President and Representative Director
Junichi Kakizaki

CREO CO., LTD. (9698)

株式会社クレオ

Company Information

Market	JASDAQ
Industry	Information and telecommunications
President	Junichi Kakizaki
HQ Address	Sumitomo Fudosan Shinagawa Building 4-10-27 Higashi-shinagawa, Shinagawa-Ku, Tokyo
Year-end	March
HOMEPAGE	https://www.creo.co.jp/

Stock Information

Share price	Number of shares issued (excluding treasury shares)		Total market cap	ROE (Actual)	Trading Unit
¥1,298	8,185,786 thousand shares		¥10,625 million	12.2%	100 shares
DPS (Est.)	Dividend yield (Est.)	EPS (Est.)	PER (Est.)	BPS (Actual)	PBR (Actual)
¥36.00	2.8%	¥89.79	14.5x	¥750.33	1.7x

*The share price is the closing price on May 22nd 2020. The number of issued shares is obtained by subtracting the number of treasury shares from the number of shares issued as of the end of the latest quarter.

Consolidated Earnings Trends

Fiscal Year	Net Sales	Operating income	Ordinary income	Net income	EPS	DPS
Mar. 2017 (Actual)	11,559	296	333	267	31.11	13.00
Mar. 2018 (Actual)	12,268	410	457	305	36.79	15.00
Mar. 2019 (Actual)	13,526	670	706	664	80.05	25.00
Mar. 2020 (Actual)	14,624	1,044	1,095	731	88.49	35.00
Mar. 2021 (Forecast)	15,500	1,100	1,130	735	89.79	36.00

*The forecasted values are from the Company. Unit: Million yen, yen

This Bridge Report overviews the business performance for the fiscal year ended March 2020 and describes the earnings forecast for the term ending March 2021, and the mid-term management plan (from FY 3/21 to FY 3/23) for CREO Co., Ltd.

BRIDGE REPORT Bridge Salon

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Key Points

- **In the fiscal year ended March 2020, sales and operating income grew 8.1% and 55.8%, respectively, year on year. The number of orders exceeded expectations due to the increased demand for personnel salary-related systems accompanying the Work Style Reform, demand for the replacement of existing mission-critical systems to reform corporate activities, etc. Profitability improved more than expected with the enhancement of the productivity of engineers and cost reductions, etc. Operating income exceeded one billion yen, marking a record high for the first time in 21 terms. The dividend rose 10 yen/share to 35 yen/share.**

- **Sales and operating income are estimated to rise 6.0% and 5.3%, respectively, year on year in the fiscal year ending March 2021. As of now, the direct impact of the spread of the new coronavirus on the company's business is small, and the current demand is strong. Operating income is expected to decrease 31.9% year on year in the first half of the term due to increased costs associated with the establishment of a teleworking environment as a measure to prevent the spread of the infection for the new coronavirus and investment in the expansion of offices for handling large-scale PJs, but full-year profit growth is projected to be maintained with the Solutions Service Business as the driving force. The dividend is to be 36 yen/share, up 1 yen/share.**

- **The new mid-term management plan, which will end in the fiscal year ending March 2023, has been launched. With the vision of "creating a framework for sustainable growth and increasing corporate value," the company will concentrate its management resources on the Solutions Service Business, which is expected to be the driving force, and put efforts in developing future generations of leaders and global human resources and improving the skills of engineers. In addition, the company will build a system that allows flexible and quick allocation of human resources and skills transformation within the Group in order to improve its ability to respond to changes and risks. The company is targeting sales of 18 billion yen (average growth rate: 7.2% in the period of the mid-term plan) and an operating income of 1.8 billion yen (average growth rate: 19.9%) for the fiscal year ending March 2023, with an operating income rate of 10% as a management index.**

1. Company Overview

CREO is a system integrator that offers a variety of solutions. The company offers business solutions, including "ZeeM Series," a business package software used by over 2,000 enterprises (Enterprise Resource Planning (ERP) for human resources, accounting, asset management, etc.) and "BIZ PLATFORM," for business process management (BPM), which contributes to the streamlining of business operation and cost reduction, develops systems for governmental offices, municipalities, public-interest corporations, and large companies, produces and operates web systems for leading portal site operators in Japan, provides loyal clients with call-center services, and so on.

The corporate group is composed of CREO, and four consolidated subsidiaries: CoCoTo Co., Ltd., CREATE LAB Co., Ltd., ITI Co., Ltd., and Adams Communications Co., Ltd. Amano (6436) and Z Holdings Corporation (4689) holds 31.87% and 13.25% of shares of CREO, respectively. CREO is an equity-method affiliate of Amano Corporation (the voting ratio: 30.58%).

