

Consolidated Financial Report for the Third Quarter of Fiscal 2021 Ending March 31, 2022 [Japanese GAAP]

February 8, 2022

Listed exchange: 1st Section, Tokyo Stock Exchange
 Company name: **TDC SOFT Inc.**
 Code number: 4687
 URL: <https://www.tdc.co.jp/>
 Representative: Hiroyoshi Kobayashi, President and Representative Director
 Inquiries: Hideki Kamijo, Director and General Manager, Corporate Planning Dept.
 Phone: +81-3-6730-8111
 Scheduled date of filing quarterly report: February 9, 2022
 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 Third Quarter of Fiscal 2021 Ending March 31, 2022 (April 1, 2021 to December 31, 2021)

(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 December 31, 2021	22,357	13.9	2,510	48.8	2,623	42.1	1,782	43.7
As of December 31, 2020	19,633	(1.0)	1,686	7.1	1,845	13.5	1,240	15.2

Note: Comprehensive income

As of December 31, 2021: ¥1,815 million [8.0%]

As of December 31, 2020: ¥1,681 million [36.5%]

	Quarterly earning per share		Diluted quarterly earnings per share	
	Yen	Sen	Yen	Sen
As of December 31, 2021	73.94	—	—	—
As of December 31, 2020	51.47	—	—	—

(2) Consolidated financial position

	Total assets	Net assets	Owners' equity ratio
	(Millions of yen)	(Millions of yen)	%
As of December 31, 2021	19,831	14,913	75.2
As of March 31, 2021	18,652	13,663	73.3

Reference: Owners' equity

As of December 31, 2021: ¥14,913 million

As of March 31, 2021: ¥13,663 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, 2021	—	0.00	—	24.00	24.00
Fiscal year ending March 31, 2022	—	0.00	—		
Fiscal year ending March 31, 2022 (forecast)				26.00	26.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Financial Results Forecasts for the Fiscal Year Ending March 31, 2022 (April 1, 2021 to March 31, 2022)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share	
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	Yen	Sen
Full year	29,000	6.3	2,750	16.6	2,810	9.6	1,880	9.8		78.01

Note: Revisions to the most recently announced financial results forecast: None

* 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. : Yes

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

c. Changes in accounting-based estimates : None

d. Restatements : None

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

(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, 2021	25,113,600	As of March 31, 2021	25,113,600
As of December 31, 2021	1,000,159	As of March 31, 2021	1,015,111
As of December 31, 2021	24,107,418	As of December 31, 2020	24,098,532

b. Number of treasury shares at the end of period

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

Note: The number of treasury shares at the end of period includes the Company’s shares (376,200 shares as of December 31, 2021; 391,200 shares as of March 31, 2021) held by Custody Bank of Japan, 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 Custody Bank of Japan, 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 December 31, 2021: 382,255 shares; as of December 31, 2020: 391,200 shares).

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

*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.

○ **Table of Contents - Appendix**

1. Qualitative Information about the Quarterly Financial Results	2
(1) Explanation about Operating Results	2
(2) Explanation about Financial Status	4
(3) Explanation about Information on Projections Including Consolidated Forecasts	4
2. Quarterly Consolidated Financial Statements and Primary Notes	5
(1) Quarterly Consolidated Balance Sheet	5
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	7
(3) Notes on the Quarterly Consolidated Financial Statements	9
(Notes on Going Concern Assumption)	9
(Notes on Substantial Changes in the Amount of Shareholders' Equity)	9
(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements).....	9
(Changes in Accounting Policies).....	9
(Segment Information and Related Matters).....	9

1. Qualitative Information about the Quarterly Financial Results

(1) Explanation about Operating Results

During this consolidated cumulative third quarter (April 1, 2021 – December 31, 2021), Japan's economy still continued to face tough times due to the widening impacts of the COVID-19 pandemic, which has significantly affected consumer spending and economic activities.

In the information services industry, while the demand for developing and enhancing the telecommuting environment since last year has come full circle, corporate ICT investment, which had been continually suppressed, has resumed, and demand related in particular to digital transformation (“DX”) for strengthening businesses and promoting transformation has been increasing.

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 toward 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, and promote initiatives to differentiate ourselves from competitors.

