



Briefing on Results for the 1st half FY2018

– January to June 2018 –

August 10, 2018

CAC Holdings Corporation

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the 1st half FY2018
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I . Overview of Financial Results for the 1st half FY2018

Overview of Consolidated Results (Year on Year)

	1st half FY2017	1st half FY2018	YoY Change		(JPY mil.)
			Amount	%	
Net Sales	28,177	25,440	(2,737)	(9.7%)	
Gross profit	5,462	5,077	(385)	(7.0%)	
(profit margin)	19.4%	20.0%	0.6pt		
SG & A	5,056	4,542	(513)	(10.2%)	
Operating income	406	534	+128	+31.6%	
(profit margin)	1.4%	2.1%	0.7pt		
Ordinary income	321	477	+155	+48.4%	
(profit margin)	1.1%	1.9%	0.7pt		
Extraordinary income	1,161	360	(800)	(68.9%)	
Extraordinary losses	153	161	+7	+4.8%	
Net income	550	283	(266)	(48.4%)	
(profit margin)	2.0%	1.1%	(0.8pt)		

- Net sales decreased around 10%, mainly due to the impact of sales of overseas subsidiaries and a fall in sales to major accounts in Japan.
- Operating income and ordinary income increased thanks primarily to the recovery of profit in the CRO business.
- Net income decreased as a result of a decline in gain on sales of investment securities.

[Net sales]

- Decreased 9.7% year on year, to ¥25,400 million. The reasons for the decrease of ¥2,700 million are the following two points:

1) Impact of sale of two overseas subsidiaries in the previous year: about ¥1,200 million.

For each company sold: Singaporean subsidiary of Accel Frontline - a little over ¥900 million. Singaporean subsidiary, Sierra Solutions - a little over ¥200 million.

2) Significant decrease for subsidiaries of the domestic IT business

- Decrease due to the absence of the large project for major customers of CAC Knowledge (including hardware) recorded in the previous year: ¥750 million
- Decrease in sales of CAC to financial institutions: ¥460 million

[Gross profit]

- Decreased 7%, or ¥40 million, due to the sales decrease.

[Selling, general and administrative expenses]

- A reduction of about ¥500 million.
- Decrease in selling, general and administrative expenses due to the sale of overseas subsidiaries: ¥350 million
- Cost reduction of CAC Holdings and CAC: about ¥130 million

[Operating income]

- Operating income increased due to the reduction of selling, general and administrative expenses.
- In comparison with the same period of the previous year, the CRO business (CAC Croit) contributed to the improvement of operating income: up ¥430 million.
- In the domestic IT business, decreased. ➡ Explanation in the paragraphs of net sales/operating income by segment.

[Ordinary income]

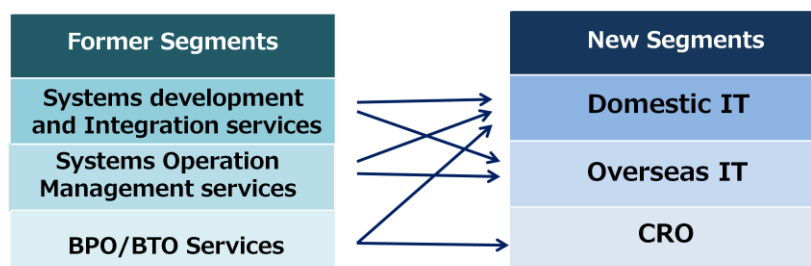
- Increased 48.4% due to the same reasons as those for operating income. With respect to non-operating loss, financial costs decreased.

[Net income]

- Decreased ¥800 million, mainly due to a decrease in gains on sales of investment securities, resulting in almost half of that of the same period of the previous year.

Change of the Reportable Segments

CAC Holdings changed its reportable segments in FY2018 before commencing the medium-term strategy.



Overview of New Segments

Domestic IT	IT and related services, personnel BPO service, etc. provided by domestic subsidiaries
Overseas IT	IT and related services, etc. provided by overseas subsidiaries
CRO	Contract and proxy services for clinical testing and operations after the launch of pharmaceuticals provided to pharmaceutical companies

Change of the reporting segments from Q1 of 2018

- The segments used until the previous year are the systems development and integration services (SI), the system operation and management services (SO) and the services other than systems, namely BPO/BTO services (personnel affairs BPO services, pharmaceuticals development support services (CRO)).
- From this fiscal year, the method of emphasis is changed under the medium-term management strategy, and accordingly, the segments were changed to domestic IT, overseas IT and CRO.
- Currently, CRO mainly engages in business in Japan; however, when the overseas business of CRO expands in the future, the CRO segment may be divided into domestic CRO and overseas CRO in disclosure.

