In FY2018, we secured an increase in profit by eliminating unprofitable projects and achieving appropriate cost.

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.
The CAC Group aims to be a corporate group that can survive in an era that will change even more rapidly with AI, IoT, and other cutting-edge technologies. We have therefore braced ourselves for FY2018 as the first year of our new medium-term strategy, *Determination 21.*
As a result, while net sales of the overall group declined, we achieved a significant improvement in profits, which increased year on year. What contributed to the profit improvement in particular was the contract research organization (CRO) business. CAC Croit Corporation, our subsidiary which operates the CRO business, began to take steps two years ago to improve its earnings capabilities, including the elimination of unprofitable projects and cost appropriation. For example, the company reviewed its contracts with pharmaceutical companies concerning costs that were mostly assumed by the company, including expenses for collecting clinical trial data that were generated unexpectedly and losses from downtime generated due to the absence of participants. As a result, the company could build an environment that reliably generates profits.
In addition, in the domestic IT business, we achieved the previous year's levels of net sales and profit as well. Overseas IT business saw a decline in net sales, but its deficit decreased, resulting in an increase in profits overall.
There are two reasons for the decline in sales from overseas IT business. The first is the sale of two overseas subsidiaries associated with the restructuring of overseas businesses. The sale of the two subsidiaries resulted in the loss of their sales, which had a significant impact on the result. The other reason is a decline in sales at CAC AMERICA CORPORATION, our subsidiary in the United States, attributable to the absence of the special demand that it enjoyed in the year before last.
On the other hand, because we split off unprofitable businesses, we were able to narrow the losses on our overseas IT business. We increased profitability through our

Strong drive,
Infinite possibilities

We will promote globalization and aim to be a corporate group that is capable of creating new industries.

Akihiko SAKO
President and CEO

internal reforms, such as the sale of companies with large losses and a fundamental review of the businesses of our subsidiary in India, including the business process. This has convinced me that the reforms we have advanced will be the catalyst for further positive changes in FY2019.

The growth driver in FY2019 is the overseas and domestic IT business.

Over the last several years, we have developed the medium-term strategies of the CAC Group by assuming that what we have been regarding as our mainstay work will decrease. This is because we believed that the rapidly expanding digital transformation (DX) will lead to a shift from the previous method, with which we dispatched system engineers (SEs) to companies and spent a great deal of time developing a system of each company, to an era when packages or cloud systems are used without relying on human labor.
However, even though AI and other cutting-edge technologies have begun to be used, the labor, skills, and knowledge of SEs are essential for introducing those technologies. As a result, the shortage of SEs has remained serious. Of course, the skills required of us have been changing, but we believe that demand for SEs will remain strong.
However, we must continue to manage the company in FY2019 with a sense of crisis, instead of being satisfied with the current conditions. We believe that, while the time when this industry will be eliminated due to DX has been postponed somewhat, the fact that it will be eliminated will remain unchanged. Accordingly, in FY2019, we will continue to aggressively promote new business development, and we expect that initiatives to bolster profitability at our subsidiaries in India and Dubai will prove effective, contributing greatly to our performance in overseas IT business, which we have been promoting over the past several years. Our business environment in India has been favorable, with demand for system development and operations remaining strong.
Our business in this field, the structure of which is being streamlined and transformed into one that makes it easier to generate profits, should be one of our leading forces in 2019.
We also receive a lot of inquiries about our domestic IT business, which remained flat in 2018. We expect that this domestic IT business and overseas IT business in India and other countries will be our growth drivers in 2019.

Medium-term strategy

Determination 21

2018 ▶ 2021

Basic Policy

1 Strengthening governance by separating management and execution

2 Mobile implementation of business with prompt decision-making

3 Improvement of capital efficiency and strengthening of return to shareholders

4 Promotion of value sharing with shareholders

Remaking our medium-term strategy into one that is stronger and clearer

In response to these changes in the business environment, we have reviewed our medium-term strategy, Determination 21 (2018-2021). Because one year had passed since we developed the plan, we believed that it was the best time to perceive the current reality correctly and clarify the strategy for achieving our targets in the remaining three years. At the same time, concerning our measures for maximizing shareholder value, which we have been weighing heavily, we can finally move to the stage of making improvements because rebuilding our overseas subsidiaries, our top priority issue, has concluded.

