

## Medium-term strategy

# Determination 21

2018 ▶ 2021

We are seeing rapid waves of digital transformation (DX), in which AI, IoT, and other digital technologies are significantly changing the lives of individuals, corporate activities, and even society overall.

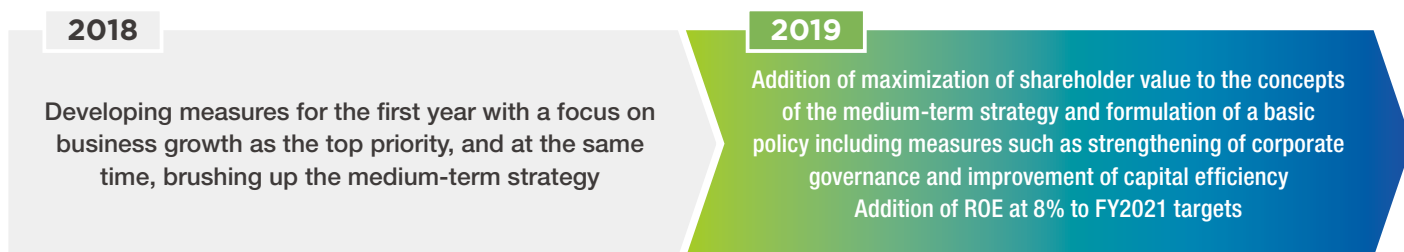
The capabilities required of us as system integrators and outsourcers are also changing greatly.

This has also raised expectations for governance to improve corporate value.

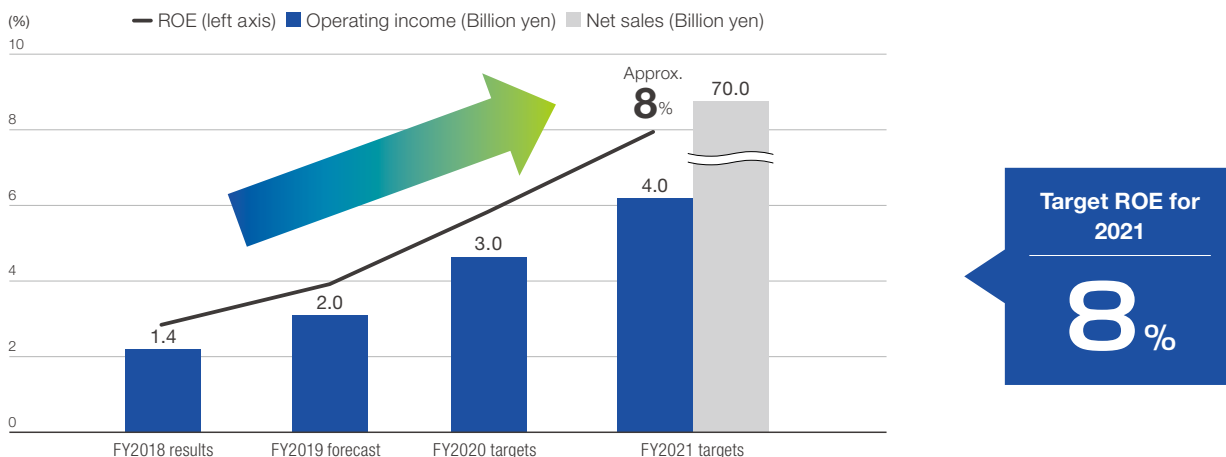
We aim to be a corporate group that continues to grow sustainably by consistently identifying social needs in this era of rapid change. For this purpose, we have developed a medium-term strategy (FY2018-FY2021) of the CAC Group and are striving to achieve targets under this strategy.

### Renewal of the medium-term strategy

A year after the formulation of the medium-term strategy, we reviewed it to reflect changes in the business environment. In addition to clarifying the strategy, we developed measures to further improve our corporate value, including those for strengthening governance and improving capital efficiency.



### FY2021 target values

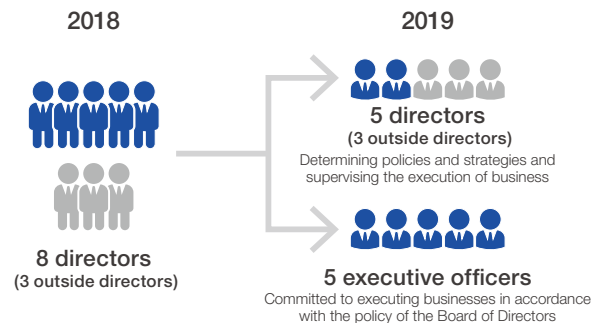


\*ROE was calculated by using the value for profit, which is based on forecast ordinary income calculated based on forecast operating income and deduction of tax (40%).