Net Sales and Operating Income by Segment (Consolidated)

(JPY mil.)

Net sales

	1st half FY2017		1st half FY2018		YoY change	
	Amount	vs Total	Amount	vs Total	Amount	%
Domestic IT	15,387	54.6%	14,362	56.5%	(1,025)	(6.7%)
Overseas IT	7,328	26.0%	5,412	21.3%	(1,915)	(26.1%)
CRO	5,461	19.4%	5,665	22.2%	+203	+3.7%
Total	28,177	100.0%	25,440	100.0%	(2,737)	(9.7%)

Operating income

	1st half FY2017		1st half FY2018		YoY change	
	Amount	vs Total	Amount	vs Total	Amount	%
Domestic IT	542	3.5%	282	2.0%	(260)	(48.0%)
Overseas IT	(146)	-	(186)	-	(40)	-
CRO	10	0.2%	439	7.8%	+428	+4,184.9%
Total	406	1.4%	534	2.1%	+128	+31.6%

※ Net sales represent those for external customers.

Disclosure according to the new segments. The data for the previous year (January to June 2017) are calculated according to the new segments.

[Net sales] Decreased ¥2,700 million overall.

(Domestic IT) Decreased ¥1,000 million.

- Decreased ¥750 million due to a decrease in sales to major customers of CAC Knowledge.
- Decreased ¥500 million in sales of CAC to megabanks*

(Overseas IT) Decreased ¥1,900 million.

- Decreased about ¥1,200 million due to the sale of two overseas subsidiaries in the previous year.
- Decreased about ¥300 million due to the impact of a decrease in sales of American subsidiaries to megabanks*.

(CRO) Increased slightly.

*Sales to megabanks: projects relating to overseas branches, not what we call next-generation systems.

[Operating income]

(Domestic IT) Decreased significantly.

- Profit of CAC decreased about ¥300 million (mainly due to a decrease in sales to megabanks).

(Overseas IT) Deficits increased.

- For the operating income of the two companies sold, one recorded deficits and the other recorded profits, resulting in no profit or loss (± 0). Operating income of the other companies decreased.

- The trend of recovery in April to June (three months).

Both the subsidiary in India and the subsidiary in China moved into the black.

- The year-on-year decrease is caused mainly by a profit decrease due to a sales decrease of the American subsidiary (about ¥80 million).

(CRO) Improved significantly.

- Due to cost reduction, termination of unprofitable projects, review of contracts, etc.
- Upon the review of contracts, the contract form was changed from that based on the amount of clinical data processed to that for guaranteeing certain sales irrespective of the amount of clinical data processed, namely the minimum guarantee.

Net Sales by Industry (Consolidated)

(JPY mil)

	1st half FY2017			1st half FY2018			YoY change	
	Amount	vs Total		Amount	vs Total		Amount	%
Financial services	4,120	14.6%		3,440	13.5%		(680)	(16.5%)
Trust banks	2,074	7.4%		2,013	7.9%		(61)	(3.0%)
Pharmaceuticals	7,909	28.1%		8,148	32.0%		+238	+3.0%
Food services	1,709	6.1%		1,356	5.3%		(352)	(20.6%)
Manufacturing	1,574	5.6%		1,749	6.9%		+175	+11.1%
Service and others	10,788	38.2%		8,731	34.4%		(2,056)	(19.1%)
Total	28,177	100.0%		25,440	100.0%		(2,737)	(9.7%)

※ Net sales represent those for external customers.

(Financial institutions) Decreased significantly.

- Major impact of a decrease in sales to megabanks in Japan and America.
- Because net sales of Accel Frontline (Indian subsidiary) to financial institutions are ¥1,500 million, fluctuations in those sales have some impact (they decreased slightly this fiscal year as compared to those for the previous fiscal year).

(Service and others) Decreased significantly by not less than ¥2,000 million.

- The main causes are the two overseas subsidiaries sold in the previous year (down ¥1,000 million) and a significant decrease in sales of CAC Knowledge (down ¥750 million).

