

Consolidated Financial Report for the Second Quarter of Fiscal 2022 Ending March 31, 2023
[Japanese GAAP]

November 8, 2022

Listing: Tokyo Stock Exchange
Company name: **TDC SOFT Inc.**
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Scheduled date of filing quarterly report: November 9, 2022
Scheduled date of dividend payment: December 5, 2022
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 2022 Ending March 31, 2023 (April 1, 2022 to September 30, 2022)

(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, 2022	16,793	14.5	1,851	16.6	1,922	16.7	1,301	16.5
As of September 30, 2021	14,661	11.2	1,588	47.5	1,647	48.8	1,117	49.9

Note: Comprehensive income

As of September 30, 2022: ¥1,308 million [9.4%]

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

	Quarterly earning per share		Diluted quarterly earnings per share	
	Yen	Sen	Yen	Sen
As of September 30, 2022	54.48	—	—	—
As of September 30, 2021	46.39	—	—	—

(2) Consolidated financial position

	Total assets	Net assets	Owners' equity ratio
	(Millions of yen)	(Millions of yen)	%
As of September 30, 2022	20,724	15,499	74.8
As of March 31, 2022	21,072	15,255	72.4

Reference: Owners' equity

As of September 30, 2022: ¥15,499 million

As of March 31, 2022: ¥15,255 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	Sen
Fiscal year ended March 31, 2022	—	0.00	—	30.00	30.00	—
Fiscal year ending March 31, 2023	—	15.00	—	—	—	—
Fiscal year ending March 31, 2023 (forecast)	—	—	—	30.00	45.00	—

Notes:

1. Revisions to the most recently announced dividend forecast: None

2. Breakdown of the end of second quarter dividend for fiscal year ending March 31, 2023:

Commemorative dividend of 15.00 yen (commemorating the 60th anniversary of the Company's founding)

3. Consolidated Financial Results Forecasts for the Fiscal Year Ending March 31, 2023 (April 1, 2022 to March 31, 2023)

(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	34,000	9.9	3,260	9.9	3,355	8.9	2,270	9.7	94.75

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 (Application of Special Accounting Methods for Presenting 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)

a. Number of shares outstanding at the end of period (including treasury stock)

As of September 30, 2022	25,113,600	As of March 31, 2022	25,113,600
As of September 30, 2022	1,278,359	As of March 31, 2022	1,000,159
As of September 30, 2022	23,898,644	As of September 30, 2021	24,095,240

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 (369,400 shares as of September 30, 2022; 376,200 shares as of March 31, 2022) 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, 2022: 371,407 shares; as of September 30, 2021: 385,298 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.

○ **Table of Contents - Appendix**

1. Qualitative Information about the Quarterly Financial Results	2
(1) Explanation about Operating Results	2
(2) Explanation about Financial Status	4
(3) Explanation about Information on Projections Including Consolidated Forecasts.....	4
2. Quarterly Consolidated Financial Statements and Primary Notes	5
(1) Quarterly Consolidated Balance Sheet.....	5
(2) Quarterly Consolidated Statement of Income and Quarterly Consolidated Statement of Comprehensive Income	7
(3) Quarterly Consolidated Statement of Cash Flows.....	9
(4) 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
(Changes in Accounting Policies).....	10
(Segment Information and Related Matters).....	10

1. Qualitative Information about the Quarterly Financial Results

(1) Explanation about Operating Results

During this consolidated cumulative second quarter (April 1, 2022 – September 30, 2022), Japan's economy still continued to face tough times due to the impacts of the COVID-19 pandemic, uncertainties over the prolonged situation between Russia and Ukraine, the depreciation of the yen, fluctuations in financial and capital markets, and global inflation, which have 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, demand related to digital transformation (“DX”) for strengthening businesses and promoting transformation has been increasing.

Operating under such a climate, the Group has formulated its medium-term management plan “Shift to the Smart SI Plus” for the period from April 2022 to March 2025. This medium-term management plan maintains the basic concept of providing high value-added IT services that meet the potential needs of the market and society from the previous plan, and adopts a vision of evolving into a next-generation system integration (“SI”) business geared toward new trends in digital technology.

To make this vision a reality, we have three 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.

Next 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.

Last is to “expand our business domain.” We are promoting measures to broaden our scope in our sales business, which sells products, services, etc. that meet a diverse array of customers' IT needs, in our consulting business, which supports customers in formulating strategies for their digital transformation, and in providing managed services that integrate all aspects of IT solutions, starting from development through to operation and maintenance.

