



# Consolidated Financial Report for the Six Months Ended September 30, 2019 [Japanese GAAP]

November 5, 2019

Listed exchange: 1st Section, Tokyo Stock Exchange  
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 Scheduled submission date of quarterly report: November 6, 2019  
 Scheduled date of dividend payment: —  
 Preparation of explanatory materials for quarterly financial results: Yes  
 Holding of a briefing on quarterly financial results: Yes (for analysts and institutional investors)

(Amounts are rounded to the nearest million yen)

## 1. Consolidated Financial Results for the Six Months Ended September 30, 2019 (April 1, 2019 to September 30, 2019)

(1) Consolidated operating results (cumulative)

(Percentages represent year-on-year changes)

(Millions of yen)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
Six months ended September 30, 2019	13,128	7.0%	1,019	(8.1)%	1,038	(12.3)%	687	(11.9)%
Six months ended September 30, 2018	12,274	8.3%	1,109	24.8%	1,183	29.0%	780	36.8%

Note: Comprehensive income:

Six months ended September 30, 2019: ¥564 million [(27.7)%]

Six months ended September 30, 2018: ¥877 million [1.1%]

(Yen)

	Basic earnings per share	Diluted earnings per share
Six months ended September 30, 2019	28.53	—
Six months ended September 30, 2018	32.39	—

Note: The Company conducted a two-for-one stock split of its common shares effective October 1, 2018. Accordingly, basic earnings per share has been calculated under the assumption that the stock split was conducted at the beginning of the fiscal year ended March 31, 2018.

(2) Consolidated financial position

(Millions of yen)

	Total assets	Net assets	Owners' equity ratio
As of September 30, 2019	15,740	11,501	73.1%
As of March 31, 2019	16,353	11,466	70.1%

Reference: Owners' equity

As of September 30, 2019: ¥11,501 million

As of March 31, 2019: ¥11,466 million

## 2. Dividends

(Yen)

	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total
Fiscal year ended March 31, 2019	—	0.00	—	22.00	22.00
Fiscal year ending March 31, 2020	—	0.00			
Fiscal year ending March 31, 2020 (forecast)			—	—	—

Notes: 1. Revisions to the most recently announced dividend forecast: None

2. The dividend forecast for the fiscal year ending March 31, 2020 has not been determined at this time.

## 3. Consolidated Financial Results Forecasts for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(Percentages represent year-on-year changes)  
(Millions of yen)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share	
Fiscal year ending March 31, 2020	27,000	1.5%	2,200	2.0%	2,250	0.1%	1,490	1.4%	(Yen) 61.85	

Note: Revisions to the most recently announced financial result forecasts: None

### \*Notes

(1) Changes in significant subsidiaries during the period: None

(2) Adoption of special accounting methods for preparing the quarterly consolidated financial statements: Yes

Note: For details, please refer to “(4) Notes to Quarterly Consolidated Financial Statements” under “2. Quarterly Consolidated Financial Statements and Primary Notes” on page 10 of the appendix to this consolidated financial report.

(3) Changes in accounting policies, changes in accounting estimates, and restatements

- Changes in accounting policies due to amendments of accounting standards: None
- Changes in accounting policies other than those in (a): None
- Changes in accounting estimates: None
- Restatements: None

(4) Number of shares outstanding (common stock)

(Shares)

a. Number of shares outstanding at the end of period (including treasury stock)	As of September 30, 2019	25,113,600	As of March 31, 2019	25,113,600
b. Number of treasury shares at the end of period	As of September 30, 2019	1,015,034	As of March 31, 2019	1,021,434
c. Average number of shares during the period (cumulative for the quarter)	Six months ended September 30, 2019	24,094,544	Six months ended September 30, 2018	24,091,067

Notes: 1. The Company conducted a two-for-one stock split of its common shares effective October 1, 2018. Accordingly, the average number of shares during the period has been calculated under the assumption that the stock split was conducted at the beginning of the fiscal year ended March 31, 2018.

