

August 4, 2020

Consolidated Financial Report for the First Quarter of Fiscal 2020 Ending March 31, 2021 [Japanese GAAP]

Listed exchange: 1st Section, Tokyo Stock Exchange
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 Scheduled date of filing quarterly report: August 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 First Quarter of Fiscal 2020 Ending March 31, 2021 (April 1, 2020 to June 30, 2020)

(1) Consolidated operating results (cumulative)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Quarterly profit attributable to owners of parent	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%
As of June 30, 2020	6,177	2.8	439	29.1	459	25.5	312	28.9
As of June 30, 2019	6,012	7.8	340	(14.7)	366	(15.8)	242	(15.4)

Note: Comprehensive income

As of June 30, 2020: ¥847 million [460.5%]

As of June 30, 2019: ¥151 million [(37.6%)]

	Quarterly earnings per share		Diluted quarterly earnings per share	
	Yen	Sen	Yen	Sen
As of June 30, 2020	12.97	—	—	—
As of June 30, 2019	10.07	—	—	—

(2) Consolidated financial position

	Total assets	Net assets	Owners' equity ratio
	(Millions of yen)	(Millions of yen)	%
As of June 30, 2020	16,891	12,367	73.2
As of March 31, 2020	16,652	12,107	72.7

Reference: Owners' equity

As of June 30, 2020: ¥12,367 million

As of March 31, 2020: ¥12,107 million

2. Dividends

	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Year-end	Total
	Yen	Sen	Yen	Sen	Yen
Fiscal year ended March 31, 2020	—	0.00	—	24.00	24.00
Fiscal year ending March 31, 2021	—	—	—	—	—
Fiscal year ending March 31, 2021 (forecast)	—	—	—	—	—

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

2. The dividend forecast for the fiscal year ending March 31, 2021 has not been determined at this time.

3. Consolidated Financial Results Forecasts for the Fiscal Year Ending March 31, 2021 (April 1, 2020 to March 31, 2021)

The consolidated financial results forecasts for the fiscal year ending March 31, 2021 have not been determined as it is difficult to make reasonable calculations at this time due to the uncertainties caused by the COVID-19 pandemic. We have included details in “(3) Explanation about Information on Projections Including Consolidated Forecasts” under “1. Qualitative Information about the Quarterly Financial Results” on Page 4 of the appendix.

*Notes

(1) Changes in significant subsidiaries during the consolidated cumulative quarter

:

None (Changes in specified subsidiaries resulting from changes in the scope of consolidation)

New: — (company name(s)) Excluded: — (company name(s))

(2) Application of special accounting methods for presenting quarterly consolidated financial statements : Yes

Note: For details, please refer to “(3) Notes on the Quarterly Consolidated Financial Statements” under “2. Quarterly Consolidated Financial Statements and Primary Notes” on Page 9 of the appendix.

(3) Changes in accounting policies and accounting-based estimates, and restatements

a. Changes in accounting policies due to revisions in accounting standards, etc. : None

b. Changes in accounting policies other than a. above : None

c. Changes in accounting-based estimates : None

d. Restatements : None

(4) Number of shares outstanding (common stock)

a. Number of shares outstanding at the end of period (including treasury stock)

b. Number of treasury shares at the end of period

c. Average number of shares during the period (cumulative for the quarter)

As of June 30, 2020	25,113,600	As of March 31, 2020	25,113,600
As of June 30, 2020	1,015,071	As of March 31, 2020	1,015,071
As of June 30, 2020	24,098,529	As of June 30, 2019	24,092,166

The number of treasury shares at the end of period includes the Company’s shares (391,200 shares as of June 30, 2020 and 391,200 shares as of March 31, 2020) 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 (as of June 30, 2020: 391,200 shares; as of June 30, 2019: 397,600 shares).

* The quarterly consolidated financial report is exempt from quarterly reviews by certified public accountants or an audit firm.

