

April 28, 2017

Consolidated Financial Results for the First Quarter of Fiscal Year Ending December 31, 2017 (JapanGAAP)

Name of Listed Company: Information Services International-Dentsu, Ltd.
Listed Exchange: Tokyo
Code Number: 4812
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Date of scheduled filing of securities report: May 12, 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 First Quarter of FY2017 (from January 1, 2017 to March 31, 2017)

(1) Consolidated Operating Results (Cumulative)

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

	Net sales		Operating income (loss)		Ordinary income (loss)		Net income (loss)*	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
First Quarter of FY2017	19,901	(1.1)	1,685	(16.9)	1,748	(17.2)	1,383	(13.8)
First Quarter of FY2016	20,127	-	2,027	-	2,112	-	1,605	-

*Net income attributable to parent company's shareholders.

(Note) Comprehensive income: First Quarter of FY2017: 1,300 million yen; First Quarter of FY2016: 1,413 million yen

	Net income (loss) per share	Net income per share after dilution
	(yen)	(yen)
First Quarter of FY2017	42.45	-
First Quarter of FY2016	49.29	-

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

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	(million yen)	(million yen)	(%)
As of March 31, 2017	65,221	45,373	69.5
As of December 31, 2016	66,291	45,027	67.9

Ref: Total shareholders' equity: As of March 31, 2017: 45,351 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	-				
FY2017 (Forecast)		25.00	-	25.00	50.00

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

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

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

	Net sales		Operating income		Ordinary income		Net income *		EPS
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(yen)
First half of FY2017	40,594	2.6	3,101	(7.2)	3,127	(11.3)	2,096	(17.1)	64.34
FY2017	84,000	5.3	6,700	3.3	6,737	0.5	4,549	(0.7)	139.63

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

4. Other Items

- Changes in the scope of consolidation for significant subsidiaries during three months (Changes in specified subsidiaries resulting in change in the scope of consolidation): None
- Application of special accounting practices in the preparation of the quarterly consolidated financial statements: None
- Changes in accounting policies, changes in accounting estimates and restatements:
 - Changes in accounting policies in accordance with revision of accounting standards: None
 - Changes in accounting policies other than 1) above: None
 - Changes in accounting estimate: None
 - Restatements: None

4. Issued and outstanding common stock

1) Number of shares issued and outstanding at end of period, including treasury stock:	March 31, 2017:	32,591,240 shares	December 31, 2016:	32,591,240 shares
2) Number of treasury stock at end of period:	March 31, 2017:	8,470 shares	December 31, 2016:	8,470 shares
3) Average number of shares outstanding for each period (cumulative quarterly period):	Three months ended March 31, 2017:	32,582,770 shares	Three months ended March 31, 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)

	First quarter of FY2016	First quarter of FY2017	YoY	
			Variance	% change
Net sales	20,127	19,901	(226)	(1.1)%
Operating profit	2,027	1,685	(342)	(16.9)%
Operating margin	10.1%	8.5%	(1.6)p	—
Ordinary profit	2,112	1,748	(364)	(17.2)%
Profit attributable to owners of parent	1,605	1,383	(222)	(13.8)%

In the first quarter of FY2017 (from January 1, 2017 to March 31, 2017), the Japanese economy was characterized by improved corporate earnings, buoyed by such factors as a recovery in exports and resurgent consumer sentiment, as well as improvements in the employment and personal income environments, and the economy remained in state of modest recovery. As a result, the environment remained generally positive for the information services industry. The outlook remains opaque, however, due to such factors as the international political and economic situation and the impact of the introduction of negative exchange rates.

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 achieve organic growth by focusing on strategic domains in three areas: “global,” “IoT/big data” and “2020 and beyond.”

In the first quarter of FY2017, despite expansion in the Business Solutions segment, net sales fell 1.1% year on year, to ¥19,901 million, due mainly to the conclusion of large-scale projects.

On the profit front, the gross profit ratio declined due to lower sales of highly profitable in-house software, as well as third-party software. As a result, operating profit decreased 16.9%, to ¥1,685 million, ordinary profit fell 17.2%, to ¥1,748 million, and profit attributable to owners of the parent decreased 13.8%, to ¥1,383 million.

Net sales was essentially in line with our internal forecasts, while profit surpassed these forecasts.