2. The number of treasury shares at the end of period includes the Company’s shares (391,200 shares as of September 30, 2019 and 397,600 shares as of March 31, 2019) held by Trust & Custody Services Bank, Ltd. (Trust Account E) as trust assets in a Board Benefit Trust (BBT) and an Employee Stock Ownership Plan (J-ESOP). In addition, the Company’s shares held by Trust & Custody Services Bank, Ltd. (Trust Account E) are included in the treasury shares deducted from the calculation of the average number of shares during the period (six months ended September 30, 2019: 395,222 shares; six months ended September 30, 2018: 398,780 shares).

- \* This quarterly financial report is exempt from the quarterly review procedures of certified public accountants or an audit firm.
- \* Explanation on the proper use of financial results forecasts and other noteworthy items  
The report contains forward-looking statements such as financial results forecasts that are based on information available to the Company at the time of disclosure and certain assumptions the Company believes to be reasonable. The Company gives no assurance that these forward-looking statements will prove to be accurate. Actual results may differ significantly from these forecasts due to various factors. For matters related to the abovementioned financial results forecasts, please refer to “(3) Explanation on Forward-Looking Statements Including Consolidated Financial Results Forecasts” under “1. Qualitative Information on Financial Results for the Six Months Ended September 30, 2019” on page 4 of the appendix to this consolidated financial report.

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## 1. Qualitative Information on Financial Results for the Six Months Ended September 30, 2019

### (1) Explanation on Operating Results

During the six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019), Japan's economy continued to follow a moderate recovery path, helped partly by various public policies, amid continuing improvement in corporate earnings and employment conditions. However, the global economic outlook remained opaque, owing to factors such as the impact of U.S.-China trade tensions, as well as uncertainty about international economic trends and public policies.

The information services industry showed signs of generally firm activity against the backdrop of improving corporate earnings. The tide of digital transformation, driven by technological innovations such as cloud computing, artificial intelligence (AI), the Internet of Things (IoT), robotic process automation (RPA), blockchain and microservices, will increase demand for strategic investments aimed at boosting corporate competitiveness. Demand for IT investment is thus expected to increase.

In this environment, the Group aims to be a "Next-Generation System Integrator" based on its Medium-Term Management Plan "Shift to the Smart SI," which runs from April 2019 to March 2022. The Group has laid out a vision for evolving into a next-generation system integration business that captures unmet market needs and addresses new currents in digital technology.

In order to realize this vision, the Group has established two basic strategies.

The Group's first strategy is to pursue high-value-added system integration services. The Group's customers are pushing ahead with digital transformation. In response, the Group will implement a service business that fulfills customers' value creation needs by harnessing the latest core technologies underlying systems.

The Group's second strategy is to promote transformation of the system integration model. The Group will implement innovative approaches to achieve priorities such as developing a platform for realizing high-value-added system integration services and establishing system integration processes that deliver both high productivity and quality, as it works to differentiate itself from other companies.

In the fiscal year ending March 31, 2020, the Group's policy is to lay a foundation for sustained growth by vigorously pushing ahead with restructuring initiatives, with the aim of evolving into a "Next-Generation System Integrator" under the vision set forth in the Medium-Term Management Plan. Guided by this policy, the Group has been implementing reorganization encompassing its framework for advancing its basic medium-term strategies and other initiatives.

Specifically, the Group seeks to form an organization that will promote sales activities by, for example, supporting the innovation of customers' businesses, along with accelerating their digital transformation. To this end, the Group has set up an organization that fosters collaboration with the account business departments to solve issues speedily and efficiently by leveraging cutting-edge technologies. It has also strengthened measures to secure and develop engineers, invest in research and development, and carry out activities to offer proposals to customers.

In the agile development field in particular, the Company is moving forward toward providing agile-related total solutions to expand agile development services, increasing the number of technicians certified for the de facto standard Scrum, providing large-scale agile frameworks, concluding a partnership agreement with Scaled Agile, Inc. of the US and starting consulting and training services ahead of introducing an agile organization. In the security market, which is forecast to grow going forward, the Company has created a new list of security services to provide customers with safety and security, as well as moving forward on alliances with other companies whose strengths are in the network security field and seeking to steadily expand high added value in the system integration services field.

