

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

August 3, 2021

Listed exchange: 1st Section, Tokyo Stock Exchange
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 Scheduled date of the ordinary general meeting of shareholders: August 4, 2021
 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 2021 Ending March 31, 2022 (April 1, 2021 to June 30, 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 June 30, 2021	7,079	14.6	826	88.2	847	84.4	579	85.4
As of June 30, 2020	6,177	2.8	439	29.1	459	25.5	312	28.9

Note: Comprehensive income

As of June 30, 2021: ¥558 million [(34.1%)]

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

	Quarterly earning per share		Diluted quarterly earnings per share	
	Yen	Sen	Yen	Sen
As of June 30, 2021	24.05	—	—	—
As of June 30, 2020	12.97	—	—	—

(2) Consolidated financial position

	Total assets	Net assets	Owners' equity ratio
	(Millions of yen)	(Millions of yen)	%
As of June 30, 2021	18,456	13,642	73.9
As of March 31, 2021	18,652	13,663	73.3

Reference: Owners' equity

As of June 30, 2021: ¥13,642 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 ending March 31, 2021	—	0.00	—	24.00	24.00
Fiscal year ending March 31, 2022	—	—	—	—	—
Fiscal year ending March 31, 2022 (forecast)	—	0.00	—	24.00	24.00

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)

(Full year and quarterly percentages represent changes from the previous fiscal year and the same quarter of the previous fiscal year, respectively)

	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
Second quarter (cumulative)	13,500	2.4	1,100	2.1	1,120	1.2	750	0.6	31.12
Full year	28,500	4.4	2,510	6.4	2,570	0.2	1,715	0.2	71.17

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)

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, 2021	25,113,600	As of March 31, 2021	25,113,600
As of June 30, 2021	1,015,111	As of March 31, 2021	1,015,111
As of June 30, 2021	24,098,489	As of June 30, 2021	24,098,529

Note: The number of treasury shares at the end of period includes the Company’s shares (391,200 shares as of June 30, 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 June 30, 2021: 391,200 shares; as of June 30, 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.

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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, 2021 – June 30, 2021), Japan's economy still continues 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 business that is our strategic priority. In the agile development business, we offer services for quick management decision-making, consulting services to help with system development, and educational services, based on a strengthened alliance with the U.S. company Scaled Agile, Inc. under a gold partner contract. 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 closip (company name changed from LTE-X Inc.) and other efforts.

For this consolidated cumulative first quarter, the business environment in each of our business fields has been showing solid progress since the beginning of the fiscal year, and the impact of COVID-19 has been limited by efforts to ensure smooth business continuity through thoroughly carrying out countermeasures and proactively adopting remote working. Consequently, we achieved an increase in net sales. In terms of profit, in addition to the effect of increased sales, profit growth has been achieved due to steady progress in creating high-value-added businesses based on the medium-term management plan, along with the effect of controlling sales, general and administrative expenses.

As a result, the Group's business performance for this consolidated cumulative first quarter was as follows: net sales amounted to ¥7,079 million, up 14.6% year on year; operating profit amounted to ¥826 million, up 88.2% year on year; ordinary profit amounted to ¥847 million, up 84.4% year on year; and profit attributable to owners of parent amounted to ¥579 million, up 85.4% 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 69.6% year on year to ¥865 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 6.3% year on year to ¥3,338 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 transportation sector. As a result, net sales in this field increased 15.6% year on year to ¥1,998 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 9.7% year on year to ¥876 million.

(Millions of yen)

Field	As of June 30, 2020		As of June 30, 2021		Year-on-year percentage change
	Consolidated cumulative quarter		Consolidated cumulative quarter		
	Amount	Share	Amount	Share	
IT consulting and services	510	8.3%	865	12.2%	+69.6%
IT solutions for financial services	3,140	50.8%	3,338	47.2%	+6.3%
IT solutions for public corporations	1,728	28.0%	1,998	28.2%	+15.6%
Platform solutions	798	12.9%	876	12.4%	+9.7%
Total	6,177	100.0%	7,079	100.0%	+14.6%

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 first quarter decreased by ¥196 million from the end of the previous fiscal year to ¥18,456 million.

Current assets decreased by ¥156 million from the end of the previous fiscal year to ¥14,925 million. This is mainly due to a decrease of ¥806 million in notes and accounts receivable - trade, and contract assets, despite an increase of ¥556 million in cash and deposits.

Non-current assets decreased by ¥39 million from the end of the previous fiscal year to ¥3,530 million. This is mainly due to decreases of ¥28 million in investment securities and ¥12 million in software, despite an increase of ¥8 million in deferred tax assets.

Current liabilities decreased by ¥179 million from the end of the previous fiscal year to ¥4,577 million. This is mainly due to decreases of ¥758 million in accrued expenses and of ¥348 million in income taxes payable, despite an increase of ¥670 million in short-term borrowings.

