

Consolidated Financial Report for the First Quarter of Fiscal 2023 Ending March 31, 2024 [Japanese GAAP]

August 3, 2023

Listing: Tokyo Stock Exchange
 Company name: **TDC SOFT Inc.**
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 Scheduled date of filing quarterly report: August 4, 2023
 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 2023 Ending March 31, 2024 (April 1, 2023 to June 30, 2023)

(1) Consolidated operating results (cumulative) (Percentages represent year-on-year changes)

| | Net sales | | Operating profit | | Ordinary profit | | Quarterly net income attributable to owners of parent | |
|---------------------|-------------------|------|-------------------|-------|-------------------|-------|---|-------|
| | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % |
| As of June 30, 2023 | 8,928 | 11.6 | 719 | (6.3) | 776 | (5.4) | 528 | (4.9) |
| As of June 30, 2022 | 8,001 | 13.0 | 768 | (7.0) | 820 | (3.2) | 555 | (4.1) |

Note: Comprehensive income

As of June 30, 2023: ¥661 million [94.1%]

As of June 30, 2022: ¥340 million [(38.9%)]

| | Quarterly net income per share | | Diluted quarterly net income per share | |
|---------------------|--------------------------------|-----|--|-----|
| | Yen | Sen | Yen | Sen |
| As of June 30, 2023 | 22.16 | — | — | — |
| As of June 30, 2022 | 23.19 | — | — | — |

(2) Consolidated financial position

| | Total assets | Net assets | Owners' equity ratio |
|----------------------|-------------------|-------------------|----------------------|
| | (Millions of yen) | (Millions of yen) | % |
| As of June 30, 2023 | 22,254 | 16,350 | 73.5 |
| As of March 31, 2023 | 22,771 | 16,409 | 72.1 |

Reference: Owners' equity

As of June 30, 2023: ¥16,350 million

As of March 31, 2023: ¥16,409 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, 2023 | — | 15.00 | — | 30.00 | 45.00 |
| Fiscal year ending March 31, 2024 | — | — | — | — | — |
| Fiscal year ending March 31, 2024 (forecast) | — | 0.00 | — | 40.00 | 40.00 |

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Financial Results Forecasts for the Fiscal Year Ending March 31, 2024 (April 1, 2023 to March 31, 2024)

(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 | | Earnings per share |
|-----------------------------|-------------------|-----|-------------------|--------|-------------------|--------|---|--------|--------------------|
| | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % | (Millions of yen) | % | Yen Sen |
| Second quarter (cumulative) | 17,730 | 5.6 | 1,580 | (14.7) | 1,650 | (14.2) | 1,100 | (15.5) | 46.15 |
| Full year | 37,300 | 5.8 | 3,550 | 2.6 | 3,750 | 1.0 | 2,510 | 0.8 | 105.31 |

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 (Application of Special Accounting Methods for Presenting 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. : None

b. Changes in accounting policies other than a. above : None

c. Changes in accounting-based estimates : None

d. Restatements : None

(4) Number of shares outstanding (common stock)

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

| | | | |
|---------------------|-------------------|----------------------|-------------------|
| As of June 30, 2023 | 25,113,600 shares | As of March 31, 2023 | 25,113,600 shares |
| As of June 30, 2023 | 1,270,039 shares | As of March 31, 2023 | 1,278,439 shares |
| As of June 30, 2023 | 23,838,576 shares | As of June 30, 2022 | 23,962,744 shares |

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 (361,000 shares as of June 30, 2023; 369,400 shares as of March 31, 2023) 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, 2023: 365,985 shares; as of June 30, 2022: 373,435 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. Refer to “(3) Explanation about Information on Projections Including Consolidated Forecasts” on Page 4 of the appendix for information about the above forecasts.

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1. Qualitative Information about the Quarterly Financial Results

(1) Explanation about Operating Results

During this consolidated cumulative first quarter, the economic recovery in Japan is progressing with the normalization of social activities due to the reclassification of COVID-19 as Class 5. However, the outlook for overseas economies remains uncertain due to factors such as heightened geopolitical risks, concerns about global price hikes, supply constraints, and the impact of monetary tightening.

In the information services industry, software investments are seeing a moderate increase along with heightened awareness of digitization among corporations. Against the backdrop of changing working styles prompted by a decrease in the labor force, progress is thriving in productivity-boosting IT investments and digital transformation (“DX”), and the market size is expected to expand.

Operating under such a climate, the Group has formulated its medium-term management plan “Shift to the Smart SI Plus” for the plan period from April 2022 to March 2025, and the second year of the plan has begun.