Orders Received and Order Backlog (Consolidated)

Orders Received

(JPY mil)

	1st half FY2017	1st half FY2018	YoY change	
			Amount	%
Domestic IT	15,724	14,747	(977)	(6.2%)
Overseas IT	6,846	5,503	(1,342)	(19.6%)
CRO	5,834	5,614	(220)	(3.8%)
Total	28,405	25,865	(2,540)	(8.9%)

Order Backlog

	1st half FY2017	1st half FY2018	YoY change	
			Amount	%
Domestic IT	7,379	7,127	(252)	(3.4%)
Overseas IT	1,773	1,330	(442)	(25.0%)
CRO	7,982	7,643	(338)	(4.2%)
Total	17,135	16,101	(1,033)	(6.0%)

※ Orders Received and Order Backlog represent those for external customers.

[Orders received]

Sluggish. Bold forecasts cannot be made for the second half period.

- The causes for the decrease are almost the same as those for sales.

(Domestic IT)

- Like sales, the results of the domestic IT business are mainly caused by a significant decrease in orders from megabanks.

(Overseas IT)

- The overseas IT business is significantly affected by the sale of subsidiaries.
- The results remain almost on a par with those of the previous year, excluding the two subsidiaries sold.

(CRO)

- Did not grow significantly.

[Order backlogs]

- Order backlogs decreased with a decrease in orders received.
- For CRO, significant growth is not seen; however, there are long-term projects (contracts), and no significant impact on the future course of direction is seen.

Orders Received by Industry (Consolidated)

(JPY mil.)

	1st half FY2017	1st half FY2018	YoY change	
			Amount	%
Financial services	4,127	3,746	(380)	(9.2%)
Trust banks	1,934	2,016	+82	+4.2%
Pharmaceuticals	8,570	8,038	(532)	(6.2%)
Food services	1,825	1,578	(247)	(13.5%)
Manufacturing	1,488	1,744	+256	+17.2%
Service and others	10,458	8,740	(1,718)	(16.4%)
Total	28,405	25,865	(2,540)	(8.9%)

※ Orders Received represent those for external customers.

(Regarding service and others)

A significant decrease in orders received is caused by the impact of the sale of two overseas subsidiaries and a decrease due to the absence of large projects of subsidiary CAC Knowledge.

Results Forecasts for FY2018

(JPY mil.)

	1st half FY2018 Results	FY2018 Forecasts	FY2017 Results
Net sales	25,440	54,000	53,268
Operating income (profit margin)	534 2.1%	1,600 3.0%	698 1.3%
Ordinary income (profit margin)	477 1.9%	1,500 2.8%	717 1.3%
Net income (profit margin)	283 1.1%	1,100 2.0%	1,100 2.1%

2018 Dividends	JPY19 for the end of 1st half FY2018	Forecast JPY19 for the end of FY2018
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[Operating income]

- ¥530 million for the first half period in comparison to the forecasted operating income of ¥1,600 million for FY2018.
The difference is not less than ¥1,000 million.

[Outlook for the second half period]

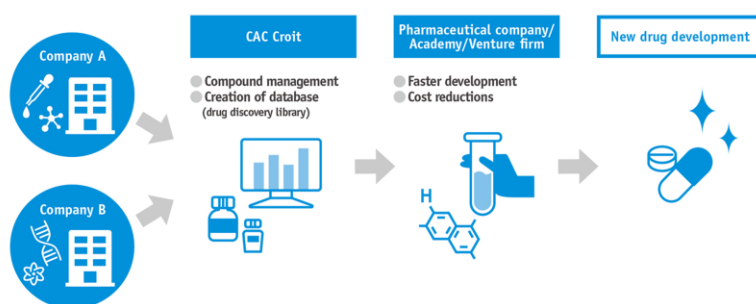
- Operating income from the ordinary business for the second half period is forecasted at about ¥500 million.
- In addition to the above, we are moving in the expectation of an order from a trust bank of a little over ¥500 million in Q4.
- Initially, the contribution of M&A of a new business of about ¥100 million was expected; however, there are no large projects that can be reflected in the consolidated financial results for the current fiscal year. The activities are continuing.

