

October 31, 2017

Consolidated Financial Results for the Third Quarter of Fiscal Year Ending December 31, 2017 (Japan 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>
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Date of scheduled filing of securities report: November 10, 2017

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 Third Quarter of FY2017 (from January 1, 2017 to September 30, 2017)

(1) Consolidated Operating Results (Cumulative)

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

	Net sales		Operating profit (loss)		Ordinary profit (loss)		Profit* (loss)	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
Third Quarter of FY2017	59,225	2.5	3,316	(24.5)	3,428	(25.6)	2,759	(14.0)
Third Quarter of FY2016	57,797	–	4,394	–	4,608	–	3,208	–

* Profit attributable to parent company's shareholders.

Note: Comprehensive income: Third Quarter of FY2017: 2,817 million yen (up 9.3%); Third Quarter of FY2016: 2,577 million yen

	Earnings per share	Diluted earnings per share
	(yen)	(yen)
Third Quarter of FY2017	84.69	–
Third Quarter of FY2016	98.49	–

Note: The Company has revised the business year-end from March 31 to December 31 from fiscal year 2015, which was nine months from April 1 to December 31, 2015. Accordingly, year-on-year percentage changes for fiscal year 2016 and fiscal year 2015 are omitted.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	(million yen)	(million yen)	(%)
As of September 30, 2017	69,082	46,076	66.7
As of December 31, 2016	66,291	45,027	67.9

Ref: Total shareholders' equity: As of September 30, 2017: 46,049 million yen; As of December 31, 2016: 45,000 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)
FY2016	–	21.00	–	29.00	50.00
FY2017	–	25.00	–		
FY2017 (Forecast)				25.00	50.00

Note: Revision to the dividend forecasts from the latest announcement: None

3. Consolidated Forecasts for FY2017 (from January 1, 2017 to December 31, 2017)

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

	Net sales		Operating profit		Ordinary profit		Profit*		EPS
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(yen)
Full year	84,000	5.3	6,700	3.3	6,737	0.5	4,549	(0.7)	139.63

* Profit attributable to parent company's shareholders.

Note: Revision to the consolidated forecasts from the latest announcement: None

4. Other Items

- (1) Changes in the scope of consolidation for significant subsidiaries during nine 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 end of period, including treasury stock:
- ii. Number of treasury stock at end of period:
- iii. Average number of shares outstanding for each period (cumulative quarterly period):

As of September 30, 2017:	32,591,240 shares	As of December 31, 2016:	32,591,240 shares
As of September 30, 2017:	8,470 shares	As of December 31, 2016:	8,470 shares
Nine months ended September 30, 2017:	32,582,770 shares	Nine months ended September 30, 2016:	32,582,810 shares

This quarterly financial report is outside the scope of quarterly review procedures.

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

(1) Explanation of Operating Results

(Millions of yen)				
	Third quarter of FY2016 (cumulative)	Third quarter of FY2017 (cumulative)	YoY	
			Variance	% change
Net sales	57,797	59,225	1,428	102.5%
Operating profit	4,394	3,316	(1,078)	75.5%
Operating margin	7.6%	5.6%	(2.0) p	—
Ordinary profit	4,608	3,428	(1,180)	74.4%
Profit attributable to parent company's shareholders	3,208	2,759	(449)	86.0%

In the nine months of the fiscal year under review (from January 1, 2017 to September 30, 2017), the Japanese economy continued its modest recovery, buoyed improvements in corporate earnings and the employment situation, as well as expanded exports, despite an overseas outlook made opaque by unstable political and economic conditions. The information services industry also benefited from a generally favorable business environment, amid growing demand for corporate investment in information technology.

To further differentiate itself and expand its operations under these conditions, the ISID Group is promoting ISID Open Innovation 2018 “Joint Value Creation,” a medium-term management plan covering the three-year period from FY2016. The plan calls for the Company to enhance solutions in each of its four business segments and focus on strategic domains in three areas: “global,” “IoT/big data” and “2020 and beyond.”

