



Consolidated Financial Report for the Nine Months Ended December 31, 2019 [Japanese GAAP]

February 4, 2020

Listed exchange: 1st Section, Tokyo Stock Exchange
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 Scheduled submission date of quarterly report: February 5, 2020
 Scheduled date of dividend payment: —
 Preparation of explanatory materials for quarterly financial results: None
 Holding of a briefing on quarterly financial results: None

(Amounts are rounded to the nearest million yen)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2019 (April 1, 2019 to December 31, 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	
Nine months ended December 31, 2019	19,838	6.2%	1,575	(8.2)%	1,626	(10.0)%	1,076	(9.6)%
Nine months ended December 31, 2018	18,678	10.2%	1,716	24.6%	1,807	27.3%	1,190	32.1%

Note: Comprehensive income:

Nine months ended December 31, 2019: ¥1,231 million [17.4%]

Nine months ended December 31, 2018: ¥1,049 million [(14.8)%]

(Yen)

	Basic earnings per share	Diluted earnings per share
Nine months ended December 31, 2019	44.67	—
Nine months ended December 31, 2018	49.44	—

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 December 31, 2019	16,479	12,168	73.8%
As of March 31, 2019	16,353	11,466	70.1%

Reference: Owners' equity

As of December 31, 2019: ¥12,168 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 “(3) Notes to Quarterly Consolidated Financial Statements” under “2. Quarterly Consolidated Financial Statements and Primary Notes” on page 9 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 December 31, 2019	25,113,600	As of March 31, 2019	25,113,600
b. Number of treasury shares at the end of period	As of December 31, 2019	1,015,071	As of March 31, 2019	1,021,434
c. Average number of shares during the period (cumulative for the quarter)	Nine months ended December 31, 2019	24,095,877	Nine months ended December 31, 2018	24,091,434

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 December 31, 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 (nine months ended December 31, 2019: 393,876 shares; nine months ended December 31, 2018: 398,385 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 Nine Months Ended December 31, 2019” on page 4 of the appendix to this consolidated financial report.

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1. Qualitative Information on Financial Results for the Nine Months Ended December 31, 2019

(1) Explanation on Operating Results

During the Nine months ended December 31, 2019 (from April 1, 2019 to December 31, 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 was generally strong. 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. In addition, we signed a capital and business alliance agreement with LTE-X Co., Ltd. for the purpose of providing services in the local 5G field. We are seeking to steadily expand high added value in the system integration services field.

As a result, the Group's business performance in the nine months ended December 31, 2019 was as follows. With growth strategies trending firmly in each business field, net sales amounted to ¥19,838 million, up 6.2% 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 8.2% year on year to ¥1,575 million and ordinary profit declined 10.0% to ¥1,626 million. Profit attributable to owners of parent was ¥1,076 million, a decrease of 9.6% 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 nine months ended December 31, 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 12.2% year on year to ¥11,200 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 nine months ended December 31, 2019, the Group made steady progress on development projects for the distribution sectors. As a result, net sales in this field rose 1.6% year on year to ¥4,290 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 nine months ended December 31, 2019, IT infrastructure construction projects for the manufacturing sector progressed steadily, but sales in the government and non-manufacturing projects declined. As a result, net sales in this field decreased by 6.0% year on year to ¥2,586 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 nine months ended December 31, 2019, cloud-related solutions, such as CRM, performed steadily. As a result, net sales in this field rose 2.3% year on year to ¥1,761 million.

(Millions of yen)

Field	Nine months ended December 31, 2018		Nine months ended December 31, 2019		Year-on-year percentage change
	Net sales	Share	Net sales	Share	
Application development field (finance)	9,982	53.5%	11,200	56.5%	+12.2%
Application development field (corporate)	4,223	22.6%	4,290	21.6%	+1.6%
Solution field (infrastructure and networks)	2,751	14.7%	2,586	13.0%	(6.0)%
Solution field (packages, etc.)	1,721	9.2%	1,761	8.9%	+2.3%
Total	18,678	100.0%	19,838	100.0%	+6.2%

(2) Explanation on Financial Position

Assets, Liabilities and Net Assets

As of December 31, 2019, total assets amounted to ¥16,479 million, an increase of ¥125 million from March 31, 2019.

Current assets stood at ¥13,012 million, an increase of ¥81 million from March 31, 2019. The main reasons for this increase were increases of ¥773 million in work in process and ¥760 million in cash and deposits, which were partly offset by a decrease of ¥1,456 million in notes and accounts receivable – trade.

Non-current assets amounted to ¥3,467 million, an increase of ¥44 million from March 31, 2019. The main factors behind this increase were increase of ¥309 million in investment securities, which were partly offset by a decrease of ¥139 million in shares of subsidiaries and associates included in other and ¥69 million in deferred tax assets.