As a result, the Group's business performance in the six months ended September 30, 2019 was as follows. With growth strategies trending firmly in each business field, net sales amounted to ¥13,128 million, up 7.0% year on year. The Group actively made investments for structural reform and the high added value system integration services to realize its vision for becoming a Next-Generation System Integrator, with these investments recorded under selling, general and administrative expenses. Consequently, operating profit decreased 8.1% year on year to ¥1,019 million and ordinary profit declined 12.3% to ¥1,038 million. Profit attributable to owners of parent was ¥687 million, a decrease of 11.9% year on year.

### Status of activities by field

#### < Application development field (finance) >

In the application development field (finance), the Group provides business application development services for the finance sector. In the six months ended September 30, 2019, the Group made solid progress on a project to develop large-scale systems for the insurance and credit businesses. As a result, net sales in this field increased 13.4% year on year to ¥7,433 million.

#### < Application development field (corporate) >

In the application development field (corporate), the Group provides business application development services for the distribution, manufacturing, service, and public sectors. In the six months ended September 30, 2019, the Group made steady progress on development projects for the manufacturing and distribution sectors. As a result, net sales in this field rose 4.8% year on year to ¥2,832 million.

#### < Solution field (infrastructure and networks) >

In the solution field (infrastructure and networks), the Group provides environmental design, construction, and operational support for IT infrastructure, as well as development of network products, network integration and other services. In the six months ended September 30, 2019, IT infrastructure construction projects for the manufacturing sector progressed steadily, but sales in the network integration field declined. As a result, net sales in this field decreased by 10.5% year on year to ¥1,671 million.

#### < Solution field (packages, etc.) >

In the solution field (packages, etc.), the Group provides cloud applications developed internally, and Trustpro, a PaaS-type cloud service. It also provides solutions related to BI/DWH and ERP/CRM. In the six months ended September 30, 2019, cloud-related solutions, such as CRM, performed steadily. As a result, net sales in this field rose 3.4% year on year to ¥1,190 million.

(Millions of yen)

Field	Six months ended September 30, 2018		Six months ended September 30, 2019		Year-on-year percentage change
	Net sales	Share	Net sales	Share	
Application development field (finance)	6,553	53.4%	7,433	56.6%	+13.4%
Application development field (corporate)	2,701	22.0%	2,832	21.6%	+4.8%
Solution field (infrastructure and networks)	1,868	15.2%	1,671	12.7%	(10.5)%
Solution field (packages, etc.)	1,151	9.4%	1,190	9.1%	+3.4%
Total	12,274	100.0%	13,128	100.0%	+7.0%

## **(2) Explanation on Financial Position**

### *Assets, Liabilities and Net Assets*

As of September 30, 2019, total assets amounted to ¥15,740 million, a decrease of ¥612 million from March 31, 2019.

Current assets stood at ¥12,597 million, a decrease of ¥333 million from March 31, 2019. The main reasons for this decrease were increases of ¥361 million in work in process and ¥171 million in cash and deposits, which were partly offset by a decrease of ¥865 million in notes and accounts receivable – trade.

Non-current assets amounted to ¥3,143 million, a decrease of ¥279 million from March 31, 2019. The main factors behind this decrease were declines of ¥165 million in investment securities and ¥139 million in shares of subsidiaries and associates included in other. These declines were partly offset by an increase of ¥51 million in deferred tax assets.

Current liabilities stood at ¥4,053 million, a decline of ¥663 million from March 31, 2019. The main reason for this decline was a decrease of ¥389 million in accrued expenses, while accounts payable – other decreased by ¥207 million.

Non-current liabilities stood at ¥185 million, an increase of ¥16 million from March 31, 2019. The main reasons for the increase were increases of ¥7 million in provision for share-based remuneration for employees and ¥5 million in provision for share-based remuneration for directors (and other officers).

Net assets amounted to ¥11,501 million, an increase of ¥34 million from March 31, 2019. The main factor behind this increase was an increase of ¥153 million in retained earnings, which was partly offset by a decrease of ¥122 million in valuation difference on available-for-sale securities.

### *Cash Flows*

Cash and cash equivalents as of September 30, 2019 was ¥7,957 million (¥6,777 million on September 30, 2018), up ¥140 million from March 31, 2019. Cash flows for each activity as of September 30, 2019 and the influencing factors are as follows:

(Cash flows from operating activities)

Operating activities provided net cash of ¥438 million, compared to ¥343 million provided in the same period of the previous fiscal year. This was mainly due to income taxes paid of ¥467 million, a decrease in accrued expenses of ¥398 million and an increase in inventories of ¥361 million, while profit before income taxes was ¥1,038 million and notes and accounts receivable – trade decreased to ¥925 million.