During the nine months ended September 30, 2017, net sales were ¥59,225 million (up 2.5% YoY), owing to favorable performance in the Business Solutions, Engineering Solutions, and Communications IT segments.

On the profit front, however, gross profit was ¥18,333 million (down 2.6% YoY), despite the increase in sales, affected by higher cost of sales (of approximately ¥1.3 billion) stemming from unprofitable projects. Selling, general and administrative expenses also climbed 4.0% YoY, to ¥15,016 million, centering on research and development expenditures and human resource expenses, resulting in operating profit of ¥3,316 million (down 24.5% YoY) and ordinary profit of ¥3,428 million (down 25.6% YoY), both of which declined compared to the previous fiscal year. At the same time, profit attributable to parent company's shareholders was ¥2,759 million (down 14.0% YoY), despite extraordinary income from the sale of noncurrent assets.

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

Net Sales and Operating Profit (Loss) by Business Segment

(Millions of yen)

Business segment	Third quarter of FY2016 (cumulative)		Third quarter of FY2017 (cumulative)		YoY	
	Net sales	Operating profit	Net Sales	Operating profit	Net Sales	Operating profit
		Operating margin		Operating margin		
Financial Solutions	16,135	1,454 9.0%	15,165	996 6.6%	(970)	(458)
Business Solutions	12,269	1,226 10.0%	12,810	115 0.9%	541	(1,111)
Engineering Solutions	17,606	495 2.8%	18,650	799 4.3%	1,044	304
Communications IT	11,786	1,218 10.3%	12,598	1,405 11.2%	812	187
Total	57,797	4,394 7.6%	59,225	3,316 5.6%	1,428	(1,078)

Status of Business Operations by Business Segment

Financial Solutions

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

During the nine months ended September 30, 2017, such factors as the conclusion of large-scale projects involving the BANK・R next-generation financing solution caused sales of software products to decrease substantially, and projects to develop custom systems for megabanks declined, leading to lower segment sales. Profits also decreased, due to lower sales and a higher cost of sales associated with certain unprofitable projects.

Business Solutions

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

During the nine months ended September 30, 2017, in addition to expansion in custom system development mainly in the transport industry, sales of in-house software including consolidated accounting solution STRAVIS and human resources management solution POSITIVE, as well as SAP and other third-party software were solid, resulting in increased segment sales. At the same time, unprofitability on some projects caused cost of sales to rise, and expenses grew due to enhanced R&D and an increase in personnel. Profits fell significantly as a result.

Engineering Solutions

The main business of this segment is providing IT solutions for the product development and production fields in the manufacturing industry.

During the nine months ended September 30, 2017, segment sales increased, centered on sales of the NX 3D CAD solution and other third-party software for design and development to the electrical equipment and precision instruments industries. Profits also rose, benefiting from higher sales, improved profitability from third-party software, and efforts to curtail expenses.

Communications IT

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

During the nine months ended September 30, 2017, although business based on collaboration with the Dentsu Group declined mainly due to a peak in large projects, system architecture projects for the Dentsu Group expanded, lifting sales. Profits also increased in line with the increase in sales.

Net sales and status of business operations by service category are as follows:

Net Sales by Service Category

(Millions of yen)

Service category	Third quarter of FY2016 (cumulative)		Third quarter of FY2017 (cumulative)		YoY
	Net sales	% of sales	Net Sales	% of sales	
Consulting services	3,808	6.6%	3,858	6.5%	50
Custom system development	15,545	26.9%	16,008	27.0%	463
In-house software	10,867	18.8%	10,370	17.5%	(497)
Third-party software	17,848	30.9%	18,634	31.5%	786
Outsourcing, operation and maintenance services	5,591	9.7%	5,799	9.8%	208
IT equipment sales and others	4,136	7.1%	4,553	7.7%	417
Total	57,797	100.0%	59,225	100.0%	1,428

Status of Business Operations by Service Category

Consulting services

This service category is consulting for business operations and IT.

