



President and CEO

**Akihiko SAKO**

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 CEO message
 

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## The CAC Group will advance quickly and boldly to the next stage of its evolution through globalization and the establishment of new businesses.



### **In FY2019, we secured an increase in net sales through expansion of IT investment in Japan and overseas.**

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 is working together to transform into a corporate group which can meet the needs of “Digital Transformation (DX),” improving people’s lives through cutting-edge technologies, and we have adopted “Increasing the earning power of existing businesses” and “Creating and expanding new business domains” as key initiatives under of our medium-term strategy, Determination 21 (FY2018-FY2021).

In FY2019, which is the second year of the medium-term strategy, we worked on achieving sustainable profit growth and improving capital efficiency, whilst at the same time adding maximization of shareholder value to the concepts of the medium-term strategy and focusing on improving capital efficiency and returning profit to shareholders proactively.

As a result, in FY2019, we succeeded in securing growth in consolidated net sales, reflecting a continued solid performance in the domestic IT business and the posting of an operating income by an Indian subsidiary. However, the CRO business (services to support drug development), which had been performing strongly, faced tougher conditions than anticipated, resulting in decrease of consolidated profit. Looking at results by segment starting with the domestic IT segment, businesses were keen to invest in connection with work style reform and adoption of AI (artificial intelligence),

IoT (the Internet of Things) and RPA (Robotic Process Automation) for improving business process efficiency and productivity picked up pace and, with increased sales of pension management systems from trust banks also making a significant contribution, the segment posted growth in both sales and profit.

In the overseas IT business, the sales of an Indian subsidiary, which was expected to drive growth in FY2019, struggled, affected by the deterioration of India’s economy.

The Indian subsidiary can generate stable earnings because its main customers are government ministries and agencies and financial institutions. However, on the downside, it is directly affected by any deterioration in the economy.

Other compounding factors such as the recognition of impairment losses associated with support services for coal-related (mining) companies provided by Mitrais, an IT company with major business locations in Indonesia included in the scope of consolidation from the fourth quarter, and the allocation of corporate expenses caused the segment as a whole to post a small segment loss.

However, the fact that the Indian subsidiary posted an operating income despite the harsh business environment gave us a strong indication of the effectiveness of reforms initiated the year before last.

Meanwhile, in the CRO business, which drove profits higher in FY2018, we were unable to offset fixed costs because certain projects, which had generated stable earnings the last few years, were scaled back and because orders fell in the jostle to win orders with major foreign CROs, and segment operating income was far lower than anticipated.



Medium-term strategy

# Determination 21

2018 ▶ 2021

Initiatives for FY2021

1

Establishing  
high-earning  
models

2

Strengthening  
investment and  
finance strategies

3

Strongly promoting  
steps for digital  
transformation

However, it is commonly assumed that integration of IT into the pharma industry will increase in the future, and we have actually been told by our customers that they have high expectations of the CAC Group as a CRO originating from an IT company. Consequently, we believe that, in FY2020, we must urgently achieve a return to profitability by striving to further reduce costs, including reducing the SG&A ratio to a level commensurate with sales, whilst keeping our sights set on future expansion.

**In FY2020, the overseas IT business will hold the key. We will aim to significantly increase both net sales and income.**

In FY2020, we currently believe that the domestic IT business, which is expected to see firm IT investment in the business sector, and the overseas IT business, which has undergone restructuring, will drive growth, though a high level of uncertainty remains.

Especially in the overseas IT business, we expect to post huge gains in both net sales and income due to the full-year contribution of Mitrais, which was made into a subsidiary in the fourth quarter of the previous fiscal year.

The overseas IT business is likely to account for an increasingly large proportion of consolidated net sales in the future, and we plan to bring about improvement in the income margin at the same time.

Mitrais is an IT company with annual net sales of around 2.0 billion yen and around 500 employees. Headquartered in Singapore, Mitrais employs most of its SEs at locations in Indonesia, operating as a system integrator specializing in agile development. Software has previously been developed using the waterfall methodology, which involves working towards completion of a product through the completion of processes in sequence. However, this methodology is time-consuming and not suited to the realization of original new products and services partly because of the time lag between needs at project initiation and needs at the time of completion.

This has given rise to the agile methodology, which is development in small teams, flexibly making adjustments as changes arise. Highly adaptable to changes and uncertainties, this methodology is tipped to become mainstream in the future.

In Japan's software industry, where more than 95% of software is currently developed using the waterfall methodology, the CAC Group has been quick to focus on agile development and aims to establish itself as a top runner in the agile development field. We will then increase the percentage of total IT sales accounted for by digital projects from the current level of 22% to 50% in FY2021 and will lay the foundations for providing high-earning, sustainable services in FY2021 and beyond.