(Cash flows from investing activities)

Investing activities provided net cash of ¥93 million, compared to ¥32 million provided in the same period of the previous fiscal year. This was mainly due to purchase of property, plant and equipment of ¥54 million and purchase of investment securities of ¥33 million while there was ¥142 million in income for the transfer of business after the assets and liabilities of non-consolidated subsidiary TDC AIREC Corp. were transferred through voluntary assignment to TDC Next Co., Ltd. (currently TDC Futech Corporation).

(Cash flows from financing activities)

Financing activities used ¥391 million, compared to ¥203 million used in the same period of the previous fiscal year. The main reasons were a net increase in short-term borrowings of ¥150 million and cash dividends paid of ¥538 million.

## **(3) Explanation on Forward-Looking Statements Including Consolidated Financial Results Forecasts**

There have been no changes to the financial results forecasts announced in the Consolidated Financial Report for the Fiscal Year Ended March 31, 2019, which was issued on May 14, 2019.

**2. Quarterly Consolidated Financial Statements and Primary Notes**  
**(1) Quarterly Consolidated Balance Sheets**

(Thousands of yen)

	As of March 31, 2019	As of September 30, 2019
<b>Assets</b>		
Current assets:		
Cash and deposits	7,816,732	7,988,458
Notes and accounts receivable – trade	4,888,858	4,023,825
Work in process	66,542	428,198
Other	158,555	157,132
Total current assets	<u>12,930,689</u>	<u>12,597,615</u>
Non-current assets:		
Property, plant and equipment	163,462	164,766
Intangible fixed asset	158,031	129,880
Investments and other assets:		
Investment securities	2,197,083	2,031,848
Deferred tax assets	295,838	347,744
Guarantee deposits	429,131	429,131
Other	179,326	39,689
Total investments and other assets	<u>3,101,379</u>	<u>2,848,414</u>
Total non-current assets	<u>3,422,873</u>	<u>3,143,060</u>
Total assets	<u>16,353,563</u>	<u>15,740,675</u>

(Thousands of yen)

	As of March 31, 2019	As of September 30, 2019
<b>Liabilities</b>		
Current liabilities:		
Accounts payable – trade	1,013,939	1,053,949
Short-term borrowings	404,000	554,000
Accounts payable – other	351,863	144,069
Accrued expenses	1,932,411	1,542,727
Income taxes payable	514,129	407,618
Accrued consumption taxes	254,566	159,836
Provision for bonuses for directors (and other officers)	124,100	50,250
Provision for loss on order received	22,874	28,230
Other	99,961	113,246
Total current liabilities	4,717,846	4,053,927
Non-current liabilities:		
Provision for share-based remuneration for employees	28,589	35,736
Provision for share-based remuneration for directors (and other officers)	35,736	41,492
Asset retirement obligations	62,801	63,161
Other	42,312	45,203
Total non-current liabilities	169,438	185,593
Total liabilities	4,887,285	4,239,520
<b>Net assets</b>		
Shareholders' equity:		
Share capital	970,400	970,400
Capital surplus	986,228	986,228
Retained earnings	8,970,723	9,124,421
Treasury shares	(387,680)	(383,632)
Total shareholders' equity	10,539,671	10,697,417
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	926,606	803,737
Total accumulated other comprehensive income	926,606	803,737
Total net assets	11,466,277	11,501,155
Total liabilities and net assets	16,353,563	15,740,675

**(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income**  
**Quarterly Consolidated Statements of Income**

For the six months ended September 30

(Thousands of yen)

	Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)	Six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)
Net sales	12,274,641	13,128,468
Cost of sales	9,709,164	10,548,450
Gross profit	2,565,477	2,580,017
Selling, general and administrative expenses	1,455,508	1,560,407
Operating profit	1,109,968	1,019,610
Non-operating income:		
Interest income	106	93
Dividend income	21,420	22,818
Gain on investments in partnerships	47,985	—
Other	6,358	5,232
Total non-operating income	75,870	28,143
Non-operating expenses:		
Interest expenses	1,673	1,736
Loss on investments in partnerships	—	6,972
Other	190	493
Total non-operating expenses	1,864	9,202
Ordinary profit	1,183,975	1,038,551
Profit before income taxes	1,183,975	1,038,551
Income taxes	403,780	351,254
Profit	780,194	687,297
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	780,194	687,297

