



# Consolidated Financial Report for the Three Months Ended June 30, 2019 [Japanese GAAP]

August 6, 2019

Listed exchange: 1st Section, Tokyo Stock Exchange  
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 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 Three Months Ended June 30, 2019 (April 1, 2019 to June 30, 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	
Three months ended June 30, 2019	6,012	7.8%	340	(14.7)%	366	(15.8)%	242	(15.4)%
Three months ended June 30, 2018	5,574	10.1%	398	58.0%	435	59.2%	286	91.5%

Note: Comprehensive income:

Three months ended June 30, 2019: ¥151 million [(37.6)%]

Three months ended June 30, 2018: ¥242 million [(9.5)%]

(Yen)

	Basic earnings per share	Diluted earnings per share
Three months ended June 30, 2019	10.07	—
Three months ended June 30, 2018	11.90	—

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 June 30, 2019	15,785	11,083	70.2%
As of March 31, 2019	16,353	11,466	70.1%

Reference: Owners' equity

As of June 30, 2019: ¥11,083 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	—				
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 changes from the corresponding period of the previous year)  
(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

a. Changes in accounting policies due to amendments of accounting standards: None

b. Changes in accounting policies other than those in (a): None

c. Changes in accounting estimates: None

d. 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 June 30, 2019	25,113,600	As of March 31, 2019	25,113,600
b. Number of treasury shares at the end of period	As of June 30, 2019	1,021,434	As of March 31, 2019	1,021,434
c. Average number of shares during the period (cumulative for the quarter)	Three months ended June 30, 2019	24,092,166	Three months ended June 30, 2018	24,089,929

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 (397,600 shares as of June 30, 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 (three months ended June 30, 2019: 397,600 shares; three months ended June 30, 2018: 399,972 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 “1. (3) Explanation on Forward-Looking Statements Including Consolidated Financial Results Forecasts,” on page 4 of the appendix to this consolidated financial report.

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## 1. Qualitative Information on Financial Results for the Three Months Ended June 30, 2019

### (1) Explanation on Operating Results

During the three months ended June 30, 2019 (from April 1, 2019 to June 30, 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 showed signs of generally firm activity against the backdrop of improving corporate earnings. 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. Consequently, the Group has steadily expanded the high value-added system integration services field centered on areas such as cloud and agile development fields.

As a result, the Group's business performance in the three months ended June 30, 2019 was as follows. With growth strategies trending firmly in each business field, net sales amounted to ¥6,012 million, up 7.8% year on year. The Group actively made investments 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 14.7% year on year to ¥340 million and ordinary profit declined 15.8% to ¥366 million. Profit attributable to owners of parent was ¥242 million, a decrease of 15.4% 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 three months ended June 30, 2019, the Group made solid progress on a project to develop a large system for an insurance business. As a result, net sales in this field increased 17.1% year on year to ¥3,389 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 three months ended June 30, 2019, the Group made steady progress on development projects for the manufacturing and distribution sectors. As a result, net sales in this field rose 2.2% year on year to ¥1,281 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 three months ended June 30, 2019, IT infrastructure construction projects for the manufacturing sector progressed steadily, but sales in the network integration field declined. As a result, net sales in this field decreased by 12.3% year on year to ¥811 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 three months ended June 30, 2019, cloud-related solutions, such as CRM, performed steadily. As a result, net sales in this field rose 5.7% year on year to ¥529 million.

(Millions of yen)

Field	Three months ended June 30, 2018		Three months ended June 30, 2019		Year-on-year percentage change
	Net sales	Share	Net sales	Share	
Application development field (finance)	2,894	51.9%	3,389	56.4%	+17.1%
Application development field (corporate)	1,253	22.5%	1,281	21.3%	+2.2%
Solution field (infrastructure and networks)	925	16.6%	811	13.5%	(12.3)%
Solution field (packages, etc.)	500	9.0%	529	8.8%	+5.7%
Total	5,574	100.0%	6,012	100.0%	+7.8%

## **(2) Explanation on Financial Position**

### *Assets, Liabilities and Net Assets*

As of June 30, 2019, total assets amounted to ¥15,785 million, a decrease of ¥567 million from March 31, 2019.

Current assets stood at ¥12,570 million, a decrease of ¥360 million from March 31, 2019. The main reason for this decrease was a decline of ¥1,503 million in notes and accounts receivable – trade, which was partly offset by increases of ¥625 million in cash and deposits and ¥493 million in work in process.

Non-current assets amounted to ¥3,215 million, a decrease of ¥207 million from March 31, 2019. The main factors behind this decrease were declines of ¥139 million in shares of subsidiaries and associates included in “Other” and ¥96 million in investment securities. These declines were partly offset by an increase of ¥34 million in deferred tax assets.

