

We will capitalize on digital transformation as an opportunity and transform ourselves into a company that achieves sustainable growth.



Akihiko SAKO

President and CEO

In an era of rapid change, we will tackle challenges with strong determination

My name is Akihiko Sako, the president and CEO of CAC Holdings Corporation. First, I would like to express my sincere gratitude to our shareholders for their ongoing support.

Since its founding in 1966 as Japan's first independent software company, the CAC Group has continued to grow steadily by anticipating change.

However, recent years have seen rapid waves of digital transformation (hereinafter, "DX"), in which AI, IoT, and other digital technologies greatly change the lives of individuals, corporate activities, and society in general. These changes have led to a significant shift in the capabilities required of system integrators and outsourcers. There is even a possibility that companies unable to make full use of the latest technologies will be eliminated.

What services should we provide to society in this era of rapid change?

Without question, the CAC Group is facing a big turning point.

In response, the CAC Group adopted a new corporate philosophy this year, that is, "Creating new value on a global level with the use of the latest ICT." Based on this philosophy, we will identify needs generated from globalization and diversifying sets of values, ahead of others, and tackle challenges with a strong determination, aiming to be a corporate group that can respond to great change.

FY2017 results dragged down by unprofitable overseas projects

Net sales for the fiscal year ended December 31, 2017 increased 1.4% year on year, to 53,260 million yen while operating income declined 41.9% year on year, to 690 million yen.

We created new technologies and new business domains by making use of AI, blockchain, IoT, and other technologies. In addition, we stepped up collaboration among group companies in and outside Japan and also worked to expand our overseas operations in China and India.

On the other hand, our profits were heavily influenced by unexpected events. They included an increase in SG&A expenses at CAC Croit Corporation, which provides CRO (pharmaceutical BTO) services, and at Accel Frontline Limited, our subsidiary in India.

They also include the fact that major projects that formed the basis of Sierra Solutions Pte. Ltd. (sold), a subsidiary in Singapore, became unprofitable.

Recovery expected in FY2018

Net sales for the fiscal year ending December 31, 2018 are expected to rise 1.4% year on year, to 54,000 million yen. Operating income is expected to increase 129.1% year on year, to 1,600 million yen.

In the domestic IT business, we will achieve a rebound in profits by capturing demand for Amazon Web Services (AWS), a cloud service, and taking other measures. In the overseas IT business, we have sold Sierra Solutions Pte. Ltd., a subsidiary in Singapore that posted an operating loss. In addition, Accel Frontline Limited, a subsidiary in India, plans to spin off unprofitable businesses. While reducing cost through these and other measures, we will strive to increase orders, targeting only India and China, where demand from companies, schools, and other organizations is high.

Past two medium-term strategies: Acceleration of change as the challenge

In the previous medium-term strategy "Rebirth Beyond" (2015-2017), whose final year was FY2017, we tackled new challenges in new technologies and new business domains, with a focus on overseas expansion and investment in

CRO business, to transform ourselves into a new CAC Group.

While net sales increased, events at our overseas subsidiaries in Singapore and India dragged down profits, and CRO business continued to see marginal and unprofitable projects. As a result, businesses in areas that we deemed priority areas pushed down profits. In "Rebirth" (2012-2014), the medium-term strategy before the previous one that started in my second year as the president, and the previous medium-term strategy "Rebirth Beyond" (2015-2017), we sought to transform ourselves into a new CAC Group in anticipation of changes of the times caused by DX. During the three-year period of "Rebirth," we were able to improve our performance, mainly in existing businesses. During that of "Rebirth Beyond," however, we could not catch the waves of DX or keep pace, although we took a number of measures.

New medium-term strategy

Determination 21

2018 ▶ 2021

Strong drive,  **Infinite possibilities**

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| <p>1</p> <p>Improving the profitability of existing businesses</p> | <p>2</p> <p>Creating and expanding new business domains</p> | <p>3</p> <p>Strengthening and revitalizing the group</p> |
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See pages 13 and 14 for details.



New Medium-term strategy “Determination 21”

In the new medium-term strategy (2018-2021), whose first fiscal year is FY2018, we will work with *determination*, aiming to change ourselves into a corporate group that can respond to great changes caused by DX. We aim to achieve consolidated net sales at 70,000 million yen and consolidated operating income at 4,000 million yen in FY2021 as the final fiscal year of the new medium-term strategy. Above all, we have an urgent need to achieve a recovery in consolidated operating income, which has been in a slump. We will keep in mind the following three trends: rapid expansion and penetration of DX; formation of a borderless, seamless global market; and the significant possibility that old-fashioned system integrators and outsourcers will be eliminated. To restore operating income, then, we will change our existing businesses, and at the same time, develop new businesses and domains and entrench new technologies in the CAC Group.

We aim to improve profitability in existing businesses.