Net sales, operating income 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	First quarter of FY2016		First quarter of FY2017		YoY	
	Net sales	Operating profit	Net Sales	Operating profit	Net Sales	Operating profit
		Operating margin		Operating margin		
Financial Solutions	5,316	413 7.8%	5,078	440 8.7%	(238)	27
Business Solutions	3,993	493 12.3%	4,437	218 4.9%	444	(275)
Engineering Solutions	6,845	656 9.6%	6,476	593 9.2%	(369)	(63)
Communications IT	3,972	463 11.7%	3,909	432 11.1%	(63)	(31)
Total	20,127	2,027 10.1%	19,901	1,685 8.5%	(226)	(342)

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.

In the first quarter, financial institutions generally maintained a cautious stance toward IT investment due to negative interest rate policies, and new system architecture projects for megabanks and other institutions declined. In addition, sales of in-house software fell off in line with the conclusion of large-scale projects involving the BANK • R next-generation financing solution, causing segment sales to decrease. On the profit front, however, income expanded thanks to an increase in profitable projects.

Business Solutions

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

In the first quarter, sales of in-house software decreased in line with the conclusion of certain projects involving the POSITIVE human resources management solution. However, custom system development for core customers increased, and sales of third-party software were firm, centered on the accounting field. Segment sales consequently increased. Profit declined, however, due mainly to a decline in sales of highly profitable in-house software and reduced profitability on third-party software.

Engineering Solutions

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

In the first quarter, sales were robust for the iQUAVIS conceptual design solution, which supports the introduction of model-based development, but sales of third-party software dropped, mainly reflecting a decline in the Teamcenter product lifecycle management (PLM) solution. Furthermore, sales of consulting services involving analysis simulation and testing in the area of product development fell, leading to lower segment sales. Profits also fell as a result of lower sales.

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.

In the first quarter, business expanded, mainly in outsourcing, operation and maintenance services for the Dentsu Group. In business collaborations with Dentsu, we expanded our customer base by acquiring new customers, but segment sales declined due to certain projects shrinking in sales. Profits declined, reflecting lower sales.

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

Net Sales by Service Category

(Millions of yen)

Service category	First quarter of FY2016		First quarter of FY2017		YoY
	Net sales	% of sales	Net Sales	% of sales	
Consulting services	1,742	8.7%	1,750	8.8%	8
Custom system development	5,043	25.1%	5,205	26.2%	162
In-house software	3,724	18.5%	3,365	16.9%	(359)
Third-party software	6,442	32.0%	6,220	31.3%	(222)
Outsourcing, operation and maintenance services	1,699	8.4%	1,897	9.5%	198
IT equipment sales and others	1,473	7.3%	1,461	7.3%	(12)
Total	20,127	100.0%	19,901	100.0%	(226)

Status of Business Operations by Service Category

Consulting services

This service category is consulting for business operations and IT.

In the first quarter, consulting services involving analysis simulation and testing in the area of product development decreased, but business expanded to support the introduction of MBD in the automotive sector and in the digital marketing domain, so sales in this service category remained unchanged year on year.

Custom system development

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

In the first quarter, sales in this service category expanded, due to an increase in projects for key customers 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.

In the first quarter, sales of the iQUAVIS conceptual design solution were firm, but sales in this service category were down, reflecting the conclusion of large-scale projects involving the BANK • R next-generation financing solution and the POSITIVE human resources management solution.

Third-party software

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

In the first quarter, solution sales in the accounting field were robust. However, sales in the design and development field decreased, mainly due to the conclusion of large-scale projects involving the Teamcenter product lifecycle management (PLM) solution, and system configuration projects using the Force.com cloud platform fell off. Sales in this service category declined as a result.

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.

In the first quarter, sales in this service category increased, centering on 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.

In the first quarter, sales in this service category were flat year-on-year, resulting solid sales to Dentsu Group.

(2) Explanation of Financial Position

i. Assets

At the end of the first quarter of FY2017, total assets amounted to ¥65,221 million, down ¥1,070 million from ¥66,291 million at the end of the previous fiscal year. Current assets decreased ¥1,609 million, due mainly to a fall in deposits paid, while deferred tax assets increased. Noncurrent assets, meanwhile, rose ¥539 million, chiefly because of higher land, deferred tax assets, and lease and guarantee deposits.

ii. Liabilities

At the end of the first quarter of FY2017, total liabilities amounted to ¥19,848 million, down ¥1,415 million from ¥21,263 million at the end of the previous fiscal year. Current liabilities decreased ¥1,446 million, due mainly to a fall in advances received and notes and accounts payable-trade. Noncurrent liabilities, meanwhile, rose ¥30 million.

iii. Net assets

At the end of the first quarter of FY2017, total net assets amounted to ¥45,373 million, up ¥345 million from ¥45,027 million at the end of the previous fiscal year, due mainly to a fall in accumulated other comprehensive income, while retained earnings increased.