Specifically, we will continue to proactively promote investment in our agile-related business and security-related business, which we have designated as key strategic fields, as well as related elemental technologies to expand our next-generation SI business while also pursuing an expansion of our business domain through managed services. In addition, we have strengthened our efforts to expand our business domain by enhancing our marketing and product sales functions to bolster our service and product sales business, and by establishing a new department dedicated to promoting our consulting services that use the Scaled Agile Framework® (“SAFe®”) through a gold partner contract with the U.S. company Scaled Agile, Inc. as well as our consulting services that meet the digital needs of our customers, from developing IT strategies to utilizing digital technologies.

For this consolidated cumulative second quarter, each business field has made solid progress and we achieved an increase in net sales as a result of efforts to ensure smooth business continuity through thoroughly carrying out countermeasures against infectious diseases and proactively adopting remote working. This increase in sales led to greater profit despite an increase in SG&A expenses from moving forward with proactive investment to further expand our business in the future given the steady business environment.

As a result, the Group's business performance for this consolidated cumulative second quarter was as follows: Net sales amounted to ¥16,793 million, up 14.5% year on year; operating profit amounted to ¥1,851 million, up 16.6% year on year; ordinary profit amounted to ¥1,922 million, up 16.7% year on year; and quarterly profit attributable to owners of parent amounted to ¥1,301 million, up 16.5% year on year.

The Company welcomed its 60th anniversary in October 2022, and we will continue to strive to achieve sustainable growth.

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 systemization planning to facilitate customers' DX, technical 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 BI(Note 1)/DWH(Note 2) and ERP(Note 3)/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 33.9% year on year to ¥2,531 million.

<IT solutions for financial services>

In the field of IT solutions for financial services, we offer integrated IT solutions for finance, including systemization planning, design, development, and maintenance. During this quarter, the Group made solid progress on development projects for systems related to insurance and credit. As a result, net sales in this field increased 13.4% year on year to ¥7,766 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 systemization planning, design, development, and maintenance. During this quarter, the Group made solid progress on development projects for the transportation and automobile manufacturing sectors. As a result, net sales in this field increased 13.4% year on year to ¥4,591 million.

<Platform solutions>

In the field of platform solutions, we offer services including the environmental design and construction of IT infrastructure, along with operational support, network product development, and network integration. During this quarter, despite failing to secure an order for a large-scale project at the beginning of the period, the Group made solid progress on projects to construct cloud-related infrastructure. As a result, net sales in this field increased 1.6% year on year to ¥1,903 million.

(Millions of yen)

Field	As of September 30, 2021		As of September 30, 2022		Year-on-year percentage change
	Consolidated cumulative quarter		Consolidated cumulative quarter		
	Amount	Share	Amount	Share	
IT consulting and services	1,891	12.9%	2,531	15.1%	+33.9%
IT solutions for financial services	6,849	46.7%	7,766	46.2%	+13.4%
IT solutions for public corporations	4,047	27.6%	4,591	27.3%	+13.4%
Platform solutions	1,873	12.8%	1,903	11.4%	+1.6%
Total	14,661	100.0%	16,793	100.0%	+14.5%

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 decreased by ¥348 million from the end of the previous fiscal year to ¥20,724 million.

Current assets decreased by ¥189 million from the end of the previous fiscal year to ¥17,178 million. This is mainly due to a decrease of ¥326 million in cash and deposits, despite an increase of ¥141 million in work in process.

Non-current assets decreased by ¥158 million from the end of the previous fiscal year to ¥3,545 million. This is mainly due to a decrease of ¥300 million in shares of subsidiaries and associates, despite an increase of ¥81 million in goodwill included in intangible fixed assets.

Current liabilities decreased by ¥643 million from the end of the previous fiscal year to ¥4,897 million. This is mainly due to decreases of ¥410 million in accounts payable - other and ¥272 million in accrued expenses.

Non-current liabilities increased by ¥50 million from the end of the previous fiscal year to ¥327 million. This is mainly due to an increase of ¥35 million in retirement benefit liability.

Net assets increased by ¥244 million from the end of the previous fiscal year to ¥15,499 million. This is mainly due to an increase of ¥533 million in retained earnings, despite an increase of ¥299 million in treasury shares.