## Basic Policy

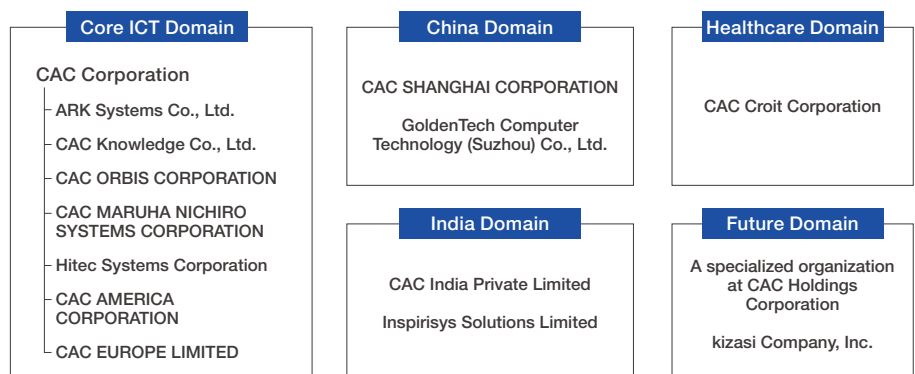
### 1 Strengthening governance by separating management and execution

- Separating the decision-making and supervising functions of management from the business execution function, aiming to strengthen corporate governance and enable agile management
- Changing the structure of the Board of Directors in FY2019 so that outside directors will constitute the majority, with two directors and three outside directors, to strengthen governance further and boost discussions



### 2 Mobile implementation of business with prompt decision-making

- Establishing five business domains in total by dividing the existing business into four domains and adding a new one
- Assigning an executive officer to be responsible for each domain, thereby pursuing growth of each domain and clarifying accountability for results



### 3 Improvement of capital efficiency and strengthening of return to shareholders

- Combining sustainable profit growth, stable and continuous provision of dividends, proactive acquisition of treasury stock, and other measures to improve capital efficiency and return profit to shareholders proactively, with an aim to improve corporate value



### 4 Promotion of value sharing with shareholders

- Introducing a restricted stock program, under which a part of remuneration is paid in the form of stock, thereby giving incentives for the sustainable improvement of our corporate value and further value sharing with shareholders
- Also implementing IR activities proactively to share information further

# We achieve growth and stable dividends.

At the CAC Group, our financial strategy aims to deliver both investment for growth and stable shareholder returns. The following section provides an overview of our approach to finance.

Creating profit stably and continuously while aggressively making the investments needed for growth

Principles of the CAC Group's capital policy

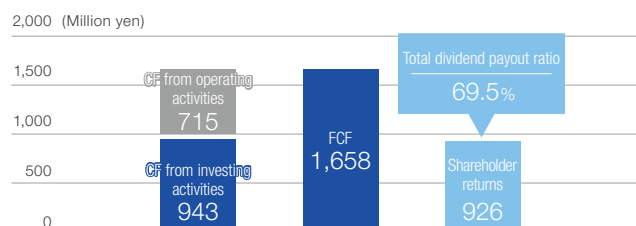
Providing comprehensive shareholder returns, including initiatives such as the acquisition of treasury stock, as well as consistently paying dividends

## Cash flows

With regard to our cash flows (CF) from operating activities in FY2018, we posted net cash provided by operating activities of 3,270 million yen (compared with net cash used in operating activities of 1,010 million yen in FY2017). This mainly reflected a gain on sales of investment securities of 3,470 million yen, which was offset by a profit before income taxes of 2,350 million yen, an impairment loss of 2,130 million yen, and a decrease in notes and accounts receivable trade of 1,520 million yen. Net cash provided by investing activities stood at 2,360 million yen (compared with net cash provided by investing activities of 300 million yen in FY2017). This was chiefly attributable to proceeds from sales of investment securities of 5,310 million yen, offsetting the purchase of investment securities of 2,900 million yen. Net cash used in financing activities stood at 2,310 million yen (compared with net cash used in financing activities at 2,190 million yen in FY2017). This was mainly due to payments from changes in ownership interests in subsidiaries of 850 million yen, cash dividends paid of 680 million yen, and a net decrease in short-term loans payable of 540 million yen. As a result, cash and cash equivalents at the end of FY2018 stood at 11,720

million yen, up 3,330 million yen from the end of FY2017. CF from investing activities changes significantly from year to year due to the acquisition of companies, the sales of investment securities and other activities. Looking at the average for the past five years, CF from operating activities stands at around 700 million yen, CF from investing activities is around 900 million yen, and free cash flow (the difference between CF from operating activities and CF from investing activities; hereinafter, "FCF") is around 1,650 million yen. For the FCF of around 1,650 million yen, we have provided around 900 million yen as the return of profits to shareholders. The average total dividend payout ratio for the five years is 69.5%.