[Three thoughts in the logo]

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Human imagination × technologies Around the world = Actualize an affluent society

To create an “impression”
The exclamation mark in the logo represents the stance of surpassing expectations and impressing clients.
To continue “creation”
The sphere is CREO itself, and represents the environment in which human resources, products, and services are born and grow.
To cuddle up to “eternity”
This logo denotes CREO, which is represented by the sphere, cuddling up to clients, society, and shareholders.

1-1. Business Segments

In executing the mid-term management plan, which begins in the fiscal year ending March 2021, certain business segments that were previously identical to the organizational segments were reclassified. Specifically, the sales and profit of the West Japan Company, which had been treated as the West Japan Business, were divided into two business segments depending on business details. The two business segments are the Solutions Service Business and the Contracted Development Business. Therefore, from the fiscal year ending March 2021, the company plans to change its five reporting segments to four reporting segments and enhance business management further in order to maximize profitability.

Old segments
Solutions Service Business
Contracted Development Business
West Japan Business
System Operation and Services Business
Support Services Business

New segments
Solutions Service Business
Contracted Development Business
System Operation and Services Business
Support Services Business

Solutions Service Business

The company offers and customizes package software such as “ZeeM Series,” an ERP for human resources, payroll, accounting, and asset management used by over 2,000 companies, and “BIZ PLATFORM,” a BPM that contributes to the streamlining of business operation and cost reduction, develops software and cloud services provided by client companies to corporate clients and consumers (as development is carried out together with client companies, the business is called “co-creation contracted business” or “co-creation development” within the company), the RPA solution for actualizing business processes that use manpower and robots by combining the know-how of ERP and BPM and the robotic process automation (RPA) technology for automating the routine tasks of white-collar workers, and so on.

In recent years, the company has succeeded in capturing demand related to Work Style Reform by linking “ZeeM,” a software package for human resource and payroll, and “TimePro,” an attendance management solution of Amano Corporation, and the scale of the projects has been growing.

Business entities in charge: Solution Services Company, Solution Development Center (newly established in 2020), West Japan Company (product sale)

Contracted Development Business

The company undertakes the development of systems for large companies, governmental offices, and municipalities, typesetting systems for newspaper publishers, odds systems for professional sports organized by the government, etc., which require reliability and experience. As a characteristic, the transactions made via Fujitsu are dominant, and so stable growth can be expected, although there are some short-term fluctuations. It is essential to secure “manpower,” including subcontractors.

Business entities in charge: Next Solution Company, West Japan Company (contracted development)

Systems Operation and Services Business

The company offers operation services, including the development, maintenance, and anti-hacking operation of server systems for portal sites and web services, to mainly the leading Japanese portal-site operator Yahoo Japan (4689) and its group companies. Previously, this business was operated by several group companies under the holding company, but they were integrated into CoCoTo Co., Ltd., which was established in Apr. 2016. Then, it became possible to exert the capability of the corporate group in marketing and development, and the company is making transactions with the group companies of Yahoo Japan. The company plans to boost sales from Yahoo Japan and approach its group companies, to expand its business.

Business entities in charge: CoCoTo Co., Ltd

Support Services Business

The company offers support services, including help desk and technical support services, and call-center services (making and receiving calls), including election exit polls, social surveys, and market research. A strength of this business is that the company offers technical services to loyal clients, including those related to Fujitsu and NEC, with a good balance. This business can be expected to grow stably, but it is necessary to secure "human resources." Accordingly, the company makes efforts to recruit foreign workers, too.

Business entities in charge: CREATE LAB Co., Ltd., ITI Co., Ltd., Adams Communications Co., Ltd.
ITI Co., Ltd. and Adams Communications Co., Ltd. are subsidiaries of CREATE LAB Co., Ltd.

Trends in each old segment

	FY3/17	FY3/18	FY3/19	FY3/20	FY3/21(Forecast)
Solutions Service	2,866	3,018	3,452	4,367	5,930
Contracted Development	1,537	1,404	1,609	1,627	2,620
West Japan Business	1,234	1,378	1,638	1,746	-
Systems Operation and Services	1,719	2,049	2,355	2,187	2,190
Support Services	4,200	4,417	4,470	4,696	4,760
Consolidated sales	11,559	12,268	13,526	14,624	15,500
Solutions Service	199	414	593	876	1,230
Contracted Development	351	267	332	255	340
West Japan Business	100	139	170	263	-
Systems Operation and Services	120	133	160	198	200
Support Services	176	198	217	309	320
Adjustment	-650	-742	-804	-859	-990
Consolidated operating income	296	410	670	1,044	1,100