First, we added ROE *at 8%* as our new target. ROE is the most reliable indicator of a company's efforts by comprehensively considering shareholder returns, capital efficiency improvement, growth strategy, and other factors. We will make full efforts to achieve the target of ROE of 8%, not to mention net sales of 70.0 billion yen and operating income of 4.0 billion yen in FY2021. To improve capital efficiency, we will either try to improve shareholder returns through measures such as the large-scale acquisition of treasury stock and significant dividend increase, or else we will actively promote M&A.

We have also established a system for strengthening governance by separating management and execution. This is aimed at strengthening our sales capabilities and maximizing sales and profits, thereby improving our corporate value and achieving sustainable growth. For this purpose, we have reduced the number of directors from eight to five and then replaced the management team members. We have also changed the number of outside directors to three, while that of internal directors is two, thereby fulfilling the management function. At the same time, we transferred the three persons, who resigned from the position of director, to the position of executive officers in the Core ICT, China, and India Domains. Meanwhile, we have appointed executive officers in the Healthcare Domain and the Future Domain, which is in charge of M&A, among other operations. We have thus enabled executive officers to be committed to supervising the five business domains. I believe that this will clarify the roles of our directors and executive officers and allow them to consistently fulfill those roles. In addition, we have transferred decision-making authority to executive officers to enable them to make decisions promptly and execute businesses flexibly. I believe that, with these changes, we have now established a system that allows us to move ahead quickly with overseas projects in India, China, and other countries, not to mention projects in Japan.

We have also reviewed the compensation plan for our directors and introduced a restricted stock program. I believe that this has allowed our directors to share value with shareholders and manage the company with an awareness of the price of the company's shares.

Improvement of shareholder returns with the acquisition of treasury stock, dividend increase, and aggressive M&A

First, we will continue to conduct M&A aggressively. In FY2019, we officially added the Future Domain, which implements M&A and creates new businesses from among the businesses of our investment portfolio, to our business domains and have also clarified target values. We are planning M&A by targeting various candidate companies in Japan and other countries, with a focus on companies and business sectors that are expected to produce synergies with our businesses in the digital field, which are our core businesses, while also taking a broad perspective.

In addition, we expect the dividend in FY2019 to increase 12 yen from the previous fiscal year, to 50 yen. We are planning to implement a large-scale acquisition of treasury stock, with an upper limit of 3.0 million shares or 3.0 billion yen, within FY2019. Basically, we will retire the acquired stock to increase the profit per share.

Stay tuned for more changes and development at CAC Group

We are in an era of rapid progress in digitalization, which makes it difficult to predict what will happen to the business environment from a long-term perspective. However, the CAC Group works in the digital field, the very field that will change the world so dramatically. We will continue to lead the digitalization of our corporate customers by riding the wave of evolution ahead of other companies and finding a firm position on that wave. We will also have to be capable of creating new industries on our own.

For the CAC Group, the key to being able to create new industries is, without doubt, *globalization*. Therefore, the CAC Group entered Europe and the United States at an early stage. Now we are promoting business expansion in India, Middle East, and China as well. With a view to further globalization, we have been increasing non-Japanese employees in Japan and other countries in the last ten years or so, thereby promoting globalization in the aspect of human resources, while also providing language education to our employees. It is for globalization that we have implemented M&A by attaching greater importance to overseas companies than those in Japan. I feel this has allowed the CAC Group to change into a globally conscious corporate group.

As a corporate group that can continue growing over the long term, the CAC Group will keep changing and evolving flexibly while maintaining consistency. I respectfully ask our shareholders for their continued support.

Date of interview: Late March, 2019