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April 28, 2020

Consolidated Financial Results for the First Quarter of Fiscal Year Ending December 31, 2020 (Japanese GAAP)

Name of Listed Company: Information Services International-Dentsu, Ltd.
Listed Exchange: Tokyo
Code Number: 4812
URL: <https://www.isid.co.jp/english/index.html>
Representative: Ryoichi Nawa, President, CEO and COO
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Date of scheduled filing of securities report: May 12, 2020

Date of scheduled payment of dividends: –

Quarterly earnings supplementary explanatory documents: Yes

Quarterly earnings presentation: No

(Amounts less than one million yen are rounded down.)

1. Consolidated Business Performance for the First Quarter of FY2020 (from January 1, 2020 to March 31, 2020)

(1) Consolidated Operating Results (Cumulative)

Percentages indicate year-on-year increase/(decrease)

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss)*	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
First Quarter of FY2020	26,366	14.5	3,294	28.8	3,252	26.6	2,060	18.1
First Quarter of FY2019	23,035	8.6	2,558	15.4	2,567	14.5	1,743	13.3

* Net income attributable to parent company's shareholders

(Note) Comprehensive income: First Quarter of FY2020: 1,987million yen (up11.7%); First Quarter of FY2019: 1,779 million yen (up24.1%)

	Net income (loss) per share	Net income per share after dilution
	(yen)	(yen)
First Quarter of FY2020	63.23	–
First Quarter of FY2019	53.52	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	(million yen)	(million yen)	(%)
As of March 31, 2020	88,228	55,496	62.9
As of December 31, 2019	87,305	54,882	62.8

(Reference) Total shareholders' equity: As of March 31, 2020: 55,476 million yen; As of December 31, 2019: 54,858 million yen

2. Dividends

Record date	Dividends per share				
	End of first quarter	End of second quarter	End of third quarter	Fiscal year-end	Full year
	(yen)	(yen)	(yen)	(yen)	(yen)
FY2019	–	35.00	–	42.00	77.00
FY2020	–				
FY2020 (forecast)		43.00	–	43.00	86.00

(Note) Revision to the dividend forecasts from the latest announcement: No

3. Consolidated Forecasts for FY2020 (from January 1, 2020 to December 31, 2020)

Percentages indicate year-on-year increase/(decrease)

	Net sales		Operating income		Ordinary income		Net income *		EPS
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(yen)
First half	52,300	6.3	5,300	1.8	5,164	0.2	3,450	1.1	105.89
FY2020	105,000	4.3	10,500	4.2	10,217	5.9	6,911	11.0	212.11

*Net income attributable to parent company's shareholders

(Note) Revision to the consolidated forecasts from the latest announcement: No

4. Other Items

(1) Changes in the scope of consolidation for significant subsidiaries during three months (Changes in specified subsidiaries resulting in change in the scope of consolidation): None

(2) Application of special accounting practices in the preparation of the quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates and restatements:

i. Changes in accounting policies in accordance with revision of accounting standards: None

ii. Changes in accounting policies other than 1) above: None

iii. Changes in accounting estimate: None

iv. Restatements: None

(4) Issued and outstanding common stock

i. Number of shares issued and outstanding at the end of the period, including treasury stock

March 31, 2020:	32,591,240 shares	March 31, 2019:	32,591,240 shares
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ii. Number of treasury stock at the end of the period

March 31, 2020:	8,869 shares	March 31, 2019:	8,869 shares
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iii. Average number of shares outstanding for each period

Three months ended March 31, 2020	32,582,371 shares	Three months ended March 31, 2019:	32,582,577 shares
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This quarterly financial report is outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act.

Explanation regarding the appropriate use of forecasts of business results

Forecast figures are projections based on information available at the time of release, and are not intended as a guarantee that the Company will achieve these targets. Actual results may differ significantly from the above forecasts as a result of changes in the business environment and other factors.