### Average cash flows (CF) and shareholder returns in the past five years

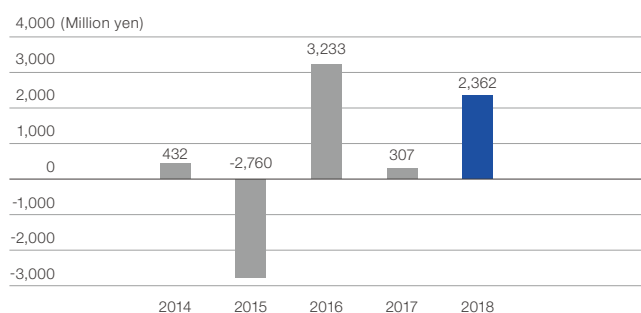


## Investments based on the medium-term strategy

Since around the year 2000, the year when we were listed on the First Section of the Tokyo Stock Exchange, we have actively pursued growth initiatives through aggressive M&A. Under the current medium-term strategy (Determination 21), we aim to create new businesses and technologies based on M&A and investments. We are working on M&A at a dedicated organization established within CAC Holdings, targeting companies that will

contribute to the business expansion in the Core ICT Domain, focused mainly on domestic IT business, or those that will enable the growth of local businesses in China or India. In addition, we invested around 1,100 million yen in FY2018 and approx. 500 million yen in FY2017 in startups that are deemed beneficial for our future growth, from domestic and overseas corporate venture capital funds.

### Changes in CF from investing activities



### Major investments made over the past three years

2016	2017	2018
Investments in six companies including Affectiva, Inc., which has technologies in Emotion Artificial Intelligence Total amount of investments: Approx. ¥500 million	Investments in five companies including Money Forward, a Fintech-related company, and Color Genomics, a provider of genetic analysis services Total amount of investments: Approx. ¥500 million	Investments in 11 companies, including QC Ware, which is specialized in quantum computer software, and Monstar Lab, which engages in businesses of music services, mobile games, and application development Total amount of investments: Approx. ¥1,100 million

## Measures for improving shareholder value based on the medium-term strategy

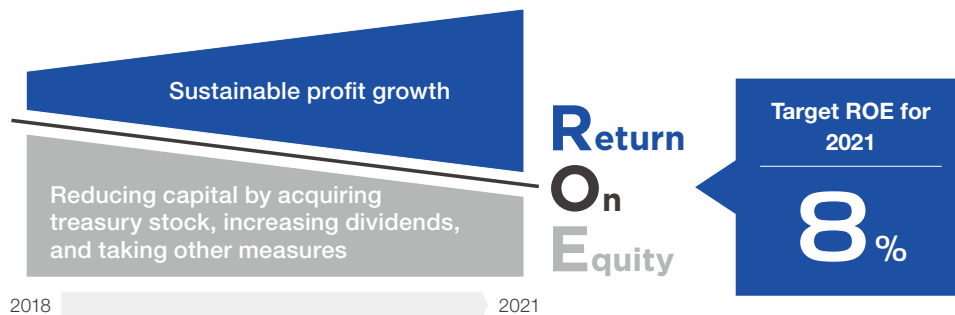
### Improvement of capital efficiency and strengthening of return to shareholders

In FY2019, we added “maximization of shareholder value” to the concepts of the medium-term strategy and included measures for improving capital efficiency and strengthening returns to shareholders in the basic policy. In relation to this, we have set ROE at 8% as a new numerical target under the medium-term strategy, in addition to the existing targets of consolidated net sales at 70,000 million yen and operating income at 4,000 million yen.

First, we will increase profits by achieving sustainable growth through our businesses. In addition, we will combine the stable, proactive payment of dividends, the proactive

acquisition of treasury stock, and other measures, to improve capital efficiency and return profits to our shareholders.

To facilitate these measures, in FY2019, we are planning to acquire up to 3 million shares (or up to 3,000 million yen) of treasury stock by the end of the fiscal year (December 31, 2019). We are also planning to increase the forecast amount of our full-year dividend by 12 yen, to 50 yen per share. We will continue our efforts to improve capital efficiency and return profits to our shareholders proactively, aiming to achieve the target ROE of 8%.



### Changes in shareholder returns