Current liabilities stood at ¥4,120 million, a decline of ¥597 million from March 31, 2019. The main reason for this decline was a decrease of ¥969 million in accrued expenses, which were partly offset by an increase of ¥466 million in short-term loans payable.

Non-current liabilities stood at ¥191 million, an increase of ¥21 million from March 31, 2019. The main reasons for the increase were increases of ¥12 million in provision for share-based remuneration for employees and ¥10 million in provision for share-based remuneration for directors (and other officers).

Net assets amounted to ¥12,168 million, an increase of ¥702 million from March 31, 2019. The main factor behind this increase were increase of ¥542 million in retained earnings and ¥155 million in valuation difference on available-for-sale securities.

(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 December 31, 2019
Assets		
Current assets:		
Cash and deposits	7,816,732	8,577,243
Notes and accounts receivable – trade	4,888,858	3,432,218
Work in process	66,542	840,112
Other	158,555	162,910
Total current assets	<u>12,930,689</u>	<u>13,012,484</u>
Non-current assets:		
Property, plant and equipment	163,462	156,301
Intangible fixed asset	158,031	116,605
Investments and other assets:		
Investment securities	2,197,083	2,507,021
Deferred tax assets	295,838	226,260
Guarantee deposits	429,131	421,057
Other	179,326	39,822
Total investments and other assets	<u>3,101,379</u>	<u>3,194,162</u>
Total non-current assets	<u>3,422,873</u>	<u>3,467,069</u>
Total assets	<u>16,353,563</u>	<u>16,479,554</u>

(Thousands of yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities		
Current liabilities:		
Accounts payable – trade	1,013,939	1,111,376
Short-term borrowings	404,000	850,000
Accounts payable – other	351,863	315,756
Accrued expenses	1,932,411	962,497
Income taxes payable	514,129	185,617
Accrued consumption taxes	254,566	200,484
Provision for bonuses for directors (and other officers)	124,100	75,375
Provision for loss on order received	22,874	92,076
Other	99,961	326,847
Total current liabilities	4,717,846	4,120,032
Non-current liabilities:		
Provision for share-based remuneration for employees	28,589	40,669
Provision for share-based remuneration for directors (and other officers)	35,736	46,046
Asset retirement obligations	62,801	63,342
Other	42,312	41,028
Total non-current liabilities	169,438	191,086
Total liabilities	4,887,285	4,311,119
Net assets		
Shareholders' equity:		
Share capital	970,400	970,400
Capital surplus	986,228	986,228
Retained earnings	8,970,723	9,513,580
Treasury shares	(387,680)	(383,662)
Total shareholders' equity	10,539,671	11,086,545
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	926,606	1,081,888
Total accumulated other comprehensive income	926,606	1,081,888
Total net assets	11,466,277	12,168,434
Total liabilities and net assets	16,353,563	16,479,554

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

For the nine months ended December 31

(Thousands of yen)

	Nine months ended December 31, 2018 (from April 1, 2018 to December 31, 2018)	Nine months ended December 31, 2019 (from April 1, 2019 to December 31, 2019)
Net sales	18,678,796	19,838,518
Cost of sales	14,855,101	15,955,887
Gross profit	3,823,695	3,882,631
Selling, general and administrative expenses	2,107,525	2,306,838
Operating profit	1,716,170	1,575,792
Non-operating income:		
Interest income	192	174
Dividend income	38,020	50,707
Gain on investments in partnerships	47,985	—
Other	7,660	7,142
Total non-operating income	93,857	58,024
Non-operating expenses:		
Interest expenses	2,387	2,502
Loss on investments in partnerships	—	4,232
Other	190	535
Total non-operating expenses	2,578	7,269
Ordinary profit	1,807,449	1,626,547
Profit before income taxes	1,807,449	1,626,547
Income taxes	616,461	550,091
Profit	1,190,987	1,076,456
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	1,190,987	1,076,456

Consolidated Statements of Comprehensive Income

For the nine months ended December 31

	(Thousands of yen)	
	Nine months ended December 31, 2018 (from April 1, 2018 to December 31, 2018)	Nine months ended December 31, 2019 (from April 1, 2019 to December 31, 2019)
Profit	1,190,987	1,076,456
Other comprehensive income:		
Valuation difference on available-for-sale securities	(141,757)	155,282
Total other comprehensive income	(141,757)	155,282
Comprehensive income	1,049,230	1,231,739
Comprehensive income attributable to:		
Owners of parent	1,049,230	1,231,739
Non-controlling shareholders	—	—

(3) 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 nine months ended December 31, 2019, and then multiplying profit before income taxes by the estimated effective tax rate.

(Segment Information and Related Matters)

Nine months ended December 31, 2019 (from April 1, 2019 to December 31, 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.