In existing businesses, we aim to achieve net sales at 50,000 million yen and operating income at 2,500 million yen in FY2021. The major source of profit of the CAC Group has been businesses for financial institutions. However, the environment surrounding the financial industry has been growing tougher, with major banks instituting large-scale restructuring, for example. We will therefore shift our domestic IT business to digital technologies and provide the solutions of our overseas subsidiaries in Japan. We have already produced results, including the provision of technologies for automated driving support systems, which are owned by Accel Frontline Limited, a subsidiary in India, to an automotive parts manufacturer in Japan. Moving forward, we will carry out these activities more aggressively by expanding the area for sales activities and taking other initiatives. Our overseas business is facing a turning point. In the future, we will aim to win market share by focusing on huge markets

such as India and China. In addition, we will select the next countries and regions to enter, considering M&A and integration as possible options, while also promoting further restructuring by taking measures such as spinning off unprofitable businesses. With regard to the CRO business, we will create new businesses as an extension of our existing businesses, by pursuing initiatives such as undertaking compound management with the backup of the Ministry of Health, Labour and Welfare. We will also expand the business to China and India, where it is expected to enjoy high demand, by deploying a 40-member CRO team in China, for example.

New businesses will grow based on M&A and investment.

We plan to achieve consolidated net sales from new businesses at 20,000 million yen and operating income from the businesses at 1,500 million yen in FY2021.

New businesses are based on M&A and investment. If our existing businesses are the first floor of a building, new businesses constitute the second floor that continues to expand. New domains and technologies are added to our existing businesses. That's the way it works.

We will invest in various business fields, without limitation, including nursing care, agriculture, and inbound tourism, not to mention digital technologies. We will quickly promote investment projects which are deemed promising.

For example, we have invested in a website where tourists from China and Taiwan can reserve tables at restaurants. We are looking at creating and adding a service that will permit reservations for medical tours to this website jointly with healthcare corporations. We also pay attention to *film farming*, which is considered promising. CAC Holdings has a specialized organization named Innovative Business Planning Dept., which focuses its efforts on creating new

businesses and new technologies based on M&A and business and capital alliances. Separately from this division, we established CAC CAPITAL Co., Ltd., an asset management company aimed at investing in startups in Japan, and set up an individually managed corporate venture capital (CVC) fund of 3,000 million yen in total (upper limit). In addition to continuing with the initiatives we have taken to create innovation, such as M&A, we will invest flexibly to create new businesses and build partnerships with startups at early stages. We have also invited investment management professionals from outside the group, with whom we will pursue an absolute return.

Developing investment expertise by learning from past failures as well

During FY2017 to early FY2018, our alliance and portfolio businesses began to operate without trouble.

In November 2017, we began to provide a Proof of Concept (PoC) support service intended for financial institutions, which combines blockchain, AI, and IoT, jointly with Toppan Printing Co., Ltd.

While innovation of existing business models and business processes with DX is required, we are providing this service of giving support with total solutions, from consulting to system development and result verification. It enables us to test the commercial viability of new theories and technologies in the development of a new product or service or in a large-scale commercial project, for example.

In addition, in February 2018, we began to provide the *kokoro* sensor (Ver. 1.0), a video analysis service that analyzes human facial expressions by using the Emotion Artificial Intelligence from Affectiva Inc., in which we began investing in 2016, and outputting numerical data for the human emotions it has detected. The *kokoro* sensor analyzes the facial expressions of people in videos

prepared by users, by applying the Emotion Artificial Intelligence. The emotions of persons in the videos are detected and output as numerical data.

The *kokoro* sensor permits business companies and other users to analyze the video data they own and make use of the obtained data for research, product development, and customer satisfaction surveys, for example.

There were cases in which our investment projects ended in failure. We will develop measures to prevent this, with the leading role played by the Board of Directors including four outside directors (as of the date of this interview). We will make full use of investment skills, knowledge, and methods learned from the failure. At the same time, we will continue to accumulate in-house investment management expertise.

From a system development company to a true holding company

We used to be a general software company. We shifted to a pure holding company structure in April 2014 as we expanded our operations in response to the advent of an era when IT is essential for all businesses, at the same time as promoting our globalization. Later, I served concurrently as the president of CAC Holdings, the parent company, and that of CAC Corporation as an operating company. However, I was forced to devote much of my energy to the operating company, which is responsible for its corporate customers and employees. This made me painfully aware that the new structure was not working effectively. In response, I resigned from my position of the president and CEO of CAC Corporation, which I held concurrently, in January 2018. As a result, the president and CEO of CAC Holdings, which is a pure holding company, became my only position.

By maintaining a distance from operations and steering the overall group from a broader

perspective, I will seek to improve the structure to make it more profitable and also increase ROE, while considering the balance between people, goods, and money.

I will also promote investment aggressively within the scope of cash flow, although it depends on the project. Making effective use of treasury stock is another task. I think we have options that should be considered, such as retirement, investment made using a share swap, and stock options aimed at revitalizing the company.

The name of the team in charge of IR activities was changed from the Corporate Communication Section to the Enterprise Value Up Group. As a strategic organization that is more integrated with management, the team will work to improve our value.

CAC Holdings will catch the wave of great change brought about by DX and will continue pursuing initiatives to achieve sustainable growth. I invite our shareholders will continue to watch and support our progress.

Date of interview: Early March, 2018