To be more specific, we are focusing on the agile development and information system security businesses that are our strategic priorities. In the agile development business, we offer services for quick management decision-making, consulting services to help with system development, and educational services using the Scaled Agile Framework® (“SAFe®”) based on a strengthened alliance with the U.S. company Scaled Agile, Inc. under a gold partner contract. In addition, we have entered into a business partnership agreement with Ricksoft Co., Ltd. to promote the development of services following best practices for business transformation using SAFe®. In the information system security business, we are working to expand our high value-added SI services through the promotion of SI solutions using local 5G in collaboration with closip (company name changed from LTE-X Inc.), the formation of an alliance agreement with Internet Research Institute, Inc. in the field of cyber security, and other efforts.

The Company will welcome in its 60th anniversary in October 2022. In this milestone year, the Company will continue to strive to achieve sustainable growth.

For this consolidated cumulative third quarter, the impact of COVID-19 on our businesses has been limited by efforts to ensure smooth business continuity through thoroughly carrying out countermeasures against infectious diseases and proactively adopting remote working. Consequently, each business field has made solid progress and we achieved an increase in net sales. In terms of profits, growing needs for digitalization have allowed the Group's high value-added SI services to progress more than planned in addition to having the effect of increased revenue. Moreover, due to reduced selling, general, and administrative expenses, the Group has secured increased profits and is promoting proactive investments for further business expansion in the future.

As a result, the Group's business performance for this consolidated cumulative third quarter was as follows: Net sales amounted to ¥22,357 million, up 13.9% year on year; operating profit amounted to ¥2,510 million, up 48.8% year on year; ordinary profit amounted to ¥2,623 million, up 42.1% year on year; and profit attributable to owners of parent amounted to ¥1,782 million, up 43.7% year on year.

The “Accounting Standard for Revenue Recognition” and “Implementation Guidance on Accounting Standard for Revenue Recognition” have been applied from the current fiscal year. For this reason, we use figures based on calculation methods with different standards for year-on-year comparisons. For details, please refer to “(3) Notes on the Quarterly Consolidated Financial Statements (Changes in Accounting Policies)” under “2. Quarterly Consolidated Financial Statements and Primary Notes.”

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, such as business intelligence (BI)(Note 1)/data warehousing (DWH)(Note 2) and enterprise resource planning (ERP)(Note 3)/customer relationship management (CRM)(Note 4). During this quarter, the Group made solid progress on projects related to IT service management and cloud managed services. As a result, net sales in this field increased 68.8% year on year to ¥2,899 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, the Group made solid progress on development projects for credit-related systems. As a result, net sales in this field increased 7.5% year on year to ¥10,360 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 fiscal year, the Group made solid progress on development projects for the manufacturing and transportation sectors. As a result, net sales in this field increased 10.4% year on year to ¥6,243 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 cloud-related infrastructure. As a result, net sales in this field increased 8.8% year on year to ¥2,854 million.

(Millions of yen)

Field	As of December 31, 2020		As of December 31, 2021		Year-on- year percentag e change
	Consolidated cumulative quarter		Consolidated cumulative quarter		
	Amount	Share	Amount	Share	
IT consulting and services	1,717	8.7%	2,899	13.0%	+68.8%
IT solutions for financial services	9,636	49.1%	10,360	46.3%	+7.5%
IT solutions for public corporations	5,655	28.8%	6,243	27.9%	+10.4%
Platform solutions	2,623	13.4%	2,854	12.8%	+8.8%
Total	19,633	100.0%	22,357	100.0%	+13.9%

The TDC SOFT Group has been reviewing its business fields since the consolidated cumulative first quarter of the year, 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.

Notes: 1. BI: Business intelligence. A process for analyzing a company's internal information to harness it in business management.

2. DWH: Data warehouse. An integrated database that collects necessary data from multiple systems, including core systems, to sort the data by objective and accumulate it chronologically for data analysis and decision-making.

3. ERP: Enterprise resource planning. A core information system. 4. CRM: Customer relationship management. A customer management system.

(2) Explanation about Financial Status

State of assets, liabilities, and net assets

Total assets at the end of this consolidated accounting third quarter increased by ¥1,178 million from the end of the previous fiscal year to ¥19,831 million.