*Unit: Million yen

1-2. Business characteristics

In Japan, there are companies called “system integrators” that are mainly engaged in the contracted business of developing different systems for different customers, etc., and also IT companies, which engage in the product business of providing their own products and services with the same specifications to a large number of customers. It is difficult to balance these two businesses and only few IT companies are able to do so, but the company’s Solutions Service Business is a “hybrid” of these two and is growing steadily. Although the “personnel affairs and payroll systems” provided by this business are mainly “package software” with the same specifications, the company is able to provide solutions to companies with complex and sophisticated personnel affairs and payroll systems by ensuring flexibility in responding to requests for customization of the package software. This business, which utilizes the “hybrid model,” is called the “co-creation contracted business” and the scale of projects is increasing.

The Solutions Service Business has been the driving force of the company’s growth, with the “HR Solutions,” mainly concerned with package software, driving profit growth. “HR Solutions” is a business integrating “ZeeM,” a system for personnel affairs and payroll, and “TimePro,” an attendance management solution of Amano Corporation, which meets IT-related demand associated with Work Style Reform. The company plans to further enhance this business by upgrading products, shifting to a cloud-based environment, etc.

2. Fiscal Year ended March 2020 Earnings Results

2-1. Earnings Overview

	FY 3/19	Ratio to sales	FY 3/20	Ratio to sales	YoY Change	Est. at the 3Q	Divergence
Sales	13,526	100.0%	14,624	100.0%	+8.1%	14,600	+0.2%
Gross Profit	2,887	21.3%	3,364	23.0%	+16.5%	-	-
SG & A	2,216	16.4%	2,319	15.9%	+4.6%	-	-
Operating Income	670	5.0%	1,044	7.1%	+55.8%	1,030	+1.4%
Ordinary Income	706	5.2%	1,095	7.5%	+55.0%	1,065	+2.8%
Profit attributable to owners of parent	664	4.9%	731	5.0%	+10.0%	700	+4.4%

*Unit: Million yen

Sales and operating income grew 8.1% and 55.8%, respectively, year on year

Sales were 14,624 million yen, up 8.1% year on year. Sales in the Solutions Service Business, the company’s core business, rose 26.5% year on year. In addition, sales increased in all segments except for the System Operation and Services Business, which saw a decline in its sales due to the recoil from large-scale projects.

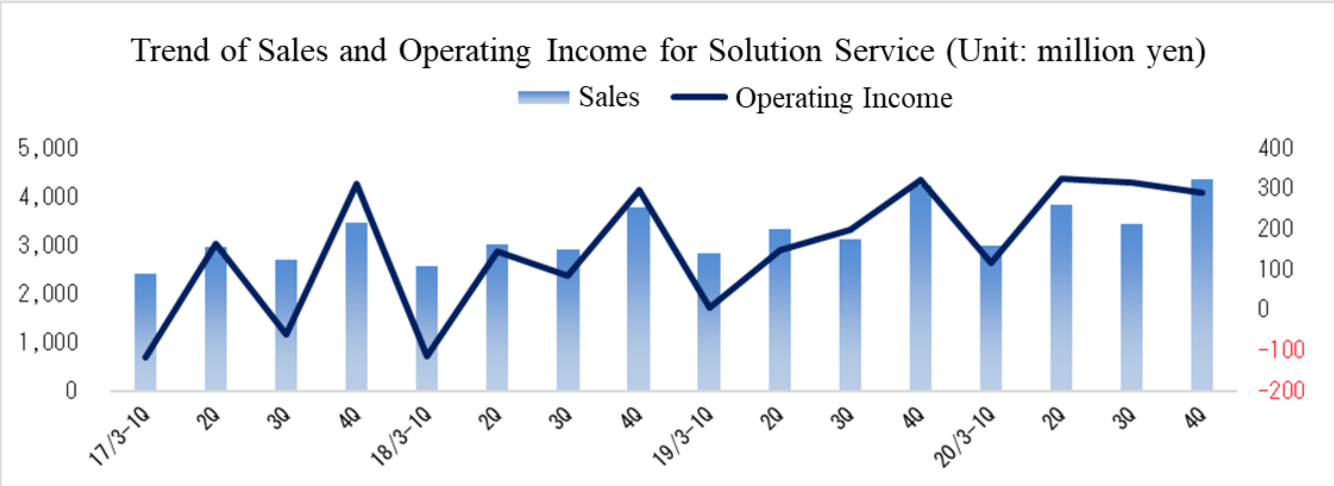
Operating income grew 55.8% year on year to 1,044 million yen, well above the record high of 880 million yen. Gross profit also augmented 16.5% year on year to 3,364 million yen, thanks to the improvement in productivity of engineers and the utilization rate through increased orders and the reduction of outsourcing cost through the use of offshore bases in Vietnam, and other factors. On the other hand, SG&A expenses increased only 4.6% year on year to 2,319 million yen, thanks to the efforts in cost reduction, and operating income rate improved 2.1 points to 7.1%. Net income grew only 10.0% to 731 million yen due to the impact of tax-effect accounting.