We will also actively focus on investments in companies with growth potential and M&A to meet DX needs. We set up a specialist department in January 2020 to strengthen the creation and implementation of investment and finance strategies. With this department playing a central role, we aim to fully utilize Group assets and cash flows and aim to contribute to the CAC Group's earnings by branching out into new business models.

### Review of medium-term strategy based on progress over past two years

Based on changes in the business environment and progress made over the past two years, we recently made revisions to our FY2021 targets, lowering the net sales target from 70.0 billion yen to 55.0 billion yen and the operating income target from 4.0 billion yen to 3.0 billion yen.

Focusing on "Establishing high earning models" in overseas IT business and "Strongly promoting steps for digital transformation" i.e. providing sustainable services through agile development, etc. as indicated earlier, we will strive at all costs to enable the newly established specialist department to deliver extra sales growth by "Strengthening investment and finance strategies."

Our target ROE is still 8%, and we plan to keep up efforts to achieve this.

### Continuing to return profits to shareholders proactively

We plan to pay an annual dividend for FY2020 of 60 yen, which represents an increase of 10 yen. Throughout our entire history, we have never changed our dividend forecast. While economic conditions, including the COVID-19 pandemic, may force us to reconsider, we intend to continue returning profits to shareholders proactively and paying stable dividends.

A more specific shareholder return policy, including purchases of treasury shares and cancellation of treasury shares purchased previously, will also be examined by the newly established specialist department to strengthen investment and finance strategies in the future.

Meanwhile, we will continue to strengthen corporate governance by separating management from execution. In the fiscal year ending December 31, 2020, we have three internal directors and two outside directors, and we intend to continue flexibly changing our management structure according to circumstances in the future.

### Giving employees first-hand experience of implementing SDGs through activities for promoting and supporting Boccia

Are you familiar with Boccia?

Boccia is a sport designed for people with the most severe forms of disability but can be played by anyone, with or

without a disability. It is currently said to be practiced in more than 70 countries worldwide. Boccia was first adopted at the Seoul Paralympics in 1988 and is also expected to be hotly contested at the Tokyo Paralympics. As a Gold Partner of the Japan Boccia Association, the CAC Group supports the association and is also involved in activities for promoting and supporting Boccia, with employees helping to organize Boccia tournaments and sessions for hands-on experience of the sport.

Besides supporting Boccia, incorporation of the sport into in-house training has proven beneficial in various ways, with communication between employees improving and leading to better teamwork. In my view, the fact that many of our employees gain first-hand experience of the "coexistence of business and society" is an asset to the Group. We intend to continue implementing groupwide activities for promoting and supporting Boccia in the future.



Directors playing Boccia

### However challenging the operating environment, we will not ease up on globalization or expansion into new business domains.

With the COVID-19 pandemic, our operating environment changes from one minute to the next, becoming increasingly difficult. However, at the same time, DX is racing ahead and is likely to accelerate more and more in the future. We must also push ahead with globalization at an even greater speed and build even stronger foundations as a corporate group that can continue growing over the long term.

I hope that our shareholders will continue to watch our progress strictly but kindly and will look forward to the next stage of the CAC Group's evolution.

I respectfully ask our shareholders for their continued support.



# 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 FY2019, we posted net cash provided by operating activities of 100 million yen (compared with net cash provided by operating activities of 3,280 million yen in FY2018).

This mainly reflected a gain on sales of investment securities of 5,150 million yen, which was offset by a profit before income taxes of 3,360 million yen, an impairment loss of 1,480 million yen, and an increase in provision for loss on business of subsidiaries and associates of 1,220 million yen. Net cash provided by investing activities stood at 3,520 million yen (compared with net cash provided by investing activities of 2,360 million yen in FY2018).

This was chiefly attributable to proceeds from sales of investment securities of 6,730 million yen, offsetting the purchase of shares of subsidiaries resulting in change in scope of consolidation of 1,870 million yen and purchase of property, plant and equipment of 1,280 million yen. Net cash used in financing activities stood at 6,320 million yen (compared with net cash used in financing activities of 2,310 million yen in FY2018).

This was mainly due to purchase of treasury shares of

3,000 million yen, payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation (investment in venture capital, etc.) of 1,510 million yen, and cash dividends paid of 790 million yen.

As a result, cash and cash equivalents at the end of FY2019 stood at 8,980 million yen, down 2,750 million yen from the end of FY2018.

