

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

November 4, 2021

Listed exchange: 1st Section, Tokyo Stock Exchange
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 Scheduled date of filing quarterly report: November 5, 2021
 Scheduled date of dividend payment: —
 Preparation of explanatory materials for quarterly financial results: Yes
 Holding of a briefing on quarterly financial results: Yes (video streaming)

(Amounts are rounded to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of Fiscal 2021 Ending March 31, 2022 (April 1, 2021 to September 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 September 30, 2021	14,661	11.2	1,588	47.5	1,647	48.8	1,117	49.9
As of September 30, 2020	13,186	0.4	1,077	5.6	1,107	6.6	745	8.5

Note: Comprehensive income

As of September 30, 2021: ¥1,195 million [(14.5%)]

As of September 30, 2020: ¥1,399 million [147.9%]

	Quarterly earning per share		Diluted quarterly earnings per share	
	Yen	Sen	Yen	Sen
As of September 30, 2021	46.39	—	—	—
As of September 30, 2020	30.94	—	—	—

(2) Consolidated financial position

	Total assets	Net assets	Owners' equity ratio
	(Millions of yen)	(Millions of yen)	%
As of September 30, 2021	19,137	14,293	74.7
As of March 31, 2021	18,652	13,663	73.3

Reference: Owners' equity

As of September 30, 2021: ¥14,293 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 “(4) Notes on the Quarterly Consolidated Financial Statements” under “2. Quarterly Consolidated Financial Statements and Primary Notes” on Page 10 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 “(4) Notes on the Quarterly Consolidated Financial Statements (Changes in Accounting Policies)” under “2. Quarterly Consolidated Financial Statements and Primary Notes” on Page 10 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 September 30, 2021	25,113,600	As of March 31, 2021	25,113,600
As of September 30, 2021	1,000,159	As of March 31, 2021	1,015,111
As of September 30, 2021	24,095,240	As of September 30, 2020	24,098,542

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 September 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 September 30, 2021: 385,298 shares; as of September 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 second quarter (April 1, 2021 – September 30, 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.

For this consolidated cumulative second quarter, the impact of COVID-19 on our businesses has been limited by efforts to ensure smooth business continuity through thoroughly carrying out countermeasures 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 preparing to make proactive investments for further business expansion in the future.

As a result, the Group's business performance for this consolidated cumulative second quarter was as follows: Net sales amounted to ¥14,661 million, up 11.2% year on year; operating profit amounted to ¥1,588 million, up 47.5% year on year; ordinary profit amounted to ¥1,647 million, up 48.8% year on year; and profit attributable to owners of parent amounted to ¥1,117 million, up 49.9% 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 “(4) 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 including business intelligence (BI)/data warehousing (DWH) and enterprise resource planning (ERP)/customer relationship management (CRM).

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 69.5% year on year to ¥1,891 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 insurance-related systems. As a result, net sales in this field increased 4.5% year on year to ¥6,849 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, telecommunications, and energy sectors. As a result, net sales in this field increased 6.1% year on year to ¥4,047 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 10.3% year on year to ¥1,873 million.

(Millions of yen)

Field	As of September 30, 2020		As of September 30, 2021		Year-on-year percentage change
	Consolidated cumulative quarter		Consolidated cumulative quarter		
	Amount	Share	Amount	Share	
IT consulting and services	1,115	8.5%	1,891	12.9%	+69.5%
IT solutions for financial services	6,555	49.7%	6,849	46.7%	+4.5%
IT solutions for public corporations	3,816	28.9%	4,047	27.6%	+6.1%
Platform solutions	1,698	12.9%	1,873	12.8%	+10.3%
Total	13,186	100.0%	14,661	100.0%	+11.2%

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 second quarter increased by ¥484 million from the end of the previous fiscal year to ¥19,137 million.

Current assets increased by ¥394 million from the end of the previous fiscal year to ¥15,475 million. This is mainly due to increases of ¥213 million in cash and deposits, of ¥90 million in notes and accounts receivable - trade, and contract assets, and of ¥80 million in work in progress.

Non-current assets increased by ¥90 million from the end of the previous fiscal year to ¥3,661 million. This is mainly due to an increase of ¥137 million in investment securities, despite a decrease of ¥35 million in deferred tax assets.