The term-end dividend is to be 35 yen/share, up 10 yen/share (dividend payout ratio: 39.6%).

Breakdown of SG&A

	FY 3/19	Ratio	FY 3/20	Ratio	YoY
Sales promotion expenses	20	0.9%	27	1.2%	+35.0%
Advertising costs	93	4.2%	126	5.4%	+35.5%
Personnel expenses	903	40.7%	986	42.5%	+9.2%
Others	1,197	54.0%	1,178	50.8%	-1.6%
SG&A expenses	2,216	100.0%	2,319	100.0%	+4.6%

*Unit: Million yen



The company's operating income tends to be larger in the fourth quarter (January-March), but operating income leveled out in the fiscal year ended March 2020 as the company maintained a high utilization rate throughout the term, thanks to the orders for large-scale projects, and carried out split inspections.

2-2. Trends in each segment

	FY 3/19	Ratio to sales・Profit margin	FY 3/20	Ratio to sales・Profit margin	YoY
Solutions Service	3,452	25.5%	4,367	29.9%	+26.5%
Contracted Development	1,609	11.9%	1,627	11.1%	+1.1%
West Japan Business	1,638	12.1%	1,746	11.9%	+6.6%
Systems Operation and Services	2,355	17.4%	2,187	15.0%	-7.1%
Support Services	4,470	33.0%	4,696	32.1%	+5.1%
Consolidated sales	13,526	100.0%	14,624	100.0%	+8.1%
Solutions Service	593	17.2%	876	20.1%	+47.7%
Contracted Development	332	20.6%	255	15.7%	-23.2%
West Japan Business	170	10.4%	263	15.1%	+54.4%
Systems Operation and Services	160	6.8%	198	9.1%	+23.9%
Support Services	217	4.9%	309	6.6%	+42.3%
Home office expenses, etc.	-804	-	-859	-	+6.8%
Consolidated operating income	670	5.0%	1,044	7.1%	+55.8%

*Unit: Million yen

Solutions Service Business

Sales were 4,367 million yen, up 26.5% year on year, and operating income was 876 million yen, up 47.7% year on year. This business offers solution services, including ZeeM, a system for personnel affairs, payroll, and accounting.
In the fiscal year ended March 2020, sales increased significantly as the company received orders for comprehensive solutions related

to Work Style Reform, mainly "ZeeM," a system for personnel affairs, payroll and accounting, and large-scale projects related to "intra-mart" (an integrated framework for system development of NTT DATA Intramart Corporation), and the company's efforts to improve profitability, such as improving productivity of engineers and curtailing outsourcing expenses through the utilization of offshore bases in Vietnam, bore fruit.

Contracted Development Business

Sales were 1,627 million yen, up 1.1% year on year, and operating income was 255 million yen, down 23.2% year on year. This business offers contracted development services for systems to leading companies, including the Fujitsu Group and Amano Corporation.
In the fiscal year ended March 2020, contracts for existing major clients were healthy, but sales rose only slightly from the previous term due to the introduction of a system to jointly handle large-scale development projects that were ordered in the Solutions Service Business (engineers in the Contracted Development Business were assigned to this project), and operating income rate dropped due to the recoil from a high operating income rate in the previous term.

West Japan Business

Sales were 1,746 million yen, up 6.6% year on year, and operating income was 263 million yen, up 54.4% year on year. This business sells original products and services, and offers contracted development services to clients to the west of Nagoya.
In the fiscal year ended March 2020, solutions service for mainly personnel affairs and payroll acted contributed to sales growth. As for profit, profitability improved considerably, thanks to the improvement in the ratio of engineers in service due to the favorable number of orders received, the effects of the curtailment of outsourcing expenses, etc.

System Operations and Service Business

Sales were 2,187 million yen, down 7.1% year on year, and operating income was 198 million yen, up 23.9% year on year. This business offers services of developing, maintaining, and operating systems to mainly leading portal site providers in Japan.
In the fiscal year ended March 2020, sales declined due to the recoil from short-term large-scale projects in the previous term, the termination of some contracts at the end of the previous term, and other factors, but profitability improved significantly, because the utilization rate improved in the second half and beyond and cost reduction efforts bore fruit.