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I. Qualitative Information on the Consolidated Financial Results for the Subject Period

1. Explanation of Business Results

(Millions of yen)

Business segment	First quarter of FY2019 (cumulative)	First quarter of FY2020 (cumulative)	YoY	
			Variance	% change
Net sales	23,035	26,366	3,331	14.5%
Operating income	2,558	3,294	736	28.8%
Operating margin	11.1%	12.5%	1.4p	—
Ordinary income	2,567	3,252	685	26.6%
Profit attributable to owners of parent	1,743	2,060	317	18.1%

In the first quarter of the fiscal year under review (from January 1, 2020 to March 31, 2020), although the Japanese economy started on a moderate recovery trend thanks to improvements in employment and the income environment, the economy deteriorated rapidly due to the consequent influence of worldwide outbreak of the Coronavirus Disease 2019 (COVID-19). As for the outlook for the economy, the timing of the infection convergence is unpredictable, and the risk of a further downturn is increasing. Meanwhile, in the information service industry, the business environment remained firm in the first quarter of the fiscal year under review, as corporate IT investment demand for the creation of innovative services and the reform of business processes continued from the previous fiscal year.

Amid such conditions, the ISID Group are advancing the medium-term management plan “ISID X(Cross) Innovation 2021,” which ends in the fiscal year ending December 2021. Under the three basic policies of “core business evolution”, “the new business creation” and “the business foundation innovations,” we aim to achieve consolidated net sales of ¥110 billion, operating income of ¥11 billion, operating margin of 10.0% and ROE of 12.5% by the fiscal year ending December 2021. In the fiscal year under review, the second year of the medium-term management plan, we will work to further create new businesses by reinforcing existing businesses and promoting X Innovation while actively strengthening our personnel structure, investing in R&D and creating a comfortable working environment. Through these efforts, we will work to strengthen the foundations for future growth.

In the first quarter of the fiscal year under review, net sales were ¥26,366 million (up 14.5% year on year), operating income was ¥3,294 million (up 28.8% year on year), ordinary income was ¥3,252 million (up 26.6% year on year) and profit attributable to owners of parent was ¥2,060 million (up 18.1% year on year).

Net sales increased year on year in all business segments, reflecting firm demand for IT-related investment by companies and public institutions. In terms of profits, in addition to the effects of the higher sales, the improvement in the gross margin led to a significant increase in year on year operating income.

Net sales, operating income and status of business operations by business segment are as follows:

Net Sales and Operating Income by Business Segment

(Millions of yen)

Business segment	First quarter of FY2019 (cumulative)			First quarter of FY2020 (cumulative)			Variance	
	Net sales	Operating income	Operating margin	Net sales	Operating income	Operating margin	Net sales	Operating income
Financial Solutions	5,778	422	7.3%	5,990	503	8.4%	212	81
Business Solutions	4,489	507	11.3%	5,249	733	14.0%	760	226
Manufacturing Solutions	7,667	940	12.3%	8,107	793	9.8%	440	(147)
Communication IT	5,099	688	13.5%	7,018	1,263	18.0%	1,919	575
Total	23,035	2,558	11.1%	26,366	3,294	12.5%	3,331	736

Status of Business Operations by Business Segment

Financial Solutions

The main business of this segment is providing IT solutions that support various financial operations at financial institutions and other companies.

In the first quarter of the fiscal year under review, both sales and profits increased due to expanded system development projects for government-affiliated financial institutions and general operating companies that enter the financial services business.

Business Solutions

The main business of this segment is providing IT solutions for core systems and the business and human resources management fields.

In the first quarter of the fiscal year under review, both sales and profits increased due to an expansion of licensing sales and installation of the human resource management solution POSITIVE, the accounting solution Ci*X and the consolidated accounting solution STRAVIS, as a result of continuing demand for system upgrades triggered by corporate work style reforms, the end of the support period and aging of existing systems.

Manufacturing Solutions

The main business of this segment is providing IT solutions for the entire product lifecycle, from product development and production, to sales and maintenance in the manufacturing industry.