During the nine months ended September 30, 2017, sales increased due to expansion of digital marketing field sales mainly to the automotive industry and the Dentsu Group.

Custom system development

This service category is the building and maintenance of IT systems based on individual client specifications.

During the nine months ended September 30, 2017, sales grew as the result of an increase in projects for the Dentsu Group and mainstay clients in the transportation industry.

In-house software

This service category is the sale of software developed internally, including add-on development, technical support and maintenance service.

During the nine months ended September 30, 2017, although consolidated accounting solution STRAVIS, human resources management solution POSITIVE and conceptual design solution iQUAVIS performed favorably, sales declined due to the backlash from the conclusion of a large BANK・R next-generation financing solution project.

Third-party software

This service category is the sale of software purchased from other companies, including add-on development, technical support and maintenance service.

During the nine months ended September 30, 2017, sales to the electrical equipment and precision machinery

industries increased in the 3D CAD NX and other design development fields. Category sales also benefited from higher sales to the service industry of SAP and other mission critical system fields.

Outsourcing, operation and maintenance services

This service category is the operation, maintenance, support for client IT systems, as well as business services on a contract basis.

During the nine months ended September 30, 2017, sales increased due to expanded sales to the Dentsu Group.

IT equipment sales and others

This service category is the sales and maintenance of hardware, as well as databases, middleware and other types of software and services.

During the nine months ended September 30, 2017, sales increased due to expanded sales to the Dentsu Group.

(2) Explanation of Financial Position

i. Assets

At the end of the third quarter of FY2017, total assets amounted to ¥69,082 million, up ¥2,791 million from ¥66,291 million at the end of the previous fiscal year. Current assets increased ¥2,015 million, due mainly to an increase in advance payments-trade, work in process, and deferred tax assets, while accounts receivable-trade and deposits paid decreased. Non-current assets rose ¥776 million, because of an increase in investment securities, while property, plant and equipment decreased.

ii. Liabilities

At the end of the third quarter of FY2017, total liabilities amounted to ¥23,005 million, up ¥1,742 million from ¥21,263 million at the end of the previous fiscal year. Non-current liabilities rose ¥219 million due mainly to an increase in lease obligations, as well as current liabilities increased ¥1,523 million, due mainly to an increase in advances received and provision for loss on order received

iii. Net assets

At the end of the third quarter of FY2017, total net assets amounted to ¥46,076 million, up ¥1,048 million from ¥45,027 million at the end of the previous fiscal year, due mainly to an increase in retained earnings.

(3) Explanation of Consolidated Financial Results Forecasts

Although performance during the nine months ended September 30, 2017, was below our plans for sales and profits and a difficult operating environment persists, at present we maintain our forecasts as announced on February 9, 2017.

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.

2. Consolidated Financial Statement

(1) Consolidated Balance Sheets

(Millions of yen; amounts less than one million yen are rounded down.)

Item	Period	As of December 31, 2016	As of September 30, 2017
		Amount	Amount
(Assets)			
Current assets:			
Cash and deposits		3,316	3,216
Notes and accounts receivable-trade		16,154	14,823
Merchandise and finished goods		36	41
Work in process		1,119	2,516
Raw materials and supplies		29	17
Advance payments-trade		5,617	7,661
Deposit paid		27,218	26,644
Other		1,554	2,170
Allowance for doubtful accounts		—	(30)
Total current assets		55,046	57,061
Non-current assets:			
Property, plant and equipment		3,469	2,748
Intangible assets		2,999	2,872
Investments and other assets:			
Investments and other assets		4,776	6,400
Allowance for doubtful accounts		(1)	(1)
Total investments and other assets		4,775	6,399
Total non-current assets		11,244	12,020
Total assets		66,291	69,082

(Millions of yen; amounts less than one million yen are rounded down.)