II . Initiatives of the CAC Group

Strengthening Existing Business: Expansion of CRO Peripheral Businesses

■ Launching compound sharing library business

- Business in which we collect and maintain compounds and information for pharmaceutical search research held individually by pharmaceutical companies and create databases
- The databases are used jointly by pharmaceutical companies, academic institutions, bio-venture companies, etc.
- It is expected to help significantly reduce the time required for new medicine development and costs and contribute to new medicine development.



- In this business, CAC Croit of the Group puts together and manages compounds (such as liquid and powders) that pharmaceutical companies manage and store individually.
- With the backup (loan)/authorization of the Japan Agency for Medical Research and Development (AMED), preparations are being made for the start of business at the research and development facility in Kanagawa prefecture.
- No sales for FY2018. Sales for the following year are forecasted at about ¥300 million. Sales thereafter are forecasted at about ¥500 million.
- Orders from three leading companies are expected, with a plan to start in the following year.
- The scope of aggregation and management is intended to expand to cover academics, including universities, in future.

Strengthening Existing Business: Use of Digital Technology

■ Development of business that uses emotion AI

The *Automotive AI* service was launched following *Kokoro Sensor*, which was announced in February this year.



- In-vehicle sensing AI that analyzes the emotions of people traveling in a car in real time
- Expected to be used in the development of next-generation driver monitoring systems and comfortable autonomous cars

- Use of technologies of Affectiva of America, which is the leader in AI for the recognition of emotions.
- Start of provision of the service of “Kokoro sensor” software in February.
- Affectiva produces SDK for automatic driving and therefore conducts sales activities directed at the automobile industry (manufacturers of automobiles and parts).
- Sales of AI for the recognition of emotions for this year are about ¥50 million; however, the gross profit margin is high, at not less than 40%. We intend to grow it in future.

Strengthening Existing Business: Use of Digital Technology (Example)

■ *Yugata Satellite*, a news program on TV Tokyo, used *Kokoro Sensor* to analyze the US-North Korea summit.

■ The news readers and guests in the program deduced the inner feelings of the two leaders based on the result of the analysis undertaken by *Kokoro Sensor*.



Examples of the use of AI for the recognition of emotions

(Explanation of pictures) analysis of emotions at the moment when each leader utters a word.

- Mr. Kim showed 97% strong dislike (concern) when Mr. Trump made a statement.
- When Mr. Trump made a statement about denuclearization, 40% fear was detected in him.

The newscasters linked the stories in the program based on these analysis results.

Creation and Expansion of New Business Areas

■ Collaborating with Chinese venture capital company to grow the inbound tourism business

- CAC signed a basic agreement for the inbound tourism business with Tongcheng Zhongchuang, a Chinese venture capital company.
- We will discover promising startups from the networks of Tongcheng Zhongchuang and invest in and cooperate with them.



- The initiatives are somewhat delayed.
- With an eye toward the Olympic Games, the target is the inbound business of Greater China.
- Cooperation with local venture companies (China).

Strengthening and Revitalizing the CAC Group

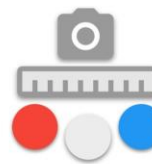


■ Hiring Shun Sato, a bocchia player

- Support Shun Sato and help promote the sport of bocchia
- Create a sense of unity in the CAC Group

■ Distribution of bocchia-related apps

Commenced the distribution of Bocchia Major, an Android app for automatically measuring the distance between bocchia balls, on Google Play



- The Company welcomed one of the players registered as a certified athlete for the Japan Bocchia Association, Mr. Sato (who was ranked fourth in the BC2 class in the Japan championship in 2017) as part of the CSR initiatives of the Group.
- Release of the Bocchia Measure that the Company developed through Google Play without charge. Use of the technologies for image recognition. It is not used in regular games yet; however, our goal is to ensure that it is used in the future.

Reference: Key News in the First Half of FY2018 (1/3)