Current liabilities stood at ¥4,517 million, a decline of ¥200 million from March 31, 2019. The main reason for this decline was a decrease of ¥860 million in accrued expenses, which was partly offset by an increase of ¥696 million in short-term borrowings.

Non-current liabilities stood at ¥184 million, an increase of ¥15 million from March 31, 2019. The main reasons for the increase were increases of ¥5 million in provision for share-based remuneration for directors (and other officers) and ¥3 million in provision for share-based remuneration for employees.

Net assets amounted to ¥11,083 million, a decrease of ¥382 million from March 31, 2019. The main factors behind this decrease were declines of ¥291 million in retained earnings and ¥91 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 June 30, 2019
<b>Assets</b>		
Current assets:		
Cash and deposits	7,816,732	8,441,790
Notes and accounts receivable – trade	4,888,858	3,385,381
Work in process	66,542	559,797
Other	158,555	183,709
Total current assets	12,930,689	12,570,679
Non-current assets:		
Property, plant and equipment	163,462	172,546
Intangible fixed asset	158,031	144,031
Investments and other assets:		
Investment securities	2,197,083	2,100,346
Deferred tax assets	295,838	330,107
Guarantee deposits	429,131	429,131
Other	179,326	38,597
Total investments and other assets	3,101,379	2,898,483
Total non-current assets	3,422,873	3,215,061
Total assets	16,353,563	15,785,741

(Thousands of yen)

	As of March 31, 2019	As of June 30, 2019
<b>Liabilities</b>		
Current liabilities:		
Accounts payable – trade	1,013,939	1,026,250
Short-term borrowings	404,000	1,100,000
Accounts payable – other	351,863	387,242
Accrued expenses	1,932,411	1,071,978
Income taxes payable	514,129	145,322
Accrued consumption taxes	254,566	226,466
Provision for bonuses for directors (and other officers)	124,100	25,125
Provision for loss on order received	22,874	2,578
Other	99,961	532,488
Total current liabilities	<u>4,717,846</u>	<u>4,517,451</u>
Non-current liabilities:		
Provision for share-based remuneration for employees	28,589	32,320
Provision for share-based remuneration for directors (and other officers)	35,736	40,986
Asset retirement obligations	62,801	62,981
Other	42,312	48,161
Total non-current liabilities	<u>169,438</u>	<u>184,449</u>
Total liabilities	<u>4,887,285</u>	<u>4,701,901</u>
<b>Net assets</b>		
Shareholders' equity:		
Share capital	970,400	970,400
Capital surplus	986,228	986,228
Retained earnings	8,970,723	8,679,657
Treasury shares	(387,680)	(387,680)
Total shareholders' equity	<u>10,539,671</u>	<u>10,248,605</u>
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	926,606	835,234
Total accumulated other comprehensive income	<u>926,606</u>	<u>835,234</u>
Total net assets	<u>11,466,277</u>	<u>11,083,839</u>
Total liabilities and net assets	<u>16,353,563</u>	<u>15,785,741</u>

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

For the three months ended June 30

(Thousands of yen)

	Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)	Three months ended June 30, 2019 (from April 1, 2019 to June 30, 2019)
Net sales	5,574,584	6,012,061
Cost of sales	4,370,174	4,814,254
Gross profit	1,204,409	1,197,807
Selling, general and administrative expenses	805,471	857,536
Operating profit	398,937	340,271
Non-operating income:		
Interest income	98	83
Dividend income	21,362	22,659
Gain on investments in partnerships	14,503	3,019
Other	1,039	1,622
Total non-operating income	37,004	27,384
Non-operating expenses:		
Interest expenses	647	703
Other	190	465
Total non-operating expenses	837	1,168
Ordinary profit	435,104	366,486
Profit before income taxes	435,104	366,486
Income taxes	148,380	123,953
Profit	286,724	242,533
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	286,724	242,533

**Consolidated Statements of Comprehensive Income**

For the three months ended June 30

	(Thousands of yen)	
	Three months ended June 30, 2018 (from April 1, 2018 to June 30, 2018)	Three months ended June 30, 2019 (from April 1, 2019 to June 30, 2019)
Profit	286,724	242,533
Other comprehensive income:		
Valuation difference on available-for-sale securities	(44,339)	(91,371)
Total other comprehensive income	(44,339)	(91,371)
Comprehensive income	242,384	151,161
Comprehensive income attributable to:		
Owners of parent	242,384	151,161
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 three months ended June 30, 2019, and then multiplying profit before income taxes by the estimated effective tax rate.

(Segment Information and Related Matters)

*Three months ended June 30, 2019 (from April 1, 2019 to June 30, 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.