Current assets increased by ¥1,103 million from the end of the previous fiscal year to ¥16,184 million. This is mainly due to increases of ¥1,283 million in cash and deposits and ¥209 million in work in process, despite a decrease of ¥377 million in notes and accounts receivable - trade, and contract assets.

Non-current assets increased by ¥75 million from the end of the previous fiscal year to ¥3,646 million. This is mainly due to an increase of ¥84 million in investment securities, despite a decrease of ¥20 million in deferred tax assets.

Current liabilities decreased by ¥79 million from the end of the previous fiscal year to ¥4,677 million. This is mainly due to a decrease of ¥775 million in accrued expenses, despite increases of ¥520 million in short-term borrowings and deposits included in other of ¥228 million.

Non-current liabilities increased by ¥9 million from the end of the previous fiscal year to ¥241 million. This is mainly due to increases of ¥3 million in provision for share-based remuneration for directors (and other officers) and of ¥7 million in provision for share-based remuneration for employees.

Current assets increased by ¥1,249 million from the end of the previous fiscal year to ¥14,913 million. This is mainly due to increases of ¥1,207 million in retained earnings and of ¥32 million in valuation difference on available-for-sale securities.

(3) Explanation about Information on Projections Including Consolidated Forecasts

In light of recent performance trends, we have revised our full-year financial results forecast for the fiscal year ending March 31, 2022, which was announced on May 11, 2021. For details, please see the “Notice Regarding Revisions to Financial Results Forecasts and Dividend Forecast” published on September 28, 2021.

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

(Thousands of yen)

	Fiscal 2020 (as of March 31, 2021)	Third Quarter of Fiscal 2021 (as of December 31, 2021)
Assets		
Current assets:		
Cash and deposits	10,077,199	11,361,079
Notes and accounts receivable - trade	4,717,813	—
Notes and accounts receivable - trade, and contract assets	—	4,340,020
Work in process	108,616	317,924
Other	178,097	165,905
Total current assets	15,081,727	16,184,930
Non-current assets:		
Property, plant and equipment	159,225	192,215
Intangible fixed assets	52,733	16,042
Investments and other assets:		
Investment securities	2,391,518	2,476,159
Shares of subsidiaries and associates	300,000	300,000
Deferred tax assets	196,122	175,870
Guarantee deposits	427,745	445,227
Other	43,607	41,052
Total investments and other assets	3,358,995	3,438,310
Total non-current assets	3,570,954	3,646,568
Total assets	18,652,681	19,831,498
Liabilities		
Current liabilities:		
Accounts payable – trade	1,003,764	1,178,730
Short-term borrowings	430,000	950,000
Accounts payable – other	145,811	347,213
Accrued expenses	1,827,566	1,051,675
Income taxes payable	656,489	424,546
Accrued consumption taxes	449,677	288,692
Provision for bonuses for directors (and other officers)	115,900	75,450
Other	128,104	361,081
Total current liabilities	4,757,312	4,677,389
Non-current liabilities:		
Provision for share-based remuneration for employees	56,988	64,957
Provision for share-based remuneration for directors (and other officers)	68,816	72,358
Asset retirement obligations	64,254	64,810
Other	41,699	38,914
Total non-current liabilities	231,757	241,039
Total liabilities	4,989,070	4,918,429

(Thousands of yen)

	Fiscal 2020 (as of March 31, 2021)	Third Quarter of Fiscal 2021 (as of December 31, 2021)
Net assets		
Shareholders' equity:		
Share capital	970,400	970,400
Capital surplus	986,256	986,256
Retained earnings	11,062,053	12,269,406
Treasury shares	(383,744)	(374,322)
Total shareholders' equity	12,634,965	13,851,740
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,028,645	1,061,328
Total accumulated other comprehensive income	1,028,645	1,061,328
Total net assets	13,663,611	14,913,068
Total liabilities and net assets	18,652,681	19,831,498

(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income**Quarterly Consolidated Statement of Income****Consolidated Cumulative Third Quarter**

(Thousands of yen)

