

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

February 2, 2021

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.
 Scheduled date of filing quarterly report: February 3, 2021
 Scheduled date of dividend payment: —
 Preparation of explanatory materials for quarterly financial results: No
 Holding of a briefing on quarterly financial results: No

(Amounts are rounded to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of Fiscal 2020 Ending March 31, 2021 (April 1, 2020 to December 31, 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 December 31, 2020	19,633	(1.0)	1,686	7.1	1,845	13.5	1,240	15.2
As of December 31, 2019	19,838	6.2	1,575	(8.2)	1,626	(10.0)	1,076	(9.6)

Note: Comprehensive income

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

As of December 31, 2019: ¥1,231 million [17.4 %]

	Quarterly earnings per share	Diluted quarterly earnings per share
	Yen Sen	Yen Sen
As of December 31, 2020	51.47	—
As of December 31, 2019	44.67	—

(2) Consolidated financial position

	Total assets	Net assets	Owners' equity ratio
	(Millions of yen)	(Millions of yen)	%
As of December 31, 2020	17,497	13,201	75.4
As of March 31, 2020	16,652	12,107	72.7

Reference: Owners' equity

As of December 31, 2020: ¥13,201 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
Fiscal year ended March 31, 2020	Yen Sen —	Yen Sen 0.00	Yen Sen —	Yen Sen 24.00	Yen Sen 24.00
Fiscal year ending March 31, 2021	—	0.00	—		
Fiscal year ending March 31, 2021 (forecast)				24.00	24.00

Note: Revisions to the most recently announced dividend forecast: No

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

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net earnings per share
	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	(Millions of yen)	%	Yen Sen
Full year	27,800	0.0	2,250	1.9	2,310	2.0	1,540	2.6	63.90

Note: Revisions to the most recently announced financial results forecast: No

*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)

As of December 31, 2020	25,113,600	As of March 31, 2020	25,113,600
As of December 31, 2020	1,015,111	As of March 31, 2020	1,015,071
As of December 31, 2020	24,098,532	As of December 31, 2019	24,095,877

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 (391,200 shares as of December 31, 2020 and 391,200 shares as of March 31, 2020) held by Custody Bank of Japan, Ltd. (Trust Account E) (the former 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 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, 2020: 391,200 shares; as of December 31, 2019: 393,876 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.

Table of Contents - Appendix

1. Qualitative Information about the Quarterly Financial Results	2
(1) Explanation about Operating Results	2
(2) Explanation about Financial Status	5
(3) Explanation about Information on Projections Including Consolidated Forecasts	5
2. Quarterly Consolidated Financial Statements and Primary Notes	6
(1) Quarterly Consolidated Balance Sheet	6
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	8
(3) Notes on the Quarterly Consolidated Financial Statements	10
(Notes on Going Concern Assumption)	10
(Notes on Substantial Changes in the Amount of Shareholders' Equity)	10
(Application of Special Accounting Methods for Presenting Quarterly Consolidated Financial Statements)	10
(Segment Information and Related Matters)	10

1. Qualitative Information about the Quarterly Financial Results

(1) Explanation about Operating Results

During this consolidated cumulative third quarter (April 1, 2020 – December 31, 2020), Japan’s economy continued to face tough times due to the impacts of the COVID-19 pandemic. Nevertheless, as the country has been gradually increasing social and economic activities, the economy is also showing signs of recovery owing to the effects of various policies and economic recovery overseas. However, we need to closely monitor the pandemic in Japan and overseas, along with the impacts of financial and capital market fluctuations.

Under these circumstances, promoting digital transformation (“DX”) 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, 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 businesses 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., the launch of “Tegata,” which is a cloud-based secure access service capable of handling an increasing number of users who work remotely, and other efforts.