* Explanation about the proper use of financial results forecasts and other noteworthy items

The report contains statements about the future such as forecasts for financial results 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 statements will prove to be accurate. Actual results may differ significantly from these forecasts due to various factors. For matters related to the abovementioned forecasts, please refer to “(3) Explanation about Information on Projections Including Consolidated Forecasts” on Page 4 of the appendix.

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1. Qualitative Information about the Quarterly Financial Results

(1) Explanation about Operating Results

During this consolidated cumulative first quarter (April 1, 2020 – June 30, 2020), Japan's economy continued to face tough times due to the impacts of the COVID-19 pandemic. Since around June, the country has gradually increased social and economic activities, while taking measures to prevent the further spread of infections. However, with the number of confirmed cases on the rise especially in major cities, economic prospects will likely remain uncertain for a while. Under these circumstances, promoting telecommuting and digital transformation (“DX”), including cloud computing and the automation of business processes, has come into the spotlight as a pressing task for companies. In this regard, we believe that the information services industry will have growing needs for changing their business practices and workstyles.

In this climate, the TDC SOFT Group aims to become a next-generation system integrator as stated in its medium-term management plan “Shift to the Smart SI” for the period between April 2019 and March 2022. Our vision is to evolve into a next-generation system integration (“SI”) business geared to new trends in digital technology based on the potential needs of the market.

To make this vision a reality, we have two Group-wide core strategies.

One is to “create high-value-added SI services.” We tap into the latest elemental technologies to pursue services designed to meet the needs of customers promoting DX for value creation.

The other is to “support SI model reforms.” We use innovative approaches to build infrastructure for high-value-added SI services and to develop an SI process designed to ensure high productivity and high quality, thereby differentiating ourselves from competitors.

During the quarter, we worked on the initiatives stated in the “Shift to the Smart SI” plan in order to move forward with our measures, following the policy of flexibly adapting to changes in external environments and dealing with and making improvements on issues that would arise from the initiatives.

To be more specific, we continue to focus on the agile development and information system security business that have strategically been our priority since the last fiscal year. In the agile development business, we signed a contract with Scaled Agile, Inc. in the United States last fiscal year to become their gold partner. In this strengthened alliance with Scaled Agile, we offer services for quick management decision-making, consulting services to help with system development, and educational services. In the information system security business, we are working to expand our high-value-added SI services through the development of SI solutions using local 5G in collaboration with LTE-X Inc. and other efforts.

While the COVID-19 pandemic placed constraints on our sales activities and resulted in a temporary suspension of projects, projects with unfulfilled order status at the end of the last fiscal year were generally implemented as planned during this consolidated cumulative first quarter, and the impact of the pandemic on our business performance was limited.

As a result, the Group's business performance for this consolidated cumulative first quarter was as follows: Net sales amounted to ¥6,177 million, up 2.8% year on year; operating profit amounted to ¥439 million, up 29.1% year on year; ordinary profit amounted to ¥459 million, up 25.5% year on year; and profit attributable to owners of parent amounted to ¥312 million, up 28.9% year on year.

Status of activities by field

<IT consulting and services>

In the IT consulting and services field, we offer services that include developing IT strategies and information system concepts to facilitate customers' DX, technology consulting, and providing educational services about the latest technologies and development methodologies. We also provide our internally developed cloud application services, along with solution services related to business intelligence (BI)/data warehousing (DWH) and enterprise resource planning (ERP)/customer relationship management (CRM). During this quarter, the Group made solid progress on projects related to data analytics infrastructure including BI/DWH and "extract, transform, load (ETL)." As a result, net sales in this field increased 89.1% year on year to ¥510 million.

<IT solutions for financial services>

In the field of IT solutions for financial services, we offer integrated IT solutions for the financial sector, including information system concepts, design, development, and maintenance. During this quarter, there was a steady stream of system development projects for banks, while there was little activity in projects for the insurance businesses. As a result, net sales in this field decreased by 8.3% year on year to ¥3,140 million.

<IT solutions for public corporations>

In the field of IT solutions for public corporations, we offer integrated IT solutions for the logistics, manufacturing, and service industries as well as the public sector, including information system concepts, design, development, and maintenance. During this quarter, the Group made solid progress on development projects for the manufacturing sector. As a result, net sales in this field increased 13.4% year on year to ¥1,728 million.