This medium-term management plan has a basic concept of high value-added IT services that meet the potential needs of the market and society, 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 expand our SI business into the commodity area in our consulting business, which supports customers in formulating strategies for their digital transformation, in our sales business, which sells products, services, etc. that meet a diverse array of customers’ IT needs, and in providing managed services that integrate all aspects of IT solutions, starting from development through to operation and maintenance. Specifically, we are pushing forward with the following initiatives.

a. Expansion of the consulting business

- Training and expansion of consulting staff based on the Scaled Agile Framework® of U.S. company Scaled Agile, Inc., with which we have formed a gold partner alliance.
- Developing expertise into assets and establishing consulting methods to respond to customer digital needs covering everything from IT strategy formulation to use of digital technologies
- Advancement of promotion activities

b. Expansion of services and products sales business

- Expansion of marketing function and product sales function
- Expansion of product lineup that captures user needs and seeds

c. Expansion of SI business into commodity area

- Consolidation of operation and maintenance projects involving system modifications, etc.
- Pursuit of high productivity through modularization of common items, etc.

During this consolidated cumulative first quarter, each business field performed well and net sales exceeded the plan, achieving an increase in revenue. In terms of profit, the increase in costs due to aggressive investments for future business expansion outweighed the positive effects of increased revenue, and profit decreased. We are progressing with specific initiatives related to investment according to plan, including expanding the number of hiring of new graduates and making them competitive at an early stage, acquiring new technologies to expand the next-generation SI business, and relocating the head office as part of the "Smart Work Concept" workplace strategy.

As a result, the Group’s business performance for this consolidated cumulative first quarter was as follows: Net sales amounted to ¥8,928 million, up 11.6% year on year; operating profit amounted to ¥719 million, down 6.3% year on year; ordinary profit amounted to ¥776 million, down 5.4% year on year; and quarterly net income attributable to owners of parent amounted to ¥528 million, down 4.9% year on year.

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 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 fiscal year, the Group made solid progress on SaaS solution projects for enterprises. As a result, net sales in this field increased 28.4% year on year to ¥1,465 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 systemization planning, design, development, and maintenance. During this quarter, the Group made solid progress on development projects for banking systems. As a result, net sales in this field increased 7.5% year on year to ¥4,150 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 public agencies and the automobile manufacturing sector. As a result, net sales in this field increased 9.7% year on year to ¥2,315 million.

<Platform solutions>

In the field of platform solutions, we offer services such as the environmental design and construction of IT infrastructure, along with operational support, network product development, and network integration. During this quarter, the Group made solid progress on projects to build cloud-related infrastructure. As a result, net sales in this field increased 12.2% year on year to ¥997 million.

(Millions of yen)

| Field | As of June 30, 2022 | | As of June 30, 2023 | | Year-on-year percentage change |
|--------------------------------------|---------------------------------|--------|---------------------------------|--------|--------------------------------|
| | Consolidated cumulative quarter | | Consolidated cumulative quarter | | |
| | Amount | Share | Amount | Share | |
| IT consulting and services | 1,140 | 14.3% | 1,465 | 16.4% | +28.4% |
| IT solutions for financial services | 3,860 | 48.2% | 4,150 | 46.5% | +7.5% |
| IT solutions for public corporations | 2,110 | 26.4% | 2,315 | 25.9% | +9.7% |
| Platform solutions | 888 | 11.1% | 997 | 11.2% | +12.2% |
| Total | 8,001 | 100.0% | 8,928 | 100.0% | +11.6% |

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 ¥516 million from the end of the previous fiscal year to ¥22,254 million.

Current assets decreased by ¥672 million from the end of the previous fiscal year to ¥18,155 million. This is mainly due to a decrease of ¥1,139 million in notes and accounts receivable - trade along with contract assets, despite increases of ¥207 million in cash and deposits and ¥245 million in work in progress.

Non-current assets increased by ¥155 million from the end of the previous fiscal year to ¥4,099 million. This is mainly due to increases of ¥174 million in investment securities and ¥17 million in property, plant and equipment, despite a decrease of ¥45 million in deferred tax assets.

Current liabilities decreased by ¥450 million from the end of the previous fiscal year to ¥5,595 million. This is mainly due to decreases of ¥894 million in accrued expenses, ¥531 million in income taxes payable, and ¥235 million in accounts payable - other, despite increases of ¥747 million in short-term borrowings and deposits included in other of ¥467 million.

Non-current liabilities decreased by ¥7 million from the end of the previous fiscal year to ¥308 million. This is mainly due to a decrease of ¥5 million in provision for share-based remuneration for employees.

Net assets decreased by ¥59 million from the end of the previous fiscal year to ¥16,350 million. This is mainly due to a decrease of ¥197 million in retained earnings despite an increase of ¥133 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 2022 Ended March 31, 2023” dated May 11, 2023.