In the first quarter of the fiscal year under review, sales increased due to an expansion of licensing sales and installation of software products for PLM*1 and CAE*2, mainly for the automobile industry. Profits declined mainly due to a decrease in sales of highly profitable consulting services.

*1 PLM: Product Lifecycle Management

*2 CAE: Computer Aided Engineering

Communication IT

The main business of this segment is providing IT solutions for core systems at the Dentsu Group*3, as well as in collaboration with the Dentsu Group.

In the first quarter of the fiscal year under review, both sales and profits increased due to steady growth in large-scale system renewal projects in the Dentsu Group's core system field and an expansion of collaborative businesses with Dentsu Group, mainly for the public sector.

*3 Dentsu Inc. changed its name to Dentsu Group Inc. on January 1, 2020. In this report, "Dentsu Group" refers, in principle, to the entire corporate group.

2. Explanation of Financial Position

Status of Assets, Liabilities and Net Assets

(1) Assets

At the end of the first quarter of the fiscal year under review (as of March 31, 2020), total assets amounted to ¥88,228 million, up ¥923 million from the end of the previous fiscal year. Current assets fell ¥933 million from the end of the previous fiscal year to ¥68,795 million due to a decrease in notes and accounts receivable-trade resulting from progress in the collection of trade receivables at the end of the previous fiscal year, despite an increase in advance payments due to the renewal of contracts for prepaid rental fees and maintenance fees for customer services. Non-current assets rose ¥1,857 million from the end of the previous fiscal year to ¥19,433 million. This change was mainly the result of increases in acquisition of intangible lease assets (software) for customer services, additional investment in an affiliated company and an increase in deferred tax assets.

(2) Liabilities

At the end of the first quarter of the fiscal year under review, total liabilities amounted to ¥32,731 million, up ¥308 million from the end of the previous fiscal year. Current liabilities fell ¥383 million from the end of the previous fiscal year to ¥29,073 million, primarily due to the payment of income and consumption taxes. Non-current liabilities rose ¥692 million from the end of the previous fiscal year to ¥3,658 million, due to an increase in lease obligations associated with an increase in intangible lease assets and an increase in asset retirement obligations associated with the lease of a new office.

(3) Net assets

At the end of the first quarter of the fiscal year under review, total net assets amounted to ¥55,496 million, up ¥613 million from the end of the previous fiscal year. This change was mainly due to an increase in retained earnings resulting from the recording of profit attributable to owners of parent, despite the payment of dividends from surplus.

3. Explanation of Consolidated Financial Results Forecasts

Our forecasts for the first half and the full fiscal year may be affected by the spread of the COVID-19. However, as it is difficult to calculate future effects at this time, the forecast announced on February 10, 2020 is retained.

We will promptly disclose any necessary revisions to forecasts in the light of affairs, business trends and other factors.

Note: Forecast figures are projections based on information available at the time of release and are not intended as a guarantee that the Company will achieve these targets. Actual results may differ significantly from the above forecasts as a result of changes in the business environment and other factors.

II. Consolidated Financial Statement

1. Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	3,497	2,727
Notes and accounts receivable - trade	20,263	18,829
Merchandise and finished goods	152	136
Work in process	2,332	2,227
Raw materials and supplies	23	25
Advance payments - trade	8,634	9,287
Deposits paid	33,666	34,414
Other	1,169	1,157
Allowance for doubtful accounts	(11)	(10)
Total current assets	69,728	68,795
Non-current assets		
Property, plant and equipment	4,574	4,546
Intangible assets	3,233	4,002
Investments and other assets		
Investments and other assets	9,952	11,072
Allowance for doubtful accounts	(183)	(188)
Total investments and other assets	9,769	10,884
Total non-current assets	17,576	19,433
Total assets	87,305	88,228
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,668	8,350
Income taxes payable	1,781	1,551
Advances received	10,097	9,428
Provision for loss on order received	575	465
Other	9,334	9,278
Total current liabilities	29,456	29,073
Non-current liabilities		
Retirement benefit liability	34	33
Asset retirement obligations	946	1,057
Other	1,986	2,567
Total non-current liabilities	2,966	3,658
Total liabilities	32,423	32,731