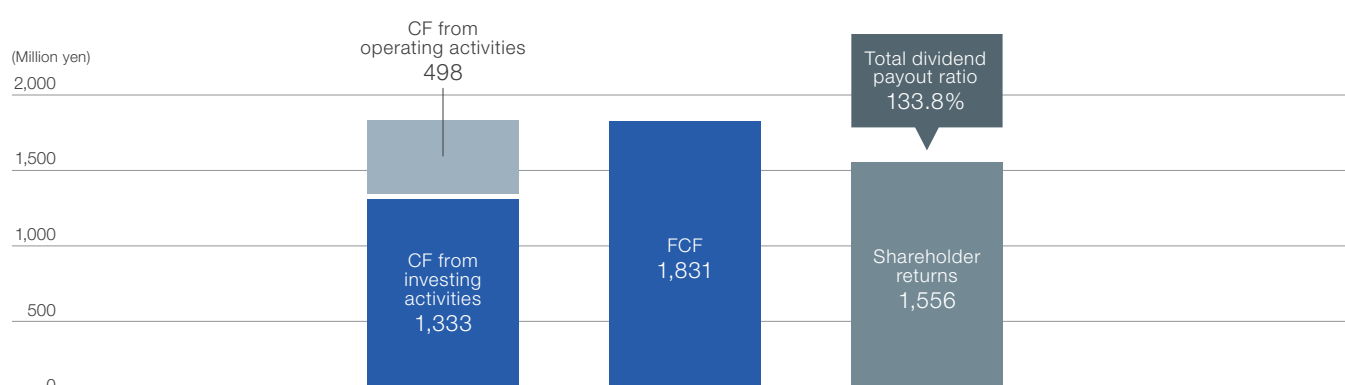
CF from investing activities changes significantly from year to year due to the acquisition of companies, the sales of investment securities and other activities.

Looking at the average for the past five years, CF from operating activities stands at around 500 million yen, CF from investing activities is around 1,300 million yen, and free cash flow (the difference between CF from operating activities and CF from investing activities; hereinafter, "FCF") is around 1,830 million yen.

For the FCF of around 1,830 million yen, we have provided around 1,560 million yen as the return of profits to shareholders.

The average total dividend payout ratio for the five years is 133.8%.

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 department established within CAC Holdings, primarily targeting companies that will contribute to expansion of the domestic IT business or those that will enable the growth of local businesses mainly in China, India and ASEAN. In October 2019, we acquired shares of Mitrais Pte. Ltd., which has a strong track record and know-how in agile

development, a methodology expected to become more widespread in Japan in the future, and made it into a subsidiary. (For more information about Mitrais Pte. Ltd., please refer to Page 18.)

In addition, we invested around 1,500 million yen in FY2019 and approx. 900 million yen in FY2018 in startups that are deemed beneficial for our future growth, from domestic and overseas corporate venture capital funds.

In FY2020, we established the Investment and Financial Strategy Division to strengthen creation of investment and finance strategies and implementation of these strategies, with a view to fully using Group assets and cash flows.

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

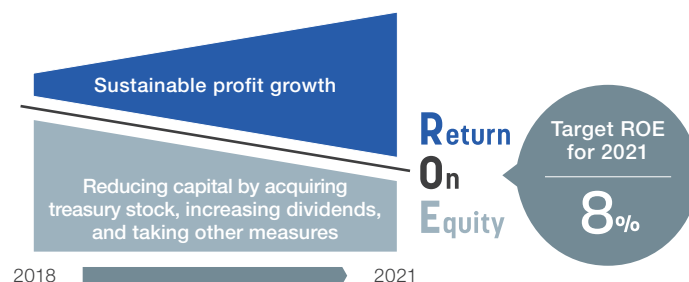
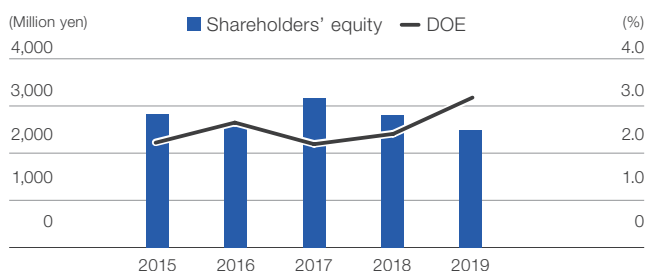
### Improvement of capital efficiency and strengthening of return to shareholders

From 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.

To facilitate these measures, we paid a dividend per share for FY2019 of 50 yen, representing an increase of

12 yen, and acquired around 2 million shares of treasury stock (3.0 billion yen). Meanwhile, Dividend on Equity (DOE) was 3.1% in FY2019, reflecting reduction in shareholders’ equity.

We set our annual dividend forecast for FY2020 at 60 yen, which represents an increase of 10 yen. Moving forward, we will continue seeking improvement in capital efficiency and focus on returning profits to shareholders proactively, aiming to achieve our target ROE of 8%.



### Changes in shareholder returns