Item	Period	As of December 31, 2016	As of September 30, 2017
		Amount	Amount
(Liabilities)			
Current liabilities:			
Notes and accounts payable—trade		5,467	5,287
Income taxes payable		965	1,076
Advances received		6,989	7,647
Provision for loss on order received		64	629
Provision for business structure improvement		25	—
Provision for loss on litigation		—	153
Asset retirement obligations		—	10
Other		6,060	6,291
Total current liabilities		19,573	21,096
Non-current liabilities:			
Provision for directors’ retirement benefits		1	—
Net defined benefit liability		8	9
Asset retirement obligations		840	887
Other		839	1,012
Total noncurrent liabilities		1,690	1,909
Total liabilities		21,263	23,005
(Net assets)			
Shareholders’ equity:			
Capital stock		8,180	8,180
Capital surplus		15,285	15,285
Retained earnings		21,217	22,217
Treasury stock		(29)	(29)
Total shareholders’ equity		44,655	45,655
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities		74	101
Foreign currency translation adjustments		270	292
Total accumulated other comprehensive income		344	394
Non-controlling interests		27	26
Total net assets		45,027	46,076
Total liabilities and net assets		66,291	69,082

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

[Consolidated Statements of Income]

(Millions of yen; amounts less than one million yen are rounded down.)

Item \ Period	Third Quarter of FY2016 (From January 1, 2016 to September 30, 2016)	Third Quarter of FY2017 (From January 1, 2017 to September 30, 2017)
	Amount	Amount
Net sales	57,797	59,225
Cost of sales	38,968	40,891
Gross profit	18,828	18,333
Selling, general and administrative expenses	14,434	15,016
Operating profit	4,394	3,316
Non-operating income:		
Interest and dividend income	30	27
Foreign exchange gains	67	–
Gain on sales of investment securities	7	55
Dividends income of insurance	44	42
Subsidy income	42	29
Miscellaneous income	52	13
Total non-operating income	246	168
Non-operating expenses:		
Interest expenses	14	12
Share of loss of entities accounted for using equity method	4	2
Foreign exchange losses	–	18
Loss on investments in partnership	4	17
Miscellaneous loss	10	5
Total non-operating expenses	32	56
Ordinary profit	4,608	3,428
Extraordinary income:		
Gain on sales of non-current assets	–	657
Gain on sales of shares of subsidiaries and associates	259	–
Total extraordinary income	259	657
Extraordinary losses:		
Provision for loss on litigation	–	152
Total extraordinary losses	–	152
Profit before income taxes	4,868	3,933
Income taxes-current	1,436	1,676
Income taxes-deferred	215	(511)
Total income taxes	1,651	1,164
Profit	3,216	2,768
Profit attributable to non-controlling interests	7	9
Profit attributable to parent company's shareholders	3,208	2,759

[Consolidated Statements of Comprehensive Income]

(Millions of yen; amounts less than one million yen are rounded down.)

Item	Period	Third Quarter of FY2016	Third Quarter of FY2017
		(From January 1, 2016 to September 30, 2016)	(From January 1, 2017 to September 30, 2017)
		Amount	Amount
Profit		3,216	2,768
Other comprehensive income:			
Valuation difference on available-for-sale securities		(22)	27
Foreign currency translation adjustment		(616)	22
Total other comprehensive income		(638)	49
Comprehensive income:		2,577	2,817
Comprehensive income attributable to parent company's shareholders		2,570	2,808
Comprehensive income attributable to non-controlling interests		7	9

(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

[Segment Information]

i. The third quarter cumulative period (from January 1, 2016 to September 30, 2016)

Sales and Profit (Loss) by Reportable Segment

(Millions of yen)

	Business Segment				
	Financial Solutions	Business Solutions	Engineering Solutions	Communications IT	Total
Net sales					
Sales to customers	16,135	12,269	17,606	11,786	57,797
Inter-segment sales and transfers	—	—	—	—	—
Total	16,135	12,269	17,606	11,786	57,797
Segment profit (loss)	1,454	1,226	495	1,218	4,394