Non-current liabilities increased by ¥4 million from the end of the previous fiscal year to ¥236 million. This is mainly due to an increase of ¥5 million in provision for share-based remuneration for directors (and other officers).

Net assets decreased by ¥21 million from the end of the previous fiscal year to ¥13,642 million. This is mainly due to a decrease of ¥21 million in valuation difference on available-for-sale securities.

(3) Explanation about Information on Projections Including Consolidated Forecasts

There is no change to the financial results forecast announced in the “Consolidated Financial Report for Fiscal 2021 Ending March 31, 2022” dated May 11, 2021.

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

(Thousands of yen)

	Fiscal 2020 (as of March 31, 2021)	First Quarter of Fiscal 2021 (as of June 30, 2021)
Assets		
Current assets:		
Cash and deposits	10,077,199	10,633,815
Notes and accounts receivable - trade	4,717,813	—
Notes and accounts receivable - trade, and contract assets	—	3,911,220
Work in process	108,616	198,619
Other	178,097	181,665
Total current assets	15,081,727	14,925,320
Non-current assets:		
Property, plant and equipment	159,225	152,443
Intangible fixed assets	52,733	40,227
Investments and other assets:		
Investment securities	2,391,518	2,363,091
Shares of subsidiaries and associates	300,000	300,000
Deferred tax assets	196,122	205,024
Guarantee deposits	427,745	427,820
Other	43,607	42,362
Total investments and other assets	3,358,995	3,338,298
Total non-current assets	3,570,954	3,530,970
Total assets	18,652,681	18,456,290
Liabilities		
Current liabilities:		
Accounts payable – trade	1,003,764	1,029,444
Short-term borrowings	430,000	1,100,000
Accounts payable – other	145,811	121,248
Accrued expenses	1,827,566	1,069,500
Income taxes payable	656,489	308,429
Accrued consumption taxes	449,677	372,846
Provision for bonuses for directors (and other officers)	115,900	25,150
Other	128,104	551,004
Total current liabilities	4,757,312	4,577,623
Non-current liabilities:		
Provision for share-based remuneration for employees	56,988	58,379
Provision for share-based remuneration for directors (and other officers)	68,816	74,192
Asset retirement obligations	64,254	64,439
Other	41,699	39,567
Total non-current liabilities	231,757	236,579
Total liabilities	4,989,070	4,814,203

(Thousands of yen)

	Fiscal 2020 (as of March 31, 2021)	First Quarter of Fiscal 2021 (as of June 30, 2021)
Net assets		
Shareholders' equity:		
Share capital	970,400	970,400
Capital surplus	986,256	986,256
Retained earnings	11,062,053	11,061,837
Treasury shares	(383,744)	(383,744)
Total shareholders' equity	12,634,965	12,634,749
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,028,645	1,007,338
Total accumulated other comprehensive income	1,028,645	1,007,338
Total net assets	13,663,611	13,642,087
Total liabilities and net assets	18,652,681	18,456,290

(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 2020 (from April 1, 2020 to June 30, 2020)	Consolidated Cumulative First Quarter of Fiscal 2021 (from April 1, 2021 to June 30, 2021)
Net sales	6,177,531	7,079,083
Cost of sales	4,857,448	5,464,658
Gross profit	1,320,082	1,614,425
Selling, general and administrative expenses	880,888	787,852
Operating profit	439,194	826,572
Non-operating income:		
Interest income	96	90
Dividend income	18,756	18,612
Other	2,549	3,475
Total non-operating income	21,403	22,178
Non-operating expenses:		
Interest expenses	754	759
Other	0	0
Total non-operating expenses	754	759
Ordinary profit	459,842	847,991
Profit before income taxes	459,842	847,991
Income taxes	147,318	268,507
Profit	312,524	579,484
Profit attributable to non-controlling interests	—	—
Quarterly profit attributable to owners of parent	312,524	579,484

Quarterly Consolidated Statement of Comprehensive Income
Consolidated Cumulative First Quarter

	(Thousands of yen)	
	Consolidated Cumulative First Quarter of Fiscal 2020 (from April 1, 2020 to June 30, 2020)	Consolidated Cumulative First Quarter of Fiscal 2021 (from April 1, 2021 to June 30, 2021)
Profit	312,524	579,484
Other comprehensive income:		
Valuation difference on available-for-sale securities	534,724	(21,307)
Total other comprehensive income	534,724	(21,307)
Quarterly comprehensive income	847,249	558,177
attributable to:		
Comprehensive income attributable to owners of parent	847,249	558,177
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.

(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 up to before the start of the first quarter of fiscal 2021.

As a result, net sales increased by ¥250 million for the consolidated cumulative first quarter, cost of sales increased by ¥190 million, and operating profit, ordinary profit, and profit before income taxes each increased by ¥60 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 first 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 First Quarter of Fiscal 2021 (from April 1, 2021 to June 30, 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 information system development, and thus we have provided no statement in this section.