Cash flow conditions

The balance of cash and cash equivalents at the end of this consolidated accounting second quarter decreased by ¥326 million from the end of the previous fiscal year to ¥11,376 million (¥10,290 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 ¥617 million, a decrease in accounts payable - other was ¥430 million, a decrease in accrued expenses was ¥298 million, and an increase in inventories was ¥141 million, quarterly net income before income taxes was ¥1,922 million. As a result, cash flows from operating activities amounted to ¥441 million (¥680 million in the same period of the previous fiscal year).

(Cash flows from investing activities)

Interest and dividend income received was ¥25 million, proceeds from sales of investment securities was ¥17 million, and proceeds of dividend distribution from partnerships was ¥10 million. As a result, cash flows from investing activities amounted to ¥50 million (¥0 million in the same period of the previous fiscal year).

(Cash flows from financing activities)

While a net increase in short-term borrowings was ¥75 million, dividends paid totaled ¥734 million and purchase of treasury shares totaled ¥304 million. As a result, cash flows from financing activities amounted to negative ¥969 million (negative ¥468 million in the same period of the previous fiscal year).

(3) Explanation about Information on Projections Including Consolidated Forecasts

The consolidated financial results forecasts for the fiscal year ending March 31, 2023 remain unchanged from the “Notice Regarding Revisions to Financial Results Forecasts” published on September 13, 2022.

2. Quarterly Consolidated Financial Statements and Primary Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	Fiscal 2021 (as of March 31,	Second Quarter of Fiscal 2022 (as of
Assets		
Current assets:		
Cash and deposits	11,702,407	11,376,181
Notes and accounts receivable - trade, and contract assets	5,387,536	5,380,646
Work in progress	33,265	175,192
Other	245,124	246,816
Total current assets	17,368,333	17,178,837
Non-current assets:		
Property, plant and equipment	188,384	193,504
Intangible fixed assets	10,942	92,649
Investments and other assets:		
Investment securities	2,535,603	2,541,323
Shares of subsidiaries and associates	300,000	0
Deferred tax assets	183,471	181,610
Guarantee deposits	445,227	448,152
Other	40,375	88,069
Total investments and other assets	3,504,677	3,259,156
Total non-current assets	3,704,005	3,545,310
Total assets	21,072,338	20,724,148
Liabilities		
Current liabilities:		
Accounts payable – trade	1,258,623	1,359,019
Short-term loans payable	479,000	554,000
Accounts payable – other	514,839	104,448
Accrued expenses	1,921,178	1,648,685
Income taxes payable	675,440	688,633
Accrued consumption taxes	404,654	279,107
Provision for bonuses for directors (and other officers)	137,240	50,950
Other	149,487	212,517
Total current liabilities	5,540,463	4,897,361
Non-current liabilities:		
Provision for share-based remuneration for employees	68,246	56,940
Provision for share-based remuneration for directors (and other officers)	76,406	74,824
Retirement benefit liability	—	35,359
Asset retirement obligations	68,961	69,343
Deferred tax liabilities	—	3,271
Other	63,190	87,947
Total non-current liabilities	276,805	327,687
Total liabilities	5,817,268	5,225,049

(Thousands of yen)

	Fiscal 2021 (as of March 31, 2022)	Second Quarter of Fiscal 2022 (as of September 30, 2022)
Net assets		
Shareholders' equity:		
Share capital	970,400	970,400
Capital surplus	986,256	986,256
Retained earnings	12,555,835	13,089,803
Treasury shares	(374,322)	(674,116)
Total shareholders' equity	14,138,168	14,372,342
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	1,116,901	1,126,756
Total accumulated other comprehensive income	1,116,901	1,126,756
Total net assets	15,255,069	15,499,099
Total liabilities and net assets	21,072,338	20,724,148

(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 2021 (from April 1, 2021 to September 30, 2021)	Consolidated Cumulative Second Quarter of Fiscal 2022 (from April 1, 2022 to September 30, 2022)
Net sales	14,661,122	16,793,773
Cost of sales	11,570,221	13,119,061
Gross profit	3,090,901	3,674,712
Selling, general and administrative expenses	1,502,615	1,823,180
Operating profit	1,588,286	1,851,532
Non-operating income:		
Interest income	98	84
Dividend income	20,982	25,388
Surrender value of insurance policies	—	23,274
Subsidy income	—	9,760
Gain on investments in partnerships	26,903	—
Gain on sales of investment securities	—	13,558
Other	12,788	6,907
Total non-operating income	60,773	78,974
Non-operating expenses:		
Interest expenses	1,823	1,849
Loss on investments in partnerships	—	6,572
Other	0	—
Total non-operating expenses	1,823	8,422
Ordinary profit	1,647,236	1,922,083
Quarterly net income before income taxes	1,647,236	1,922,083
Income taxes	529,572	620,196
Quarterly net income	1,117,664	1,301,887
Quarterly net income attributable to non-controlling interests	—	—
Quarterly net income attributable to owners of parent	1,117,664	1,301,887