Support Services Business

Sales were 4,696 million yen, up 5.1% year on year, and operating income was 309 million yen, up 42.3% year on year. This business offers support and services, including help desks and technical support, and call center services for social and market surveys, and so on.
In the fiscal year ended March 2020, as the rate of utilization has been improving since the second half of the previous term, profitability improved thanks to an increase in profitable transactions for surveys related to the 25th election of the House of Councilors and cost reduction effects, such as reducing overtime.

2-3. Financial Position and Cash Flows (CF)

Financial Position

	Mar. 2019	Mar. 2020		Mar. 2019	Mar. 2020
Cash	4,012	4,128	Accounts payable	671	665
Receivables	2,761	2,950	Accounts payable	304	258
Current Assets	7,192	7,558	Taxes Payable	178	293
Tangible Assets	303	289	Reserve for bonus	545	662
Intangible Assets	276	390	Liabilities	2,571	2,810
Investments and Others	660	730	Net Assets	5,861	6,158
Noncurrent Assets	1,240	1,409	Total Liabilities and Net Assets	8,433	8,968

*Unit: million yen

The total assets at the end of the term were 8,968 million yen, up 534 million yen from the end of the previous term. On the debit side, inventories and intangible assets (software in progress) increased in addition to cash and cash equivalents, while on the credit side, taxes payable and bonus reserves augmented in addition to net assets. Ratio of liquidity on hand was 3.4 months (3.5 months at the end of the previous term) and capital-to-asset ratio was 68.5% (69.0% at the end of the previous term). As the capital-to-asset ratio is high and stable, the company believes that even if the new coronavirus were to cause a short-term decline in earnings, its financial concerns would be little.

Cash Flows (CF)

	FY 3/19	FY 3/20	YoY	
Operating cash flow（A）	900	889	-11	-1.2%
Investing cash flow （B）	-236	-354	-118	-
Free Cash flow (A+B)	664	535	-129	-19.4%
Financing cash flow	-135	-418	-283	-
Cash and Equivalents at the end of term	4,012	4,128	+116	+2.9%

*Unit: Million yen

The company secured an operating CF of 889 million yen, as the pretax profit was 1,094 million yen (581 million yen in the previous term), depreciation was 165 million yen (251 million yen in the previous term), the payment of income tax, etc. was negative 259 million yen (negative 141 million yen in the previous term), and so on. Investing CF is mainly attributable to the acquisition of intangible assets, and financing CF is mainly due to the payment of dividends.

Reference: ROE Analysis

	FY 3/16	FY 3/17	FY 3/18	FY 3/19	FY 3/20
ROE (%)	8.36%	5.21%	5.86%	11.96%	12.22%
Net Profit Margin	4.01%	2.31%	2.49%	4.91%	5.00%
Asset Turnover Ratio	1.45	1.61	1.66	1.70	1.68
Leverage	1.44	1.40	1.42	1.44	1.45

*ROE ＝ Net Profit Margin ×Asset Turnover Ratio × Leverage

The reinforcement of productivity and profitability through the efforts in the medium-term management plan has led to the improvement of ROE.

3. Fiscal Year ending March 2021 Earnings Forecasts

【Impact and measures against the spread of the new coronavirus】

Despite the uncertainty caused by the spread of the new coronavirus, the company believes that investments to reform corporate activities utilizing digital technology will continue. As of now, the direct impact of the spread of the new coronavirus on the company's business is small, and the current demand is strong. However, the ICT service market tends to be affected by the economy only after about six months, so the company will continue to collect relevant information and analyze the impact in order to respond flexibly to changes in the environment.

Major infection risks and effects	The Company's measures and responses
Suspension of business activities and declined efficiency due to infected employees and related parties	Establishment of a teleworking environment for employees ・ Distribution of over 300 laptops and mobile cards Reducing the risk of acquiring the disease through telework as a consideration for maintaining stakeholders' health and safety ・ Holding meetings/interviews/training online
Decreased capacity to supply products and services due to prolonged self-restraint ・ Dropped quality of support for customers ・ Difficulty in securing personnel for the company and partner companies	Establishment of a risk management headquarter with the president as the head ・ Close exchange of information with customers and monitoring of changes ・ Implementation of possible initiatives for employees residing on customers' sites
Possibility of medium-to-long term changes in the IT market ・ Reduced IT investment due to changes in the customers' performance	Business development in the view of medium-to-long term market changes, customer business process changes, and industry structure changes

