—
(profit margin)	0.4%	—	—	
Ordinary income	▲ 178	▲ 225	▲ 46	—
(profit margin)	—	—	—	
extraordinary income or loss	▲ 5	▲ 602	▲ 596	—
Net income	▲ 256	▲ 943	▲ 687	—
(profit margin)	—	—	—	

II . Full-Year Forecast for FY2016

Consolidated Results Forecast for FY2016

(JPY mil.)

	1st half FY2016	1st half FY2015	FY2016 Forecast	FY2015 Actual
Net sales	26,681	25,598	56,000	52,105
Operating income	533	450	2,250	1,209
(profit margin)	2.0%	1.8%	4.0%	2.3%
Ordinary income	388	463	2,000	1,080
(profit margin)	1.5%	1.8%	3.6%	2.1%
Net income	38	740	1,100	▲ 142
(profit margin)	0.1%	2.9%	2.0%	-0.3%

III. Initiatives of the CAC Group

The CAC Group's 50th Anniversary

Thanks to all of you, we celebrated our 50th anniversary on August 8, 2016.



**We Will Change the Future
Unchanging Gratitude**

**Change the world and the future with our IT and
healthcare services.**

In commemoration of
our 50th anniversary

[To our shareholders]
Payment of a
commemorative dividend

[For people in society]
Provision of support to
Boccia, a disability sport

Acquisition of New Technology and Business Areas

[Artificial Intelligence (AI) & Social Robotics]

■ We will develop the emotion AI market in partnership with Affectiva Inc., a US enterprise.

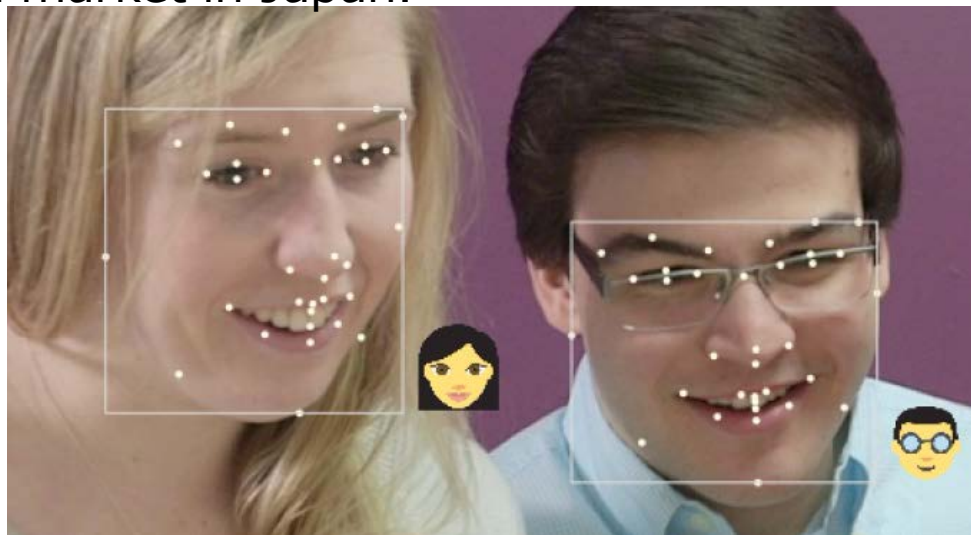
• Affectiva Inc., the pioneer and leader in the emotion AI area, analyzes human emotions using deep learning technology and the enormous repository of facial expressions collected and accumulated around the world over many years.

• As a channel partner of Affectiva Inc., CAC Corporation will promote the development of the emotion AI market in Japan.



Emotion AI can be employed in a wide variety of industries, including advertising, media, manufacturing and retail.

Numerous clients have already expressed strong interest in emotion AI.



[AI & Social Robotics]

■ Launched an innovation space

- An innovation space has been established on the first floor of the head office of CAC Corporation.
- It is a space for promoting open innovation through collaboration between employees of the CAC Group and external partners.