(Millions of yen)

	As of December 31, 2019	As of March 31, 2020
Net assets		
Shareholders' equity		
Share capital	8,180	8,180
Capital surplus	15,285	15,285
Retained earnings	31,238	31,930
Treasury shares	(30)	(30)
Total shareholders' equity	54,675	55,366
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	68	77
Foreign currency translation adjustment	115	33
Total accumulated other comprehensive income	183	110
Non-controlling interests	23	19
Total net assets	54,882	55,496
Total liabilities and net assets	87,305	88,228

2. Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

[Consolidated Statements of Income]

(Millions of yen)

	Three months ended March 31, 2019	Three months ended March 31, 2020
Net sales	23,035	26,366
Cost of sales	15,394	17,388
Gross profit	7,641	8,978
Selling, general and administrative expenses	5,082	5,683
Operating profit	2,558	3,294
Non-operating income		
Interest and dividend income	8	8
Dividend income of insurance	62	56
Miscellaneous income	4	4
Total non-operating income	75	69
Non-operating expenses		
Interest expenses	7	10
Share of loss of entities accounted for using equity method	27	66
Loss on investments in investment partnerships	13	5
Foreign exchange losses	17	23
Miscellaneous loss	0	5
Total non-operating expenses	66	111
Ordinary profit	2,567	3,252
Extraordinary losses		
Loss on valuation of investment securities	-	118
Total extraordinary losses	-	118
Profit before income taxes	2,567	3,133
Income taxes - current	1,131	1,530
Income taxes - deferred	(312)	(458)
Total income taxes	819	1,072
Profit	1,748	2,060
Profit attributable to non-controlling interests	4	0
Profit attributable to owners of parent	1,743	2,060

	Three months ended March 31, 2019	Three months ended March 31, 2020
Profit	1,748	2,060
Other comprehensive income		
Valuation difference on available-for-sale securities	6	8
Foreign currency translation adjustment	24	(82)
Total other comprehensive income	30	(73)
Comprehensive income	1,779	1,987
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,774	1,986
Comprehensive income attributable to non-controlling interests	4	0

3. Notes on Quarterly Consolidated Financial Statement

(Notes regarding Assumption of a Going Concern)

Not applicable

(Notes on Significant Changes in Shareholders' Equity)

Not applicable

(Application of Special Accounting Practices in the Preparation of the Consolidated Financial Statement)

Not applicable

(Changes in Accounting Policies)

Not applicable

(Changes in Accounting Estimates)

Not applicable

(Additional Information)

Not applicable

■ Segment Information

Sales and Income (Loss) by Reportable Segment

1. The first quarter cumulative period of FY2019 (from January 1, 2019 to March 31, 2019)

(Millions of yen)

	Business segment				
	Financial Solutions	Business Solutions	Manufacturing Solutions	Communication IT	Total
Net sales					
Sales to customers	5,778	4,489	7,667	5,099	23,035
Inter-segment sales and transfers	—	—	—	—	—
Total	5,778	4,489	7,667	5,099	23,035
Segment income	422	507	940	688	2,558

Note: Total values for segment income match those for the operating income on the “Consolidated Statements of Income.”

2. The first quarter cumulative period of FY2020 (from January 1, 2020 to March 31, 2020)

(Millions of yen)

	Business segment				
	Financial Solutions	Business Solutions	Manufacturing Solutions	Communication IT	Total
Net sales					
Sales to customers	5,990	5,249	8,107	7,018	26,366
Inter-segment sales and transfers	—	—	—	—	—
Total	5,990	5,249	8,107	7,018	26,366
Segment income	503	733	793	1,263	3,294

Notes: 1. Total values for segment income match those for the operating income on the “Consolidated Statements of Income.”