Quarterly Consolidated Statement of
Comprehensive IncomeConsolidated Cumulative Second
Quarter

(Thousands of yen)

	Consolidated Cumulative Second Quarter of Fiscal 2021 (from April 1, 2021 to September 30, 2021)	Consolidated Cumulative Second Quarter of Fiscal 2022 (from April 1, 2022 to September 30, 2022)
Quarterly net income	1,117,664	1,301,887
Other comprehensive income:		
Valuation difference on available-for-sale securities	78,104	6,727
Total other comprehensive income	78,104	6,727
Quarterly comprehensive income	1,195,768	1,308,614
attributable to:		
Quarterly comprehensive income attributable to owners of parent	1,195,768	1,308,614
Quarterly comprehensive income attributable to non-controlling interests	—	—

(3) Quarterly Consolidated Statement of Cash Flows

	(Thousands of yen)	
	Consolidated Cumulative Second Quarter of Fiscal 2021 (from April 1, 2021 to September 30, 2021)	Consolidated Cumulative Second Quarter of Fiscal 2022 (from April 1, 2022 to September 30, 2022)
Cash flows from operating activities		
Quarterly net income before income taxes	1,647,236	1,922,083
Depreciation and amortization	42,054	23,760
Amortization of goodwill	—	11,631
Increase (decrease) in provision for bonuses for directors (and other officers)	(65,600)	(88,290)
Increase (decrease) in provision for share-based remuneration for directors (and other officers)	8,981	(1,581)
Increase (decrease) in provision for share-based remuneration for employees	4,680	(7,004)
Increase (decrease) in retirement benefit liability	—	(5,880)
Interest and dividend income	(21,081)	(25,473)
Interest expenses	1,823	1,849
Loss (gain) on sales of investment securities	—	(13,558)
Loss (gain) on investments in partnerships	(26,903)	6,572
Decrease (increase) in notes and accounts receivable – trade	(90,332)	386,016
Decrease (increase) in inventories	(80,874)	(141,927)
Increase (decrease) in notes and accounts payable – trade	99,189	82,804
Increase (decrease) in accounts payable – other	(45,978)	(430,064)
Increase (decrease) in accrued expenses	(103,778)	(298,930)
Increase (decrease) in accrued consumption taxes	(153,883)	(132,200)
Other	45,335	(230,594)
Subtotal	1,260,867	1,059,213
Income taxes paid	(580,098)	(617,233)
Cash flows from operating activities	680,769	441,979
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,457)	(3,265)
Purchase of intangible fixed assets	(364)	(600)
Purchase of investment securities	(6,144)	(2,059)
Proceeds from sales of investment securities	—	17,632
Proceeds of dividend distributions from partnerships	8,672	10,320
Payments of loans receivable from employees	(500)	(1,190)
Collection of loans receivable from employees	2,806	3,708
Payments for guarantee deposits	(17,481)	—
Interest and dividend income received	21,081	25,473
Other	—	75
Cash flows from investing activities	610	50,094
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	124,000	75,000
Purchase of treasury shares	—	(304,095)
Interest expenses	(1,823)	(1,875)
Dividend payment	(587,752)	(734,689)
Repayments of lease obligations	(2,409)	(3,755)
Other	(65)	—
Cash flows from financing activities	(468,050)	(969,415)
Net increase (decrease) in cash and cash equivalents	213,330	(477,341)
Balance of cash and cash equivalents at the beginning of the period	10,077,199	11,702,407
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	—	151,114
Balance of cash and cash equivalents at the end of the quarter	10,290,529	11,376,181

(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 accounting second quarter, and multiply profit for the quarter before taxes by the estimated effective tax rate.

(Changes in Accounting Policies)

We have applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021) from the start of the first quarter of fiscal 2022. Furthermore, in accordance with the transitional treatment provided for in paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Measurement, the new accounting policies set forth in the Implementation Guidance on Accounting Standard for Fair Value Measurement are to be applied prospectively. This change has no impact on the quarterly consolidated financial statements.

(Segment Information and Related Matters)

Consolidated Cumulative Second Quarter of Fiscal 2022 (from April 1, 2022 to September 30, 2022)

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.