3-1Earnings Estimates

	FY3/20 Act.	Ratio to sales	FY3/21 Est.	Ratio to sales	YoY
Sales	14,624	100.0%	15,500	100.0%	+6.0%
Operating Income	1,044	7.1%	1,100	7.1%	+5.3%
Ordinary Income	1,095	7.5%	1,130	7.3%	+3.2%
Profit attributable to owners of parent	731	5.0%	735	4.7%	+0.5%

*Unit: Million yen

Sales and operating income are estimated to rise 6.0% and 5.3%, respectively, year on year

Despite the expected increase in sales by 1.0% year on year, operating income is estimated to decrease 31.9% year on year in the first half of the term due to increased costs associated with the establishment of a teleworking environment as a measure to prevent the spread of the infection of the new coronavirus and investments in the expansion of offices for handling of large-scale PJs. For the full year, sales and profit are projected to grow with the Solutions Service Business as the driving force. The dividend is to be 36 yen/share, up 1 yen/share (expected dividend payout ratio: 40.1%).

Segments Estimates

	FY 3/20 Act.	Ratio to sales･Profit margin	FY 3/21 Est.	Ratio to sales･Profit margin	YoY
Solutions Service	5,165	35.3%	5,930	38.3%	+14.8 %
Contracted Development	2,576	17.6%	2,620	16.9%	+1.7%
Systems Operation and Services	2,187	15.0%	2,190	14.1%	+0.1%
Support Services	4,696	32.1%	4,760	30.7%	+1.4%
Consolidated Sales	14,624	100.0%	15,500	100.0%	+6.0%
Solutions Service	1,075	20.8%	1,230	20.7%	+14.4 %
Contracted Development	319	12.4%	340	13.0%	+6.3%
Systems Operation and Services	198	9.1%	200	9.1%	+0.6%
Support Services	309	6.6%	320	6.7%	+3.3%
Adjustment	-859	-	-990	-	-
Consolidated Operating Income	1,044	7.1%	1,100	7.1%	+5.3%

*Unit: Million yen. The sales and profit of the West Japan Company, which had been treated as the West Japan Business, were divided into two business segments, Solutions Service Business and the Contracted Development Business from the 1Q of FY 3/21. FY 3/20 results are approximations.

4. Mid-term Management Plan (FY 3/21 to FY 3/23)

CREO Group, which commemorated its 45th anniversary since its foundation, conducts business operations from a medium- to long-term perspective, as it has been aiming to become a “100-year-old company” since 2017. In 2024, CREO will commemorate the 50th anniversary of its establishment, and to continue to be an attractive company for all stakeholders for the next 50 years, the company started a mid-term management plan ending March 2023 with its main theme, “creating mechanisms” that achieve sustainable growth and improve corporate value.

Under the previous mid-term management plan that ended in the fiscal year ended March 2020, CREO Group’s subsidiaries that were newly established by spinning off according to its business, were merged and reorganized in April 2011 to aggregate and optimally allocate services, human resources, and know-how scattered and unevenly distributed among group companies. This measure was successful, and CREO captured the expanding IT demand by shifting its business development strategy from being product-focused to being market-focused through moving from selling individual things (products) to providing services (solutions). However, the company still faces challenges such as creating new businesses, improving the order receiving capacity, and enhancing productivity. Under the new mid-term management plan, CREO plans to tackle these issues once more.

4-1 Overview of the New Mid-term Management Plan

Based on the ongoing challenges from the previous mid-term management plan and future changes in the external environment, the group set the vision of the new mid-term management plan as “creating a framework for sustainable growth and increasing corporate value.” Under this vision, CREO will work on “business structure and business portfolio transformation,” “human resources development and utilization for sustainable growth,” and “transformation into a flexible organization and business process capable of responding to changes and risks.” The company will place particular importance on the operating income rate as a management index. As a result of the company’s efforts over the past three years, orders and sales are expanding. However, it is difficult to accurately predict how much the impact of the spread of the coronavirus will offset. Even if the sales growth rate slows down to some extent, the company will achieve profit growth by improving productivity and profitability (operating income rate).

"Business Structure and Business Portfolio Transformation": Concentrating Management Resources on Solutions Service Business

CREO will concentrate on the solutions service business, which earns 50% of the operating income of the group by mobilizing human resources within the group and utilizing offshore and nearshore bases. Also, by working on efficiency and automation, the company will curb costs to evolve into a more profitable business. Due to a shortage of engineers, the business could not establish a sufficient ordering system to fulfill the brisk demand. To solve this issue, CREO will promote collaboration across business segments within the group and the reshuffling of human resources (from the second half of the previous fiscal year, the company has undertaken measures such as transferring engineers belonging to the Contracted Development Business to projects that deal with large-scale orders received in the solutions service business). Moreover, there is much room for the utilization of offshore and nearshore bases. So, these efforts will help reduce costs and increase sales. At the same time, the company will promote automation. In other words, the company will try to reduce manpower. Specifically, when installing HR solutions, engineers do many parts of the system settings manually. CREO will automate this process to some extent.