Current liabilities decreased by ¥151 million from the end of the previous fiscal year to ¥4,605 million. This is mainly due to decreases of ¥154 million in accrued consumption taxes and of ¥103 million in accrued expenses, despite an increase of ¥124 million in short-term borrowings.

Non-current liabilities increased by ¥6 million from the end of the previous fiscal year to ¥237 million. This is mainly due to an increase of ¥4 million in provision for share-based remuneration for employees.

Net assets increased by ¥629 million from the end of the previous fiscal year to ¥14,293 million. This is mainly due to increases of ¥78 million in valuation difference on available-for-sale securities and of ¥542 million in retained earnings.

Cash flow conditions

The balance of cash and cash equivalents at the end of this consolidated accounting second quarter increased by ¥213 million from the end of the previous fiscal year to ¥10,290 million (¥8,919 million in the same period of the previous fiscal year). Cash flow conditions during this consolidated cumulative second quarter and their factors are as stated below:

(Cash flows from operating activities)

While income taxes paid was ¥580 million, a decrease in accrued consumption taxes was ¥153 million, and a decrease in accrued expenses was ¥103 million, profit before income taxes was ¥1,647 million. As a result, cash flows from operating activities amounted to ¥680 million (¥1,116 million in the same period of the previous fiscal year).

(Cash flows from investing activities)

While interest and dividend income received was ¥21 million, payments for guarantee deposits totaled ¥17 million. As a result, cash flows from investing activities amounted to ¥0 million (negative ¥110 million in the same period of the previous fiscal year).

(Cash flows from financing activities)

While a net increase in short-term borrowings was ¥124 million, dividends paid totaled ¥587 million. As a result, cash flows from financing activities amounted to negative ¥468 million (negative ¥466 million in the same period of the previous fiscal year).

(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)	Second Quarter of Fiscal 2021 (as of September 30, 2021)
Assets		
Current assets:		
Cash and deposits	10,077,199	10,290,529
Notes and accounts receivable - trade	4,717,813	—
Notes and accounts receivable - trade, and contract assets	—	4,808,146
Work in process	108,616	189,491
Other	178,097	187,649
Total current assets	15,081,727	15,475,816
Non-current assets:		
Property, plant and equipment	159,225	156,723
Intangible fixed assets	52,733	27,627
Investments and other assets:		
Investment securities	2,391,518	2,529,293
Shares of subsidiaries and associates	300,000	300,000
Deferred tax assets	196,122	160,876
Guarantee deposits	427,745	445,227
Other	43,607	41,456
Total investments and other assets	3,358,995	3,476,854
Total non-current assets	3,570,954	3,661,204
Total assets	18,652,681	19,137,021
Liabilities		
Current liabilities:		
Accounts payable – trade	1,003,764	1,102,953
Short-term borrowings	430,000	554,000
Accounts payable – other	145,811	101,419
Accrued expenses	1,827,566	1,723,787
Income taxes payable	656,489	598,233
Accrued consumption taxes	449,677	295,131
Provision for bonuses for directors (and other officers)	115,900	50,300
Other	128,104	179,746
Total current liabilities	4,757,312	4,605,572
Non-current liabilities:		
Provision for share-based remuneration for employees	56,988	61,668
Provision for share-based remuneration for directors (and other officers)	68,816	68,310
Asset retirement obligations	64,254	64,624
Other	41,699	43,273
Total non-current liabilities	231,757	237,877
Total liabilities	4,989,070	4,843,449

(Thousands of yen)

	Fiscal 2020 (as of March 31, 2021)	Second Quarter of Fiscal 2021 (as of September 30, 2021)
Net assets		
Shareholders' equity:		
Share capital	970,400	970,400
Capital surplus	986,256	986,256
Retained earnings	11,062,053	11,604,487
Treasury shares	(383,744)	(374,322)
Total shareholders' equity	12,634,965	13,186,821
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,028,645	1,106,750
Total accumulated other comprehensive income	1,028,645	1,106,750
Total net assets	13,663,611	14,293,571
Total liabilities and net assets	18,652,681	19,137,021

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

(Thousands of yen)

