



The CAC Group keeps changing

My name is Akihiko Sako, the president and CEO of CAC Holdings Corporation. Since we were founded in 1966, we have provided customers with systems development and integration and systems operation and management services under the basic principles of Independent/Neutral, User-Oriented, and Fully Liable for Deliverables. We take great pride in being a knowledge-intensive company that carefully studies its customers' business and operations and utilizes the knowledge it gains. We also provide outsourcing services, mainly in the field of Contract Research Organization (CRO) services. We are proactive in expanding our overseas business in each field, and we have grown to become a corporate group that now has approximately 5,700 employees in Japan and other countries.

In the IT service industry, new markets are expected to be created due to IoT, Fintech, AI, and other elements. On the other hand, cost reductions are strictly required in the existing system field. I believe that for us to continue growing sustainably as a company in this era of major changes, we must keep changing ourselves by introducing technologies and human resources from outside and integrating them into the CAC Group, instead of adhering to our existing business categories and previous success experiences. The CAC Group is about to transform itself under the slogan of "Rebirth Beyond."

Performance trends: We expect business performance to recover in FY2017

Net sales for the fiscal year ended December 31, 2016 increased 0.8% year on year, to 52,521 million yen. Operating income decreased 0.6% year on year, to 1,202 million yen. We achieved a slight increase in sales due to the expansion of CRO (pharmaceutical BTO) services and the new consolidation of Sierra Solutions Pte. Ltd. (Sierra Solutions) an IT service company in Singapore that we acquired in November 2015. However, operating income decreased, partly reflecting the decrease of systems development and integration services in the financial services industries in Japan and a decline in the profitability of projects at Sierra Solutions. With regard to Accel Frontline Limited (AFL), our subsidiary in India, operating income increased partly because of the absence of the allowance for doubtful accounts that was posted in the previous fiscal year. Ordinary income decreased 13% year on year, to 937 million yen, due in part to the influence of foreign exchange loss. Profit attributable to owners of parent was 2,039 million yen (compared to a loss of 142 million yen in the previous fiscal year), partly reflecting the gain on sales of investment securities posted in the fiscal year under review.

Net sales for the fiscal year ending December 31, 2017 are expected to rise 2.8% year on year, to 54,000 million yen. Operating income is expected to increase 49.7% year on year, to 1,800 million yen. The IT service market of Japan is expected to continue growing slowly, with the profit level remaining lower than in FY2014 and earlier. We plan to aim for

We will continue tackling challenges in new business domains while strengthening the Group's governance.

Akihiko Sako President and CEO

the recovery of profit through measures including improving the profitability of overseas business and cost optimization in the field of CRO (pharmaceutical BTO) services.

Setting overseas businesses on track in the final year of the Medium-Term Strategy

The current Medium-Term Strategy (2015-2017) consists of six basic strategies of "Pursuing new mainstream technologies," "Increasing the added value of BPO," "All in AZAREA," "Making use of global support system centering on Asia," "Tackling challenges in new business domains," and "Strengthening corporate capabilities through group-wide strategies." We promote these strategies with the spirit of "Rebirth," with which we will tackle new challenges in new technologies and new business domains to transform ourselves into a new CAC Group. In FY2017, which is the final year of the Medium-Term Strategy, we will strive to improve the profitability of our existing businesses while strengthening the foundation of overseas businesses that we acquired in the past several years, and promote the development of new business domains. First, we will set the business expansion of our overseas subsidiaries on track, such as AFL in India, which has been delayed longer than we initially intended. During FY2015 to FY2016, AFL posted a loss of 2,650 million yen, due in part to the allowance for doubtful accounts, impairment loss on goodwill, and expenses for reinforcing the business foundation. In FY2016, however, the company returned to the black in terms of operating income, and a recovery path is in sight. AFL has bases in the United States, the United Kingdom,

and the Middle East in addition to India, and operates businesses in broad domains, including those where no other CAC Group company is operating. Accordingly, its position as a company that will contribute to the CAC Group in the long run has remained unchanged. The company also has a track record in the field of the Advanced Driving Assistant System (ADAS), so it also intends to enter the automotive business by collaborating with CAC Corporation. Sierra Solutions posted poor results in FY2016 because of a decline in the profitability of the hospital project in Thailand. However, it is expected to expand its new businesses. For example, it has commenced the development and provision of mobile applications aimed at people caring for elderly family members at home.

Outline of the 2015-2017 Medium-Term Strategy

Pursuing new mainstream technologies

Increasing the added value of BPO

All in AZAREA

Making use of global support system centering on Asia

Tackling challenges in new business domains

Strengthening corporate capabilities through group-wide strategies

Exploring opportunities to expand new businesses at the same time as improving the profitability of existing businesses

While we see the shift to cloud computing as a positive trend, the traditional IT service market has continued to decline. This has resulted in a tough environment for our businesses of systems development and integration and systems operation and management services. However, we would like to maintain profitability by implementing unique measures. We will proceed with the commercialization of AZAREA, a group of tools that support systems development and integration and systems operation and management. AZAREA is a platform for improving the productivity of systems development and integration and systems operation and management, in which CAC Corporation's knowledge and expertise in systems development and integration and systems operation and management are consolidated and accumulated. We will sell this platform by packaging it. In the same way, we will strengthen the system for selling Micmari, our originally-developed pension management package that represents the summation of our expertise in corporate pension management.