"Human Resources Development and Utilization for Sustainable Growth"

It is no exaggeration to say that human resources are everything when it comes to IT companies. Therefore, in the next three years, CREO will develop human resources focusing on the themes of training future generation leaders, cultivating global human resources, and improving the skill level of engineers.

The company needs leaders who will ensure the continuous succession of management to become a "100-year company." Training future generation leaders is also crucial from the perspective of strengthening governance. Hence, these efforts will continue not only over the three years of the new mid-term management plan, but permanently. Regarding cultivating global human resources, first, the company will provide motivated young employees with opportunities to gain experience overseas, and then they will gradually spread a global perspective and awareness throughout the group. In terms of creating innovation, CREO believes that co-creation with overseas partners is one of the options. Improving the skill level of engineers is something that IT companies should always do. Many engineers are required to shift their skills significantly especially now as there is a big wave of technological change that will shape the social changes in the upcoming decades. For this reason, CREO will work on improving the skill level of engineers, but rather than blindly pursuing multiple new technologies, it will identify areas where it can exert its strengths and specialize in it.

The most important factor in succeeding in the efforts mentioned above is motivating the employees. To that end, the company will evaluate and reward diverse human resources who demonstrate different strengths and abilities in various fields. Also, as it is vital for various personnel systems to allow diversity, the company will reform the current systems and establish new ones.

"Transformation into a Flexible Organization and Business Process Capable of Responding to Changes and Risks"

CREO believes that the occurrence of risks that disrupt the survival of a company should be assumed. Hence, the company has been promoting the establishment of a BCP (Business Continuity Plan). Mainly, there were two points the company had been considering even before the occurrence of the coronavirus risk. The first point is proceeding with the second stage of the group restructuring, and the second point is reforming the business process while considering both improving productivity and the BCP.

As for the second stage of the Group restructuring, measures to shift human resources to more profitable businesses have started from the previous term. Being able to flexibly allocate human resources within the group not only helps the company not to miss opportunities, but is also a way to prepare for risks. Additionally, each business of the company group consists of transactions with different users. Due to this diversification, CREO overcame crises in the past. CREO will build a system that allows it to allocate personnel and transform skills more flexibly and swiftly within the group so that even if there is a substantial decrease in sales in any business in the future, it can overcome this crisis.

Regarding the business process reform that considers both improving productivity and the BCP, the company started developing and operating the infrastructure and systems for telecommuting on April 2, 2020 (before the declaration of emergency was issued) under the company's guidelines which states that as a general rule all employees who can work from home telecommute. CREO believes that it is necessary to prepare for various risks even after the spread of the coronavirus ends. These efforts are also an investment for improving productivity, and also a way to maintain high productivity even if the working styles change drastically due to the prolonged spread of the coronavirus.

4-2 Investments

In the previous mid-term management plan, operating income reached a record high for the first time in 21 years, which is due to the growth of existing businesses. The company recognizes that the lack of significant new businesses is an issue that it is facing. As the company set "attaining new record high profits" as a goal, the company is facing the dilemma of having difficulty in allocating human resources to work on creating new businesses when the existing businesses are lucrative.
Therefore, upon formulating the current mid-term management plan, CREO reviewed the decision-making and promotion system for investments and established a new investment committee. The committee does not only evaluate and approve the investment plans from each business, but will also seek investment opportunities and encourage its implementation. The members of the committee have their respective areas of responsibility and will promote investment while primarily focusing on new business investment, development investment, human capital investment, and capital investment. CREO sets a guideline for the scale of investment amount of the entire group to be around 500 million yen during the current mid-term management plan, and it will make decisions flexibly based on the investment opportunities and results.

4-3 Management Goals

The most important management index in the current mid-term management plan is the operating income rate. In the previous mid-term management plan, the company's goals were to attain new record high profits and to exceed one billion yen in operating income. As for the current mid-term management plan, CREO prioritizes quality transformation by creating various mechanisms. Therefore, the company uses the operating income rate as an indicator of that transition. The company aims to raise the operating income rate to 10% or higher.