(3) Explanation of Consolidated Financial Results Forecasts

Net sales and profits both declined year on year in the first quarter of FY2017, but net sales was essentially in line with our forecasts, while profits outpaced our forecasts. Accordingly, we maintain unchanged our forecasts for the first half and the full fiscal year, 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 Sheet

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

Item	Period	As of December 31, 2016	As of March 31, 2017
		Amount	Amount
(Assets)			
Current assets:			
Cash and deposits		3,316	3,190
Notes and accounts receivable-trade		16,154	16,134
Merchandise and finished goods		36	36
Work in process		1,119	1,317
Raw materials and supplies		29	22
Advance payments-trade		5,617	5,523
Deposit paid		27,218	25,292
Other		1,554	1,920
Total current assets		55,046	53,437
Noncurrent assets:			
Property, plant and equipment		3,469	3,712
Intangible assets		2,999	2,922
Investments and other assets:			
Investments and other assets		4,776	5,149
Allowance for doubtful accounts		(1)	(1)
Total investments and other assets		4,775	5,148
Total noncurrent assets		11,244	11,783
Total assets		66,291	65,221

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

Item	Period	As of December 31, 2016	As of March 31, 2017
		Amount	Amount
(Liabilities)			
Current liabilities:			
Notes and accounts payable—trade		5,467	5,245
Income taxes payable		965	841
Advances received		6,989	5,838
Provision for loss on order received		64	77
Provision for business structure improvement		25	—
Other		6,060	6,124
Total current liabilities		19,573	18,127
Noncurrent liabilities:			
Provision for directors' retirement benefits		1	—
Net defined benefit liability		8	7
Asset retirement obligations		840	843
Other		839	869
Total noncurrent liabilities		1,690	1,720
Total liabilities		21,263	19,848
(Net assets)			
Shareholders' equity:			
Capital stock		8,180	8,180
Capital surplus		15,285	15,285
Retained earnings		21,217	21,655
Treasury stock		(29)	(29)
Total shareholders' equity		44,655	45,093
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities		74	69
Foreign currency translation adjustments		270	188
Total accumulated other comprehensive income		344	257
Non-controlling interests		27	22
Total net assets		45,027	45,373
Total liabilities and net assets		66,291	65,221

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

[Consolidated Statement of Income]

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

Item	Period	First Quarter of FY2016 (From January 1, 2016 to March 31, 2016)	First Quarter of FY2017 (From January 1, 2017 to March 31, 2017)
	Amount	Amount	Amount
Net sales	20,127	19,901	
Cost of sales	13,442	13,498	
Gross profit	6,684	6,403	
Selling, general and administrative expenses	4,657	4,717	
Operating profit	2,027	1,685	
Non-operating income:			
Interest and dividend income	12	8	
Share of profit of entities accounted for using equity method	—	1	
Foreign exchange gains	4	—	
Dividends income of insurance	44	42	
Miscellaneous income	40	21	
Total non-operating income	101	73	
Non-operating expenses:			
Interest expenses	5	3	
Share of loss of entities accounted for using equity method	8	—	
Foreign exchange losses	—	3	
Loss on investments in partnership	—	2	
Miscellaneous loss	3	0	
Total non-operating expenses	17	10	
Ordinary profit	2112	1,748	
Extraordinary income:			
Gain on sales of shares of subsidiaries and associates	259	—	
Total extraordinary income	259	—	
Profit before income taxes	2,372	1,748	
Income taxes-current	1,029	947	
Income taxes-deferred	(265)	(585)	
Total income taxes	763	361	
Profit	1,608	1,387	
Profit attributable to non-controlling interests	2	4	
Profit attributable to owners of parent	1,605	1,383	

[Consolidated Statement of Comprehensive Income]