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

(Thousands of yen)

| | Fiscal 2022 (as of March 31, 2023) | First Quarter of Fiscal 2023 (as of June 30, 2023) |
|---|---------------------------------------|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 12,010,240 | 12,217,303 |
| Notes and accounts receivable - trade, and contract assets | 6,277,248 | 5,138,052 |
| Work in process | 58,808 | 304,178 |
| Other | 481,349 | 495,577 |
| Total current assets | 18,827,646 | 18,155,113 |
| Non-current assets | | |
| Property, plant and equipment | 219,001 | 236,807 |
| Intangible fixed assets | 89,181 | 99,071 |
| Investments and other assets | | |
| Investment securities | 2,599,725 | 2,774,008 |
| Shares of subsidiaries and associates | 0 | — |
| Deferred tax assets | 240,185 | 194,717 |
| Guarantee deposits | 756,969 | 756,969 |
| Other | 38,509 | 37,771 |
| Total investments and other assets | 3,635,390 | 3,763,466 |
| Total non-current assets | 3,943,572 | 4,099,345 |
| Total assets | 22,771,219 | 22,254,458 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 1,507,332 | 1,505,058 |
| Short-term borrowings | 453,000 | 1,200,000 |
| Accounts payable – other | 459,978 | 224,171 |
| Accrued expenses | 2,077,943 | 1,183,314 |
| Asset retirement obligations | 57,922 | 57,922 |
| Income taxes payable | 815,962 | 283,978 |
| Accrued consumption taxes | 340,340 | 414,334 |
| Provision for bonuses for directors (and other officers) | 138,220 | 24,500 |
| Other | 194,447 | 701,748 |
| Total current liabilities | 6,045,147 | 5,595,028 |
| Non-current liabilities | | |
| Provision for share-based remuneration for employees | 57,842 | 52,695 |
| Provision for share-based remuneration for directors (and other officers) | 77,228 | 79,505 |
| Retirement benefit liability | 38,755 | 38,755 |
| Asset retirement obligations | 55,176 | 55,287 |
| Other | 87,176 | 82,435 |
| Total non-current liabilities | 316,179 | 308,679 |
| Total liabilities | 6,361,326 | 5,903,707 |

(Thousands of yen)

| | Fiscal 2022 (as of March 31, 2023) | First Quarter of Fiscal 2023 (as of June 30, 2023) |
|---|---------------------------------------|---|
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 970,400 | 970,400 |
| Capital surplus | 986,256 | 986,256 |
| Retained earnings | 13,939,945 | 13,742,159 |
| Treasury shares | (674,231) | (668,918) |
| Total shareholders' equity | 15,222,370 | 15,029,897 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,187,522 | 1,320,853 |
| Total accumulated other comprehensive income | 1,187,522 | 1,320,853 |
| Total net assets | 16,409,892 | 16,350,750 |
| Total liabilities and net assets | 22,771,219 | 22,254,458 |

(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 2022 (From April 1, 2022 to June 30, 2022) | Consolidated Cumulative First Quarter of Fiscal 2023 (From April 1, 2023 to June 30, 2023) |
|--|---|---|
| Net sales | 8,001,052 | 8,928,101 |
| Cost of sales | 6,236,502 | 7,004,712 |
| Gross profit | 1,764,549 | 1,923,388 |
| Selling, general and administrative expenses | 995,960 | 1,203,508 |
| Operating profit | 768,589 | 719,880 |
| Non-operating income | | |
| Interest income | 73 | 48 |
| Dividend income | 23,017 | 34,693 |
| Surrender value of insurance policies | 23,274 | — |
| Subsidy income | 4,836 | 35 |
| Gain on sales of investment securities | — | 21,583 |
| Other | 1,659 | 1,113 |
| Total non-operating income | 52,860 | 57,474 |
| Non-operating expenses | | |
| Interest expenses | 784 | 763 |
| Other | — | 0 |
| Total non-operating expenses | 784 | 763 |
| Ordinary profit | 820,665 | 776,591 |
| Quarterly net income before income taxes | 820,665 | 776,591 |
| Income taxes | 265,037 | 248,240 |
| Quarterly net income | 555,627 | 528,350 |
| Quarterly net income attributable to non-controlling interests | — | — |
| Quarterly net income attributable to owners of parent | 555,627 | 528,350 |

Quarterly Consolidated Statement of Comprehensive Income
Consolidated Cumulative First Quarter

(Thousands of yen)

| | Consolidated Cumulative First Quarter of Fiscal 2022 (From April 1, 2022 to June 30, 2022) | Consolidated Cumulative First Quarter of Fiscal 2023 (From April 1, 2023 to June 30, 2023) |
|--|---|---|
| Quarterly net income | 555,627 | 528,350 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (214,776) | 133,331 |
| Total other comprehensive income | (214,776) | 133,331 |
| Quarterly comprehensive income | 340,850 | 661,681 |
| attributable to | | |
| Quarterly comprehensive income attributable to owners of parent | 340,850 | 661,681 |
| Quarterly 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.

(Segment Information and Related Matters)

Consolidated Cumulative First Quarter of Fiscal 2023 (from April 1, 2023 to June 30, 2023)

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.