[Social security area]

■ Established a company that provides medical data cloud services.

- Established a new company called **M.Heart Co., Ltd.** in April 2016 in collaboration with Morioh Co., Ltd., a venture enterprise from Iwate Medical University, for handling the electrocardiogram analysis business.
- It plans to provide electrocardiogram analysis cloud services to medical institutions before the end of 2016.

➔ Provision of IT services that contribute to the spread of preventive care.

[Reference] Major Business Events for the 1st Half of FY2016 (1/2)

<p>February 15</p>	<p>CAC Corporation launched a SaaS-type service for pharmaceutical companies for making donations.</p> <p>As a service that contributes to the enhancement of transparency for pharmaceutical companies, CAC Corporation developed Academic Support Navi, which enables a donation site to be built at a low cost in a short period of time.</p>
<p>April 1</p>	<p>Established CAC Croit Corporation</p> <p>CAC Croit Corporation was established as a result of the merger of CAC EXICARE Corporation and Clinical trust Co., Ltd., group companies providing CRO (pharmaceutical BTO service). By integrating the strengths and resources of both companies, CAC Croit Corporation will provide support for pharmaceutical development in an even more rapid and efficient manner.</p>
<p>April 18</p>	<p>CAC Croit Corporation acquired the business of a CRO company in Sapporo</p> <p>CAC Croit Corporation acquired all the business of Adjust Co., Ltd., a service provider in Sapporo specializing in case registration, the assignment of patients for study drugs and related services. Through this addition to its business, CAC Croit Corporation aims to expand and strengthen its one-stop service functions and IT solutions and expand its near-shore bases with Sapporo as a stepping stone and service bases for monitoring and pharmacovigilance operations.</p>
<p>June 6</p>	<p>Launched an innovation space</p> <p>Launched an innovation space on the first floor of the head office of CAC Corporation for the purpose of promoting open innovation using IT. Through the effective use of the space, the CAC Group will explore and cultivate new business areas starting with AI and social robotics.</p>

[Reference] Major Business Events for the 1st Half of FY2016 (2/2)

<p>June 13</p>	<p>Took a stake in Affectiva Inc., a US venture that leads the affective computing field</p> <p>Invested around ¥100 million in Affectiva, Inc., a start-up that develops emotion recognition platforms using the analysis of facial expression images, for the purpose of using Affectiva, Inc.'s technology in the development of the affective computing market in Japan and in CAC group's social robot business. On July 7, Affectiva, Inc. concluded a distributor agreement with CAC Corporation, the first such agreement in Japan for Affectiva, Inc., and launched the distribution of its services and software.</p>
<p>June 14</p>	<p>CAC Corporation began distributing Meridio, a smartphone application with a name card sharing function, free of charge</p> <p>Meridio has a function that enables name card sharing in an organization for the optimization of team and organization performance. It also responds to new work styles, for example one person holding multiple jobs and roles, and enables users to manage name cards by categorizing the cards by users' titles (roles).</p>
<p>June 27</p>	<p>CAC Corporation joined the industry organization for Blockchain, the core technology of fintech</p> <p>CAC Corporation joined the Blockchain Collaborative Consortium, whose purpose is promotion and awareness development, and the research and development of blockchain technology, a core technology of fintech, as well as the promotion of the relevant investment for blockchain. CAC Corporation will promote the spread of the blockchain technology and review and promote blockchain solutions to facilitate coexistence with existing systems and seek the appropriate transfer of systems.</p>
<p>June 30</p>	<p>CAC Group became a special partner of the Japan Boccia Association</p> <p>As a way of expressing our gratitude to society for supporting our growth over the last 50 years, the CAC Group will be involved in activities to promote and develop Boccia, a disability sport. Using the Group's strengths in the development of IT and healthcare services in Japan and overseas, it will also promote the improvement of the spectator environment using IT.</p>



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【For Inquiries】

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