	Consolidated Cumulative Second Quarter of Fiscal 2020 (from April 1, 2020 to September 30, 2020)	Consolidated Cumulative Second Quarter of Fiscal 2021 (from April 1, 2021 to September 30, 2021)
Net sales	13,186,077	14,661,122
Cost of sales	10,498,793	11,570,221
Gross profit	2,687,283	3,090,901
Selling, general and administrative expenses	1,610,210	1,502,615
Operating profit	1,077,073	1,588,286
Non-operating income:		
Interest income	103	98
Dividend income	18,936	20,982
Subsidy income	20,505	—
Gain on investments in partnerships	—	26,903
Other	6,865	12,788
Total non-operating income	46,412	60,773
Non-operating expenses:		
Interest expenses	1,761	1,823
Loss on investments in partnerships	14,674	—
Other	—	0
Total non-operating expenses	16,435	1,823
Ordinary profit	1,107,049	1,647,236
Profit before income taxes	1,107,049	1,647,236
Income taxes	361,359	529,572
Profit	745,690	1,117,664
Profit attributable to non-controlling interests	—	—
Quarterly profit attributable to owners of parent	745,690	1,117,664

Quarterly Consolidated Statement of Comprehensive Income
Consolidated Cumulative Second Quarter

(Thousands of yen)

	Consolidated Cumulative Second Quarter of Fiscal 2020 (from April 1, 2020 to September 30, 2020)	Consolidated Cumulative Second Quarter of Fiscal 2021 (from April 1, 2021 to September 30, 2021)
Profit	745,690	1,117,664
Other comprehensive income:		
Valuation difference on available-for-sale securities	653,575	78,104
Total other comprehensive income	653,575	78,104
Quarterly comprehensive income	1,399,265	1,195,768
attributable to:		
Comprehensive income attributable to owners of parent	1,399,265	1,195,768
Comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	Consolidated Cumulative Second Quarter of Fiscal 2020 (from April 1, 2020 to September 30, 2020)	Consolidated Cumulative Second Quarter of Fiscal 2021 (from April 1, 2021 to September 30, 2021)
Cash flows from operating activities		
Profit before income taxes	1,107,049	1,647,236
Depreciation and amortization	41,584	42,054
Increase (decrease) in provision for bonuses for directors (and other officers)	(55,950)	(65,600)
Increase (decrease) in provision for share-based remuneration for directors (and other officers)	9,108	8,981
Increase (decrease) in provision for share-based remuneration for employees	5,565	4,680
Interest and dividend income	(19,040)	(21,081)
Interest expenses	1,761	1,823
Loss (gain) on investments in partnerships	14,674	(26,903)
Decrease (increase) in notes and accounts receivable – trade	910,893	(90,332)
Decrease (increase) in inventories	(146,635)	(80,874)
Increase (decrease) in notes and accounts payable – trade	(146,029)	99,189
Increase (decrease) in accounts payable – other	(74,742)	(45,978)
Increase (decrease) in accrued expenses	(228,308)	(103,778)
Increase (decrease) in accrued consumption taxes	(91,050)	(153,883)
Other	63,397	45,335
Subtotal	1,392,277	1,260,867
Income taxes paid	(275,420)	(580,098)
Cash flows from operating activities	1,116,857	680,769
Cash flows from investing activities		
Purchase of property, plant and equipment	(24,275)	(7,457)
Purchase of intangible fixed assets	(287)	(364)
Purchase of investment securities	(105,969)	(6,144)
Proceeds of dividend distributions from partnerships	7,186	8,672
Payments of loans receivable from employees	(2,900)	(500)
Collection of loans receivable from employees	2,997	2,806
Payments for guarantee deposits	(6,688)	(17,481)
Interest and dividend income received	19,040	21,081
Cash flows from investing activities	(110,896)	610
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	124,000	124,000
Proceeds from sales of treasury shares	36	—
Interest expenses	(1,785)	(1,823)
Dividend payment	(587,753)	(587,752)
Repayments of lease obligations	(1,069)	(2,409)
Other	—	(65)
Cash flows from financing activities	(466,572)	(468,050)
Net increase (decrease) in cash and cash equivalents	539,389	213,330
Balance of cash and cash equivalents at the beginning of the period	8,379,818	10,077,199
Balance of cash and cash equivalents at the end of the quarter	8,919,207	10,290,529

(4) 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 second 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 ¥150 million for the consolidated cumulative second quarter, cost of sales increased by ¥131 million, and operating profit, ordinary profit, and profit before income taxes each increased by ¥19 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 second 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 Second Quarter of Fiscal 2021 (from April 1, 2021 to September 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.