**Consolidated Statements of Comprehensive Income**

For the six months ended September 30

	(Thousands of yen)	
	Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)	Six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)
Profit	780,194	687,297
Other comprehensive income:		
Valuation difference on available-for-sale securities	97,778	(122,868)
Total other comprehensive income	97,778	(122,868)
Comprehensive income	877,973	564,429
Comprehensive income attributable to:		
Owners of parent	877,973	564,429
Non-controlling shareholders	—	—

**(3) Quarterly Consolidated Statements of Cash Flows**

(Thousands of yen)

	Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)	Six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)
<b>Cash flows from operating activities</b>		
Profit before income taxes	1,183,975	1,038,551
Depreciation	49,680	44,631
Increase (decrease) in provision for share-based remuneration for directors (and other officers)	10,246	9,803
Increase (decrease) in provision for share-based remuneration for employees	9,361	7,147
Increase (decrease) in provision for bonuses for directors (and other officers)	(51,650)	(75,450)
Increase (decrease) in provision for loss on orders received	—	5,356
Interest and dividend income	(21,527)	(22,911)
Interest expenses	1,673	1,736
Loss (gain) on investments in investment partnerships	(47,985)	6,972
Decrease (increase) in trade receivables	417,638	925,345
Decrease (increase) in inventories	(337,396)	(361,656)
Increase (decrease) in trade payables	33,754	7,235
Increase (decrease) in accounts payable – other	(11,692)	(183,444)
Increase (decrease) in accrued expenses	(502,165)	(398,427)
Increase (decrease) in accrued consumption taxes	(70,208)	(100,403)
Other	23,669	1,306
Subtotal	687,375	905,793
Income taxes paid	(343,798)	(467,208)
Cash flows from operating activities	343,576	438,585
<b>Cash flows from investing activities</b>		
Payments into time deposits	—	(1,200)
Purchase of property, plant and equipment	(13,980)	(54,150)
Purchase of intangible assets	(500)	—
Purchase of investment securities	(44)	(33,344)
Proceeds from distributions from investment partnerships	24,647	15,545
Loan advances to employees	(1,000)	(2,470)
Collection of loans receivable from employees	2,209	2,841
Interest and dividends received	21,527	22,911
Proceeds from sale of businesses	—	142,953
Other	—	300
Cash flows from investing activities	32,858	93,386
<b>Cash flows from financing activities</b>		
Net increase (decrease) in short-term borrowings	228,000	150,000
Interest paid	(1,710)	(1,790)
Dividends paid	(428,573)	(538,774)
Repayments of lease obligations	(1,069)	(1,069)
Other	(130)	—
Cash flows from financing activities	(203,483)	(391,634)
Net increase (decrease) in cash and cash equivalents	172,951	140,336
Cash and cash equivalents at beginning of period	6,604,192	7,816,732
Cash and cash equivalents at end of period	6,777,144	7,957,069

**(4) Notes to Quarterly Consolidated Financial Statements**

(Notes on Going Concern Assumption)

Not applicable.

(Notes on Any Significant Changes in the Amount of Shareholders' Equity)

Not applicable.

(Adoption of Special Accounting Methods for Preparing the Quarterly Consolidated Financial Statements)

*Calculation of tax expenses*

Tax expenses are calculated by making a reasonable estimate of the effective tax rate after application of tax effect accounting to profit before income taxes for the fiscal year ending March 31, 2020, which includes the six months ended September 30, 2019, and then multiplying profit before income taxes by the estimated effective tax rate.

(Segment Information and Related Matters)

*Six months ended September 30, 2019 (from April 1, 2019 to September 30, 2019)*

The Group conducts a system development business that seamlessly combines integrated system development services ranging from system development to operation and management, and the sale of system products, among other activities. The Group has only one segment, namely the System Development segment. Therefore, segment information and related matters are omitted in this consolidated financial report.