Consequently, the financial results of this consolidated cumulative third quarter was affected by the postponement or suspension of several projects due to the COVID-19 pandemic as well as restrictions on in-person sales operations involved in receiving orders. As a result, net sales amounted to ¥19,633 million, down 1.0% year on year. On the other hand, steady progress in adding high value to our business as part of the medium-term management plan improved our profitability. As a result, operating profit amounted to ¥1,686 million, up 7.1% year on year; ordinary profit amounted to ¥1,845 million, up 13.5% year on year; and profit attributable to owners of parent amounted to ¥1,240 million, up 15.2% 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)(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 in the fields related to data analytics infrastructure including BI/DWH and "extract, transform, load (ETL)"(Note 5) as well as cloud-based packaged solutions. As a result, net sales in this field increased 86.9% year on year to ¥1,717 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 related to loyalty cards, while there was little activity in projects for insurance businesses. As a result, net sales in this field decreased by 15.1% year on year to ¥9,636 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 and transportation sectors. As a result, net sales in this field increased 12.3% year on year to ¥5,655 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 insurance businesses and public agencies. As a result, net sales in this field increased 3.3% year on year to ¥2,623 million.

(Millions of yen)

Field	As of December 31, 2019		As of December 31, 2020		Year-on- year percentage change
	Consolidated cumulative quarter		Consolidated cumulative quarter		
	Amount	Share	Amount	Share	
IT consulting and services	918	4.6%	1,717	8.7%	+86.9%
IT solutions for financial services	11,344	57.2%	9,636	49.1%	(15.1%)
IT solutions for public corporations	5,035	25.4%	5,655	28.8%	+12.3%
Platform solutions	2,540	12.8%	2,623	13.4%	+3.3%
Total	19,838	100.0%	19,633	100.0%	(1.0%)

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.

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.
5. ETL: Extract, transform, load. A process of extracting and processing data from multiple information sources (e.g., a database and core system) to write the data to a DWH.

(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 ¥845 million from the end of the previous fiscal year to ¥17,497 million.

Current assets increased by ¥347 million from the end of the previous fiscal year to ¥13,811 million. This is mainly due to increases of ¥1,334 million in cash and deposits and of ¥420 million in work in process, despite decreases of ¥1,365 million in notes and accounts receivable – trade.

Non-current assets increased by ¥497 million from the end of the previous fiscal year to ¥3,686 million. This is mainly due to an increase of ¥707 million in investment securities, despite a decrease of ¥186 million in deferred tax assets.

Current liabilities decreased by ¥274 million from the end of the previous fiscal year to ¥4,072 million. This is mainly due to a decrease of ¥685 million in accrued expenses, despite an increase of ¥420 million in short-term borrowings.

Non-current liabilities increased by ¥26 million from the end of the previous fiscal year to ¥224 million. This is mainly due to increases of ¥13 million in provision for share-based remuneration for directors (and other officers) and of ¥9 million in provision for share-based remuneration for employees.

Net assets increased by ¥1,093 million from the end of the previous fiscal year to ¥13,201 million. This is mainly due to increases of ¥652 million in retained earnings and ¥441 million in valuation difference on available-for-sale securities.

(3) Explanation about Information on Projections Including Consolidated Forecasts

The impact of the COVID-19 pandemic exposed the fact that Japan's society is lagging behind in digitization, creating further need for DX.

The TDC SOFT Group has been able to earn substantial revenue from high-value-added SI services, including digitization, at a faster pace than planned. Hence, we will maintain the policy specified in medium-term management plan to steadily implement various measures.