Jan. 11, 2018	<p>CAC Established a CVC Fund for Domestic Companies: Creation of a CVC Fund with a Total Value of 3 Billion Yen as Part of CAC's Efforts to Develop New Businesses</p> <p>CAC Holdings founded CAC Capital Co., Ltd., an investment company with the aim of investing in startups in Japan for the purpose of creating new businesses, and funded the establishment of a corporate venture capital (CVC) fund with a total value of 3 billion yen. Based on this, the company aims to make more flexible investments and build partnerships with startups at an early stage for the creation of new businesses.</p>
Feb. 1, 2018	<p>CAC Launched the Delivery of <i>Kokoro Sensor</i>, a Video Analysis Service Using Emotion Recognition AI: Emotion Analysis Made Easy With Only a Video in Hand</p> <p>CAC began providing <i>Kokoro Sensor</i> (Ver.1.0), a video analysis service that uses emotion recognition AI to analyze people's expressions and turns the emotions detected into numerical data. <i>Kokoro Sensor</i> is an original service developed by CAC by applying Emotion Artificial Intelligence provided by Affectiva, Inc. to an emotion recognition platform. It allows the use of video data prepared by the users as a new solution for problem solving in a range of studies, product development, customer satisfaction surveys, etc.</p>
Mar. 19, 2018	<p>CAC Croit Launched Compound Sharing Library Business (<i>QualityLead</i>)</p> <p>The compound sharing library business developed by CAC Croit was selected for the Advanced Research and Development Programs for Medical Innovation of the Japan Agency for Medical Research and Development, and the project commenced. Through this project, the company will help improve the domestic drug development system and contribute to providing innovative pharmaceuticals originating in Japan.</p>

Reference: Key News in the First Half of FY2018 (2/3)

Mar. 23, 2018	<p>CAC Holdings Enters the Inbound Tourism Business: the First Round Investment in <i>Tourcandy</i>, Providing Restaurant Reservation and Payment Services for Foreign Visitors to Japan</p> <p>CAC Holdings invested in tourcandy Inc., a company operating Xunwei, which provides restaurant reservation and payment services for foreign visitors to Japan. This is part of CAC Holdings' efforts to create an inbound tourism business, one of the key strategies laid out in the company's medium-term strategy "Determination 21," which commenced in the current fiscal year. In addition to the capital alliance, the company plans to provide support such as system development and user acquisition through CAC Shanghai and the growth of partner restaurants and assist with tourcandy's business expansion.</p>
Apr. 2, 2018	<p>A Top Athlete Joins the CAC Group: Boccia Player Shun Sato is Employed by the Group</p> <p>The CAC Group has recruited Shun Sato, a player of boccia, a sport for disabled people. This is one of the Group's promotion and support activities for boccia, in which the Group has been engaging since 2016. By supporting Shun Sato's sporting activities, the Group aims to increase its promotion and support for boccia and raise its sense of unity as a group while cheering for Shun Sato.</p>
Apr. 9, 2018	<p>CAC Holdings Cooperates with Chinese Venture Capital to Expand Inbound Tourism Business</p> <p>CAC Holdings signed a basic agreement with Suzhou Tongcheng Zhongchuang Incubator Service Co., Ltd. ("Tongcheng Zhongchuang"), a Chinese venture capital company, for collaboration in an inbound tourism business. Through this collaboration, CAC Holdings will find promising startups in inbound tourism from the networks of Tongcheng Zhongchuang and invest in and cooperate with them, with the aim of promoting and expanding the inbound tourism business of the CAC Group.</p>

Reference: Key News in the First Half of FY2018 (3/3)

Jun. 13, 2018	CAC Launches Pharmaceutical Data Solution Using AWS Service Group By using the group of services provided by Amazon Web Services ("AWS"), CAC started providing a pharmaceutical data solution that will enable the collective search of a range of pharmaceutical information provided by pharmaceutical companies.
Jul. 30, 2018	CAC Croit Starts Introducing Robotic Process Automation ("RPA") in Contract Business CAC Croit introduced RPA in the pharmacovigilance operation ("PV operation") of a large Japanese new drug manufacturer and achieved a significant reduction in work time. The application of RPA this time was limited to a small part of the individual case safety reporting (ICSR) process in the PV operation. The company already plans to apply it to the automatic data entry of safety databases, file management and a range of other processes.
Aug. 1, 2018	CAC Begins Providing Automotive AI That Uses Emotion Recognition AI: For the Real-Time Analysis of Automobile Passengers' Emotions by Collecting Images and Sound CAC began providing Automotive AI, in-vehicle sensing AI that allows the emotion analysis of people traveling in a car in real time. The use of Automotive AI enables the development of an environment that is safer and more comfortable for the driver and passengers. It is also expected to be applied to the development of next-generation driver monitoring systems, comfortable autonomous cars, and totally new car-travel experiences based on the reactions of passengers.



CAC Holdings Corporation

The CAC Group supports the promotion and development of boccia,
a sport for disabled people.



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