The targets for the end of the current mid-term management plan, which is at the end of March 2023, are sales of 18 billion yen (annual growth rate: 7.2%, previous mid-term growth rate: 8.1%) and an operating income of 1.8 billion yen (annual growth rate: 19.9%, previous mid-term growth rate: 39.0%). The pace of increase in sales and profits is slightly slower than that of the previous term. This is due to the conservative estimation based on the influence of the coronavirus and strengthening various investments.
As for the business results after three years, it is difficult to estimate the impact of the coronavirus at present accurately, and it is undeniable that sales may be sluggish or profit may decline. Therefore, sales figures, in particular, are shown as a reference. Even if sales are unchanged under these circumstances, the company will always focus on the management target of achieving an operating income rate of 10% so that it can continue to increase profits by improving profitability.

4-4 Financial/Capital Policy and Profit-sharing Policy

There are no changes in the basic principles of the financial and capital policy from the previous mid-term management plan, and there is an optimal balance of the three points: shareholder return, financial stability, and investments. Although CREO will expand its investments to achieve permanent growth more than before, this will not impair the rules of financial stability as the company will continue to generate investment resources through business activities by improving the operating income rate. Moreover, until the previous mid-term management plan, one of the capital policies was to acquire treasury shares when capital-to-asset ratio exceeded 70%. However, there were many concerns about the liquidity of the shares declining, and there were some problems upon actual operation. There are plans to introduce a share-based compensation plan for executives during the current mid-term management plan (indirect purchase of treasury shares). Also, the criterion of "when capital-to-asset ratio exceeds 70%" related to the acquisition of the treasury shares has been abolished in the current mid-term management plan.
As for the profit-sharing policy, CREO will continue to aim for a consolidated payout ratio of 40%. Although it is difficult to forecast future performance, especially sales trends, the company will continue to increase dividends by continuing to increase profits by improving profitability.

5. Conclusions

The company achieved its mid-term management plan as a result of capturing development demand related to Work Style Reform, renewal of mission-critical systems responding to changes in the business environment, etc. In the Solutions Service Business, which has been positioned as a driver of growth, the shift in sales and marketing strategies has been successful, which has allowed the company to capture the development demand firmly. In the fiscal year ending March 2021, the first year of the new mid-term management plan, the company expects strong performance despite the impact of the spread of the new coronavirus on the Japanese economy. There are indeed some concerns, such as the impact of prolonged teleworking by client companies on business activities. However, this coronavirus pandemic may result in further major changes in the way people work, including expansion and popularization of telecommuting, and we can expect to see a trend that could be called “Work Style Reform 2.0.” In other words, business opportunities of solutions integrating systems such as ZeeM, a system for personnel affairs and payroll, and Amano Corporation’s attendance management system, are anticipated to expand. We would like to pay attention to the progress of the company’s efforts, which are essential for the expansion of business, such as “business structure and business portfolio transformation,” “human resources development and utilization for sustainable growth,” and “transformation into a flexible organization and business process capable of responding to changes and risks.”

<Reference: Regarding Corporate Governance>

◎ Organization type, and the composition of directors and auditors

Organization type	Company with auditors
Directors	6 directors, including 3 outside ones
Auditors	3 auditors, including 2 outside ones

◎ Corporate Governance Report: Updated on Jun. 28, 2019

Basic policy

Our company believes that establishing appropriate corporate governance systems and striving to improve them constantly would improve the transparency and fairness of our business administration, and our corporate value. While considering that the observance of the corporate governance code would contribute to the establishment of our better governance, we will adopt the supplementary principles and the principles other than the basic 5 principles, too, one after another. The details of the already adopted principles are written in this report.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

As a company listed in JASDAQ, our company follows all of the basic principles of the corporate governance code. As for supplementary principles and the principles other than the basic ones that need to be disclosed and that are already followed by our company, they are outlined in the "Disclosure Based on the Principles of the Corporate Governance Code" below.

<Principle 1-4 Disclosure of policies for strategically held shares>

Our company does not hold shares that fall under strategically held shares.

<Principle 3-1 Enrichment of information disclosure>

Out of the items to be disclosed specified in this principle, "(i) Corporate vision (ethos, etc.), management strategies, and plans" are disclosed as follows.

Corporate ethos and guidelines for action

https://www.creo.co.jp/corporate/concept/

【Principle 5-1 Policy for constructive dialogue with shareholders】

Our company aims to improve shareholder value in cooperation with shareholders, through the constructive dialogue with them.
To do so, we have established the following system and implemented some measures.

1) Mainly the IR section deals with dialogue with shareholders. Executives, including the representative director and president, participate in, give explanations and answer questions at briefing sessions for financial results and individual investors, small meetings, etc. Like this, we prepare opportunities for direct dialogue between shareholders and the management.
2) The IR section of our company forwards opinions given during the dialogue with shareholders to the management, to utilize them for discussing mid/long-term management policies.