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

ii. The third quarter cumulative period (from January 1, 2017 to September 30, 2017)

Sales and Profit (Loss) by Reportable Segment

(Millions of yen)

	Business Segment				
	Financial Solutions	Business Solutions	Engineering Solutions	Communications IT	Total
Net sales					
Sales to customers	15,165	12,810	18,650	12,598	59,225
Inter-segment sales and transfers	—	—	—	—	—
Total	15,165	12,810	18,650	12,598	59,225
Segment profit (loss)	996	115	799	1,405	3,316

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

3. Supplementary Information

Status of Production, Orders and Sales

(1) Production

- i. The status of production through the third quarter cumulative period (from January 1, 2017 to September 30, 2017) by business segment is as follows:

(Millions of yen)

Business segment	Production output	YoY
Financial Solutions	11,622	90.3%
Business Solutions	7,667	103.7%
Engineering Solutions	3,941	117.9%
Communications IT	5,376	101.4%
Total	28,608	99.0%

- ii. The status of production through the third quarter cumulative period (from January 1, 2017 to September 30, 2017) by service category is as follows:

(Millions of yen)

Service category	Production output	YoY
Custom system development	16,228	102.2%
In-house software add-on development	5,804	89.6%
Third-party software add-on development	6,575	100.2%
Total	28,608	99.0%

Notes:

1. In-house software add-on development and third-party software add-on development includes technical support services.
2. Figures are calculated from sales prices.
3. Figures do not include consumption tax or other additions.

(2) Orders

- i. The status of orders through the third quarter cumulative period (from January 1, 2017 to September 30, 2017) by business segment is as follows:

(Millions of yen)

Business segment	Orders received	YoY	Order backlog	YoY
Financial Solutions	12,327	91.9%	4,090	110.8%
Business Solutions	6,472	69.9%	2,577	61.8%
Engineering Solutions	4,250	131.3%	1,212	172.6%
Communications IT	5,811	100.9%	1,672	100.7%
Total	28,861	91.1%	9,553	93.5%

- ii. The status of orders through the third quarter cumulative period (from January 1, 2017 to September 30, 2017) by service category is as follows:

(Millions of yen)

Service category	Orders received	YoY	Order backlog	YoY
Custom system development	16,397	91.1%	4,964	87.8%
In-house software add-on development	5,713	83.5%	2,491	94.6%
Third-party software add-on development	6,749	98.8%	2,097	108.5%
Total	28,861	91.1%	9,553	93.5%

Notes:

1. In-house software add-on development and third-party software add-on development include technical support services.
2. Figures do not include consumption tax or other additions.

(3) Sales

- i. The status of sales through the third quarter cumulative period (from January 1, 2017 to September 30, 2017) by business segment is as follows:

(Millions of yen)

Business segment	Sales volume	YoY
Financial Solutions	15,165	94.0%
Business Solutions	12,810	104.4%
Engineering Solutions	18,650	105.9%
Communications IT	12,598	106.9%
Total	59,225	102.5%

- ii. The status of sales through the third quarter cumulative period (from January 1, 2017 to September 30, 2017) by service category is as follows:

(Millions of yen)

Service category	Sales volume	YoY
Consulting services	3,858	101.3%
Custom system development	16,008	103.0%
In-house software	10,370	95.4%
Third-party software	18,634	104.4%
Outsourcing, operation and maintenance services	5,799	103.7%
IT equipment sales and others	4,553	110.1%
Total	59,225	102.5%

Notes:

- Figures do not include consumption tax or other additions.
- Sales to major client and the proportion of total sales are as follows:

(Millions of yen)

Client	Third Quarter of FY2016 (From January 1, 2016 to September 30, 2016)		Third Quarter of FY2017 (From January 1, 2017 to September 30, 2017)	
	Amount	Proportion	Amount	Proportion
Dentsu, Inc.	7,324	12.7%	7,756	13.1%