In the field of CRO (pharmaceutical BTO) services, pharmaceutical companies as the users are encouraging the outsourcing of the business due to the growing need to improve the efficiency and reduce the cost of clinical trials, which has resulted in the continuous expansion of the market. On the other hand, there is a movement among

pharmaceutical companies to use CRO services from a limited number of major vendors, which has made the competition fiercer. Amid this trend, CAC Croit Corporation experienced a decline in the profit rate of some projects in FY2016. Major pharmaceutical companies and biopharmaceutical companies demand the capacity to operate on a global scale and the capability of providing a wide range of services in drug development as well because of the increase of international joint clinical trials and the diversification of clinical tests. In our efforts to provide services aligned with the times, we will consolidate the capabilities of our domestic and overseas group companies, with a focus on CAC Croit Corporation, and further, explore an opportunity to form an alliance with a global enterprise. For the development of new business domains, we have invested in more than ten venture firms in a wide variety of fields including IoT, next-generation communications, and healthcare via the corporate venture fund that we established in Silicon Valley. In FY2016, we began to invest in Affectiva, Inc., a U.S. company which has technologies in Emotion Artificial Intelligence. Affectiva, Inc. is a leading company in the field of Emotion Artificial Intelligence, which analyzes human emotions by using a deep learning technology based on more than 50 billion emotion data points. These data points were collected and accumulated by the company by analyzing the facial expressions of more than four million people from 75 countries. CAC Corporation has concluded an agreement to be the first agent of Affectiva in Japan and plans to develop the Emotion Artificial Intelligence market in Japan in the future. The technology has a range of potential applications, including editing programs at broadcast stations, interactive marketing, and sales promotion. We will expand this business by taking advantage of our expertise in the introduction of the technology to companies and consulting services for companies. We have yet to decide on the specific details of the next Medium-Term Strategy that will commence in FY2018. However, our direction will remain unchanged — that is, we will continue tackling challenges in new business domains while maintaining our earning power with initiatives taken by taking advantage of our strengths. At the same time, we are planning to clarify how we will reap the harvest from the seeds of new businesses that we have sowed in the last several years.

A demonstration application that uses the Emotion Artificial Intelligence of Affectiva

(developed jointly with Toppan Printing Co., Ltd.)



Strengthening governance and continuing investment for improving our corporate value

At our Board of Directors meetings in FY2016, we spent a lot of time discussing Group governance, partly because the number of our subsidiaries has been increasing globally and partly because AFL in India posted an unexpected loss. With regard to AFL, we held discussions with an advisory committee including third parties, through which we strengthened risk

management in the acquisition process, such as the selection of an appropriate service provider to whom to outsource due diligence, and created a system in which we do not place excessive trust in the internal control system of the company we have acquired in the process of integration following acquisition. We thus formulated measures for preventing the recurrence of the above loss, including strengthening the system for managing our overseas subsidiaries.

The management team of the CAC Group includes ten directors, of whom four are outside directors. If the internal directors, who execute management, function as the accelerator of an automobile, the main duty of the outside directors is to serve as its brake. It is important for the outside directors to make recommendations by anticipating risks from the viewpoint of shareholders by taking advantage of the background and knowledge of each, rather than by looking at matters related to the operation of individual businesses. I believe that in this sense, they are functioning effectively. We have actually abandoned a plan in response to the brakes applied by an outside director.

Governance will remain an extremely important issue when we advance corporate acquisition in the future, or overseas M&A in particular. However, we do not intend to control investment unnecessarily. Making investment by taking risks is necessary for expanding our businesses into new domains and improving our corporate value. Fortunately, we maintain a sound financial structure. We will therefore continue investing in M&A and human resources, aiming for growth, by checking each project carefully while also reflecting on our past.

About diversity/social engagement activities

As of December 31, 2016, the overall CAC Group has approximately 3,600 non-Japanese employees, who constitute more than 60% of the total. While many of these employees belong to our overseas group companies, non-Japanese employees also play active roles at group companies in Japan. In this way, diversity is spreading naturally throughout the Group. We also promote diverse workstyles of employees. For example, we have introduced telework, which permits employees to work from home. The CAC Group is also working to spread and support Boccia, a sport that became well known at the 2016 Rio De Janeiro Paralympics, as a Gold Partner of the Japan Boccia Association. We send employee volunteers to tournaments to support the operations and cheer on the players. In addition, employees also participate in Boccia games and enjoy the excitement. In this way, our involvement in Boccia has taken root as a social engagement activity that gives us a sense of oneness as a Group.



Our policy on shareholder returns and a message to our shareholders

We work under a basic policy of continuing to pay stable dividends by monitoring the consolidated dividend payout ratio. In addition, we will study and make treasury stock acquisitions in a flexible manner. Although our business performance for 2016 was not strong, we paid a dividend of 40 yen (compared to 32 yen in FY2015), which included a 50th anniversary commemorative dividend of 8 yen, for the full year and purchased treasury stock in the amount of 999 million yen, taking the abundant cash flow into account. In FY2017, we plan to pay an ordinary dividend of 36 yen for the full year, up 4 yen from the ordinary dividend paid in the previous year. Moving forward, we would like to adhere to continuous, stable shareholder returns. In 2016, when we celebrated our 50th anniversary, we held dialogues with numerous customers and business partners. During these dialogues, we received many comments expressing their trust and expectations for services that have been provided by the CAC Group. They caused us to realize once again that we must continue to make efforts to remain a corporate group that is essential for them. I hereby request that our shareholders watch for and place hopes on the CAC Group, which will continue tackling challenges for the long-term, continuous improvement of its corporate value.

Date of interview: April 2017