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

Item	Period	First Quarter of FY2016 (From January 1, 2016 to March 31, 2016)	First Quarter of FY2017 (From January 1, 2017 to March 31, 2017)
	Amount	Amount	Amount
Profit		1,608	1,387
Other comprehensive income:			
Valuation difference on available-for-sale securities		(15)	(4)
Deferred gains or losses on hedges		4	—
Foreign currency translation adjustment		(184)	(82)
Total other comprehensive loss		(194)	(87)
Comprehensive income:		1,413	1,300
Comprehensive income attributable to owners of parent		1,411	1,296
Comprehensive income attributable to non- controlling interests		2	4

(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 first quarter cumulative period (from January 1, 2016 to March 31, 2016)

Sales and Earnings (or Loss) by Reportable Segment

(Millions of yen)

	Business Segment				
	Financial Solutions	Business Solutions	Engineering Solutions	Communications IT	Total
Net sales					
Sales to customers	5,316	3,993	6,845	3,972	20,127
Inter-segment sales and transfers	—	—	—	—	—
Total	5,316	3,993	6,845	3,972	20,127
Segment income (loss)	413	493	656	463	2,027

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

ii. The first quarter cumulative period (from January 1, 2017 to March 31, 2017)

Sales and Earnings (or Loss) by Reportable Segment

(Millions of yen)

	Business Segment				
	Financial Solutions	Business Solutions	Engineering Solutions	Communications IT	Total
Net sales					
Sales to customers	5,078	4,437	6,476	3,909	19,901
Inter-segment sales and transfers	—	—	—	—	—
Total	5,078	4,437	6,476	3,909	19,901
Segment income (loss)	440	218	593	432	1,685

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 first quarter cumulative period (from January 1, 2017 to March 31, 2017) by business segment is as follows:

(Millions of yen)

Business segment	Production output	YoY
Financial Solutions	4,106	91.3%
Business Solutions	2,747	120.2%
Engineering Solutions	1,275	97.1%
Communications IT	1,594	82.1%
Total	9,724	96.8%

- ii. The status of production through the first quarter cumulative period (from January 1, 2017 to March 31, 2017) by service category is as follows:

(Millions of yen)

Service category	Production output	YoY
Custom system development	5,411	98.5%
In-house software add-on development	1,957	88.8%
Third-party software add-on development	2,355	100.5%
Total	9,724	96.8%

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 first quarter cumulative period (from January 1, 2017 to March 31, 2017) by business segment is as follows:

(Millions of yen)

Business segment	Orders received	YoY	Order backlog	YoY
Financial Solutions	3,823	88.2%	3,253	106.9%
Business Solutions	2,073	99.6%	3,084	156.5%
Engineering Solutions	1,199	107.7%	592	114.3%
Communications IT	2,797	103.7%	2,371	122.2%
Total	9,895	96.7%	9,302	124.5%

- ii. The status of orders through the first quarter cumulative period (from January 1, 2017 to March 31, 2017) by service category is as follows:

(Millions of yen)

Service category	Orders received	YoY	Order backlog	YoY
Custom system development	6,258	95.7%	5,628	119.7%
In-house software add-on development	1,521	92.7%	2,029	126.9%
Third-party software add-on development	2,115	103.4%	1,644	140.5%
Total	9,895	96.7%	9,302	124.5%

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 first quarter cumulative period (from January 1, 2017 to March 31, 2017) by business segment is as follows:

(Millions of yen)		
Business segment	Sales volume	YoY
Financial Solutions	5,078	95.5%
Business Solutions	4,437	111.1%
Engineering Solutions	6,476	94.6%
Communications IT	3,909	98.4%
Total	19,901	98.9%

- ii. The status of sales through the first quarter cumulative period (from January 1, 2017 to March 31, 2017) by service category is as follows:

(Millions of yen)		
Service category	Sales volume	YoY
Consulting services	1,750	100.5%
Custom system development	5,205	103.2%
In-house software	3,365	90.4%
Third-party software	6,220	96.6%
Outsourcing, operation and maintenance services	1,897	111.7%
IT equipment sales and others	1,461	99.2%
Total	19,901	98.9%

Notes:

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

Client	(Millions of yen)			
	First Quarter of FY2016 (From January 1, 2016 to March 31, 2016)		First Quarter of FY2017 (From January 1, 2017 to March 31, 2017)	
	Amount	Proportion	Amount	Proportion
Dentsu, Inc.	2,531	12.6%	2,132	10.7%