<Platform solutions>

In the field of platform solutions, we offer services that include configuring and developing IT infrastructure along with helping with its operation, developing network products, and integrating networks. During this quarter, the Group made solid progress on projects to build IT infrastructure for the telecommunication businesses and public agencies. As a result, net sales in this field increased 0.4% year on year to ¥798 million.

(Millions of yen)

Field	As of June 30, 2019 Consolidated cumulative quarter		As of June 30, 2020 Consolidated cumulative quarter		Year-on-year percentage change
	Amount	Share	Amount	Share	
IT consulting and services	269	4.5%	510	8.3%	+89.1%
IT solutions for financial services	3,422	57.0%	3,140	50.8%	(8.3%)
IT solutions for public corporations	1,523	25.3%	1,728	28.0%	+13.4%
Platform solutions	796	13.2%	798	12.9%	+0.4%
Total	6,012	100.0%	6,177	100.0%	+2.8%

The TDC SOFT Group has been reviewing its business fields since this consolidated cumulative first quarter, taking account the future direction of its businesses. When we make a year-over-year comparison, we apply the figure from the same period last year to the updated business field.

(2) Explanation about Financial Status

State of assets, liabilities, and net assets

Total assets at the end of this consolidated accounting first quarter increased by ¥239 million from the end of the previous fiscal year to ¥16,891 million.

Current assets decreased by ¥284 million from the end of the previous fiscal year to ¥13,179 million.

This is mainly due to a decrease of ¥1,526 million in notes and accounts receivable – trade, despite increases of ¥833 million in cash and deposits and of ¥410 million in work in process.

Non-current assets increased by ¥523 million from the end of the previous fiscal year to ¥3,712 million.

This is mainly due to an increase of ¥770 million in investment securities, despite a decrease of ¥227 million in deferred tax assets.

Current liabilities decreased by ¥26 million from the end of the previous fiscal year to ¥4,320 million.

This is mainly due to a decrease of ¥638 million in accrued expenses, despite an increase of ¥670 million in short-term borrowings.

Non-current liabilities increased by ¥6 million from the end of the previous fiscal year to ¥203 million.

This is mainly due to increases of ¥4 million in provision for share-based remuneration for directors (and other officers) and of ¥2 million in provision for share-based remuneration for employees.

Net assets increased by ¥259 million from the end of the previous fiscal year to ¥12,367 million.

This is mainly due to an increase of ¥534 million in valuation difference on available-for-sale securities, despite a decrease of ¥275 million in retained earnings.

(3) Explanation about Information on Projections Including Consolidated Forecasts

The TDC SOFT Group believes that the demand for high-value-added SI services including digitization will continue to grow. Hence, we will keep following our policy specified in the medium-term management plan as we consistently take various measures.

As for the outlook, the global COVID-19 pandemic has increased the risk of a further downturn in the Japanese and international economies, which has generated concern about the future including negative effects on IT investments that have delivered a strong performance. Therefore, at this time we have not made any forecasts for the fiscal year ending March 31, 2021 due to the difficulty of reasonably calculating any projections. We will announce our projections as soon as they are ready for disclosure.

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

(Thousands of yen)