The consolidated financial results forecasts for the fiscal year ending March 31, 2021 remains the same as those published on November 4, 2020. However, the state of emergency that was issued again by the government on January 7, 2021 indicates that it is still difficult to envision when the COVID-19 pandemic will end. There may be unexpected changes in our financial results as well, and so we will continue to monitor the situation going forward. If any material event that should be disclosed occurs in connection with the consolidated financial results forecast for the full year, we will promptly announce it.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	As of March 31, 2020	As of December 31, 2020
Assets		
Current assets:		
Cash and deposits	8,379,818	9,713,966
Notes and accounts receivable – trade	4,810,858	3,444,952
Work in process	81,204	502,042
Other	192,016	150,723
Total current assets	13,463,898	13,811,684
Non-current assets:		
Property, plant and equipment	156,911	167,336
Intangible fixed assets	103,495	65,843
Investments and other assets:		
Investment securities	1,826,407	2,534,276
Shares of subsidiaries and associates	300,000	300,000
Deferred tax assets	333,146	146,321
Guarantee deposits	421,057	427,745
Other	47,323	44,535
Total investments and other assets	2,927,935	3,452,879
Total non-current assets	3,188,342	3,686,060
Total assets	16,652,240	17,497,744
Liabilities		
Current liabilities:		
Accounts payable – trade	1,086,674	920,595
Short-term borrowings	430,000	850,000
Accounts payable – other	208,250	287,519
Accrued expenses	1,674,745	988,965
Income taxes payable	342,144	342,724
Accrued consumption taxes	379,063	310,950
Provision for bonuses for directors (and other officers)	106,200	75,375
Other	120,164	296,230
Total current liabilities	4,347,242	4,072,361
Non-current liabilities:		
Provision for share-based remuneration for employees	44,338	53,446
Provision for share-based remuneration for directors (and other officers)	50,600	64,262
Asset retirement obligations	63,522	64,071
Other	38,819	42,243
Total non-current liabilities	197,280	224,023
Total liabilities	4,544,522	4,296,384

(Thousands of yen)

	As of March 31, 2020	As of December 31, 2020
Net assets		
Shareholders' equity:		
Share capital	970,400	970,400
Capital surplus	986,228	986,256
Retained earnings	9,938,020	10,590,522
Treasury shares	(383,662)	(383,744)
Total shareholders' equity	11,510,985	12,163,434
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	596,732	1,037,925
Total accumulated other comprehensive income	596,732	1,037,925
Total net assets	12,107,718	13,201,359
Total liabilities and net assets	16,652,240	17,497,744

(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 2019 (From April 1, 2019 to December 31, 2019)	Consolidated Cumulative Third Quarter of Fiscal 2020 (From April 1, 2020 to December 31, 2020)
Net sales	19,838,518	19,633,336
Cost of sales	15,955,887	15,660,393
Gross profit	3,882,631	3,972,943
Selling, general and administrative expenses	2,306,838	2,285,988
Operating profit	1,575,792	1,686,954
Non-operating income:		
Interest income	174	213
Dividend income	50,707	56,150
Subsidy income	—	28,659
Gain on investments in partnerships	—	62,488
Gain on sales of investment securities	—	5,250
Other	7,142	8,621
Total non-operating income	58,024	161,383
Non-operating expenses:		
Interest expenses	2,502	2,504
Loss on investments in partnerships	4,232	—
Other	535	0
Total non-operating expenses	7,269	2,504
Ordinary profit	1,626,547	1,845,833
Profit before income taxes	1,626,547	1,845,833
Income taxes	550,091	605,577
Profit	1,076,456	1,240,255
Profit attributable to non-controlling interests	—	—
Quarterly profit attributable to owners of parent	1,076,456	1,240,255

Quarterly Consolidated Statement of Comprehensive Income

Consolidated Cumulative Third Quarter

(Thousands of yen)

	Consolidated Cumulative Third Quarter of Fiscal 2019 (From April 1, 2019 to December 31, 2019)	Consolidated Cumulative Third Quarter of Fiscal 2020 (From April 1, 2020 to December 31, 2020)
Profit	1,076,456	1,240,255
Other comprehensive income:		
Valuation difference on available-for-sale securities	155,282	441,193
Total other comprehensive income	155,282	441,193
Quarterly comprehensive income	1,231,739	1,681,448
attributable to:		
Comprehensive income attributable to owners of parent	1,231,739	1,681,448
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 accounting third quarter, and multiply profit for the quarter before taxes by the estimated effective tax rate.

(Segment Information and Related Matters)

Consolidated cumulative third quarter of fiscal 2020 (from April 1, 2020 to December 31, 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.