	Consolidated Cumulative Third Quarter of Fiscal 2020 (from April 1, 2020 to December 31, 2020)	Consolidated Cumulative Third Quarter of Fiscal 2021 (from April 1, 2021 to December 31, 2021)
Net sales	19,633,336	22,357,711
Cost of sales	15,660,393	17,576,732
Gross profit	3,972,943	4,780,978
Selling, general and administrative expenses	2,285,988	2,270,464
Operating profit	1,686,954	2,510,514
Non-operating income:		
Interest income	213	172
Dividend income	56,150	61,041
Subsidy income	28,659	17,716
Gain on investments in partnerships	62,488	26,903
Gain on sales of investment securities	5,250	—
Other	8,621	9,670
Total non-operating income	161,383	115,504
Non-operating expenses:		
Interest expenses	2,504	2,615
Other	0	0
Total non-operating expenses	2,504	2,615
Ordinary profit	1,845,833	2,623,403
Profit before income taxes	1,845,833	2,623,403
Income taxes	605,577	840,820
Profit	1,240,255	1,782,583
Profit attributable to non-controlling interests	—	—
Quarterly profit attributable to owners of parent	1,240,255	1,782,583

Quarterly Consolidated Statement of Comprehensive Income
Consolidated Cumulative Third Quarter

(Thousands of yen)

	Consolidated Cumulative Third Quarter of Fiscal 2020 (from April 1, 2020 to December 31, 2020)	Consolidated Cumulative Third Quarter of Fiscal 2021 (from April 1, 2021 to December 31, 2021)
Profit	1,240,255	1,782,583
Other comprehensive income:		
Valuation difference on available-for-sale securities	441,193	32,682
Total other comprehensive income	441,193	32,682
Quarterly comprehensive income	1,681,448	1,815,265
attributable to:		
Comprehensive income attributable to owners of parent	1,681,448	1,815,265
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 third quarter, and multiply profit for the quarter before taxes by the estimated effective tax rate.

(Changes in Accounting Policies)

(Application of the Accounting Standard for Revenue Recognition)

We have applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020) and the “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 26, 2021) (hereinafter referred to as the “Accounting Standard for Revenue Recognition, etc.”) from the start of the first quarter of fiscal 2021. This recognizes promised goods or services as revenue at the amount expected to be received upon exchange of said goods or services at the point of time that the control of said goods or services is transferred to the customer. As a result, for contracts to which the completion standards had been applied and in which performance obligation is satisfied over a fixed period of time, we have changed the method to one that estimates progress according to satisfaction of performance obligation and that recognizes revenue based on said progress over a fixed period of time. The application of the Accounting Standard for Revenue Recognition, etc. is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative amount of financial impact in the case of retroactively applying the new accounting policy to periods prior to the start of the first quarter of fiscal 2021 was added to or subtracted from the retained earnings at the start of the first quarter of fiscal 2021, and thus the new accounting policy has been applied from this opening balance. However, the new accounting policy has not been retroactively applied to contracts to which the method prescribed in paragraph 86 of the Accounting Standard for Revenue Recognition is applied, and for which the amounts of almost all earnings were recognized in accordance with the previous transactional treatment prior to the start of the first quarter of fiscal 2021.

As a result, net sales increased by ¥414 million for the consolidated cumulative third quarter, cost of sales increased by ¥315 million, and operating profit, ordinary profit, and profit before income taxes each increased by ¥99 million. In addition, the opening balance of retained earnings increased by ¥12 million. Following the application of the Accounting Standard for Revenue Recognition, etc., “notes and accounts receivable - trade” shown under “current assets” in the consolidated balance sheet for the previous fiscal year has been included in “notes and accounts receivable - trade, and contract assets” in the consolidated balance sheet for the previous fiscal year from the first quarter of fiscal 2021. No reclassification has been carried out for the previous fiscal year due to the new classification method in accordance with the transitional treatment prescribed in paragraph 89-2 of the Accounting Standard for Revenue Recognition. In addition, no information is disclosed regarding the disaggregation of revenue produced from contracts with customers pertaining to the consolidated cumulative third quarter of fiscal 2020 in accordance with the transitional treatment prescribed in paragraph 28-15 of the Accounting Standard for Quarterly Financial Statement (ASBJ Statement No. 12, March 31, 2020).

(Segment Information and Related Matters)

Consolidated Cumulative Third Quarter of Fiscal 2021 (from April 1, 2021 to December 31, 2021)

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

TDC SOFT Inc. (4687) Consolidated Financial Report for the information system development, and thus we have provided no statement in this section.