	As of March 31, 2020	As of March 31, 2020
Assets		
Current assets:		
Cash and deposits	8,379,818	9,213,559
Notes and accounts receivable – trade	4,810,858	3,283,915
Work in process	81,204	491,899
Other	192,016	189,703
Total current assets	13,463,898	13,179,078
Non-current assets:		
Property, plant and equipment	156,911	149,526
Intangible fixed assets	103,495	91,869
Investments and other assets		
Investment securities	1,826,407	2,597,395
Shares of subsidiaries and associates	300,000	300,000
Deferred tax assets	333,146	105,580
Guarantee deposits	421,057	421,057
Other	47,323	46,765
Total investments and other assets	2,927,935	3,470,799
Total non-current assets	3,188,342	3,712,195
Total assets	16,652,240	16,891,273
Liabilities		
Current liabilities:		
Accounts payable – trade	1,086,674	952,587
Short-term borrowings	430,000	1,100,000
Accounts payable – other	208,250	121,609
Accrued expenses	1,674,745	1,036,028
Income taxes payable	342,144	188,722
Accrued consumption taxes	379,063	321,559
Provision for bonuses for directors (and other officers)	106,200	25,125
Other	120,164	575,098
Total current liabilities	4,347,242	4,320,731
Non-current liabilities:		
Provision for share-based remuneration for employees	44,338	46,362
Provision for share-based remuneration for directors (and other officers)	50,600	55,154
Asset retirement obligations	63,522	63,705
Other	38,819	38,106
Total non-current liabilities	197,280	203,328
Total liabilities	4,544,522	4,524,059

(Thousands of yen)

	As of March 31, 2020	As of June 30, 2020
Net assets		
Shareholders' equity:		
Share capital	970,400	970,400
Capital surplus	986,228	986,228
Retained earnings	9,938,020	9,662,791
Treasury shares	(383,662)	(383,662)
Total shareholders' equity	11,510,985	11,235,756
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	596,732	1,131,457
Total accumulated other comprehensive income	596,732	1,131,457
Total net assets	12,107,718	12,367,214
Total liabilities and net assets	16,652,240	16,891,273

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

Consolidated Cumulative First Quarter

(Thousands of yen)

	Consolidated Cumulative First Quarter of Fiscal 2019 (From April 1, 2019 to June 30, 2019)	Consolidated Cumulative First Quarter of Fiscal 2020 (From April 1, 2020 to June 30, 2020)
Net sales	6,012,061	6,177,531
Cost of sales	4,814,254	4,857,448
Gross profit	1,197,807	1,320,082
Selling, general and administrative expenses	857,536	880,888
Operating profit	340,271	439,194
Non-operating income:		
Interest income	83	96
Dividend income	22,659	18,756
Gain on investments in partnerships	3,019	-
Other	1,622	2,549
Total non-operating income	27,384	21,403
Non-operating expenses:		
Interest expenses	703	754
Other	465	0
Total non-operating expenses	1,168	754
Ordinary profit	366,486	459,842
Profit before income taxes	366,486	459,842
Income taxes	123,953	147,318
Profit	242,533	312,524
Profit attributable to non-controlling interests	-	-
Quarterly profit attributable to owners of parent	242,533	312,524

Quarterly Consolidated Statement of Comprehensive Income
Consolidated Cumulative First Quarter

	(Thousands of yen)	
	Consolidated Cumulative First Quarter of Fiscal 2019 (From April 1, 2019 to June 30, 2019)	Consolidated Cumulative First Quarter of Fiscal 2020 (From April 1, 2020 to June 30, 2020)
Profit	242,533	312,524
Other comprehensive income:		
Valuation difference on available-for-sale securities	(91,371)	534,724
Total other comprehensive income	(91,371)	534,724
Quarterly comprehensive income	151,161	847,249
attributable to:		
Comprehensive income attributable to owners of parent	151,161	847,249
Comprehensive income attributable to non-controlling interests	—	—

(3) Notes on the Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumption)Not applicable.

(Notes on Substantial Changes in the Amount of Shareholders' Equity)Not applicable.

(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)

Calculation of tax expenses

To calculate tax expenses, we reasonably estimate the effective tax rate after tax effect accounting is applied to profit for the period before taxes for the consolidated fiscal year that includes this consolidated cumulative first quarter, and multiply profit for the quarter before taxes by the estimated effective tax rate.

(Segment Information and Related Matters)

Consolidated cumulative first quarter of fiscal 2020 (from April 1, 2020 to June 30, 2020)

The TDC SOFT Group runs an information system development business that integrates the sale of information system products with system development services spanning the whole process from development to operation and maintenance. The Group is thus classified into the single segment of information system development, and thus we have provided no statement in this section.