

October 31, 2018

Consolidated Financial Results for the Third Quarter of Fiscal Year Ending December 31, 2018 (Japan GAAP)

Name of Listed Company: Information Services International-Dentsu, Ltd.
Listed Exchange: Tokyo
Code Number: 4812
URL: <https://www.isid.co.jp/english/>
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Date of scheduled filing of securities report: November 9, 2018

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 FY2018 (from January 1, 2018 to September 30, 2018)

(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 FY2018	64,625	9.1	5,662	70.7	5,675	65.5	3,788	37.3
Third Quarter of FY2017	59,225	2.5	3,316	(24.5)	3,428	(25.6)	2,759	(14.0)

* Profit attributable to owners of parent

Note: Comprehensive income: Third Quarter of FY2018: 3,669 million yen (up 30.2%); Third Quarter of FY2017: 2,817 million yen (up 9.3%)

	Earnings per share	Diluted earnings per share
	(yen)	(yen)
Third Quarter of FY2018	116.28	–
Third Quarter of FY2017	84.69	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	(million yen)	(million yen)	(%)
As of September 30, 2018	77,298	49,666	64.2
As of December 31, 2017	72,003	47,800	66.3

Ref: Total shareholders' equity: As of September 30, 2018: 49,638 million yen; As of December 31, 2017: 47,771 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)
FY2017	–	25.00	–	27.00	52.00
FY2018	–	28.00			
FY2018 (Forecast)			–	28.00	56.00

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

3. Consolidated Forecasts for FY2018 (from January 1, 2018 to December 31, 2018)

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	88,000	5.5	7,000	27.5	7,034	24.7	4,807	8.3	147.56

* Profit attributable to owners of parent

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 six 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):

September 30, 2018:	32,591,240 shares	December 31, 2017:	32,591,240 shares
September 30, 2018:	8,623 shares	December 31, 2017:	8,470 shares
Nine months ended September 30, 2018:	32,582,656 shares	Nine months ended September 30, 2017:	32,582,770 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

	Third quarter of FY2017 (cumulative)	Third quarter of FY2018 (cumulative)	(Millions of yen)	
			YoY	
			Variance	% change
Net sales	59,225	64,625	5,400	9.1%
Operating profit	3,316	5,662	2,346	70.7%
Operating margin	5.6%	8.8%	3.2p	—
Ordinary profit	3,428	5,675	2,247	65.5%
Profit attributable to owners of parent	2,759	3,788	1,029	37.3%

In the third quarter of the fiscal year under review (from January 1, 2018 to September 30, 2018), the Japanese economy continued its modest recovery, buoyed by improvements in corporate earnings and employment conditions as well as increased personal consumption, despite an uncertain outlook due to rising raw material costs and an increasing sense of caution regarding United States trade policies. 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. As this fiscal year is the final year of this plan, ISID has established the implementation and realization of Society 5.0 as its new vision for action and aims to achieve all-time high net sales of ¥88.0 billion and operating income of ¥7.0 billion, as well as an operating margin of 8.0% as announced in the medium-term management plan.

During the nine months ended September 30, 2018, net sales increased 9.1% year on year, to ¥64,625 million. Of the four business segments operated by the Group, the Financial Solutions, Engineering Solutions and Communication IT segments delivered favorable performance.

As for income, in addition to the effect of higher net sales we succeeded in eliminating the negative impact of unprofitable projects, which had depressed income in the same period of the preceding fiscal year, lifting all profit categories substantially. During the period under review, operating profit rose 70.7% year on year, to ¥5,662 million; ordinary profit increased 65.5%, to ¥5,675 million; and profit attributable to owners of parent grew 37.3%, to ¥3,788 million.

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 FY2017 (cumulative)		Third quarter of FY2018 (cumulative)		YoY	
	Net sales	Operating profit	Net sales	Operating profit	Net sales	Operating profit
		Operating margin		Operating margin		
Financial Solutions	15,165	996 6.6%	16,330	1,233 7.6%	1,165	237
Business Solutions	12,810	115 0.9%	11,732	356 3.0%	(1,078)	241
Engineering Solutions	18,650	799 4.3%	21,645	1,873 8.7%	2,995	1,074
Communication IT	12,598	1,405 11.2%	14,916	2,198 14.7%	2,318	793
Total	59,225	3,316 5.6%	64,625	5,662 8.8%	5,400	2,346

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, 2018, sales from major clients expanded, and the Company received new projects from government-affiliated financial institutions and business companies, bolstering sales from system development. Profit grew as a result of higher sales.

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, 2018, although sales of human resources management solution POSITIVE and other software products remained firm, the impact from declines caused by the end of custom system development and large software product projects caused sales to decrease. However, profit rose since the negative impact from unprofitable projects eliminated, which had depressed profit in the same period of the preceding fiscal year.

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, 2018, sales of software products, mainly NX 3D CAD system and product lifecycle management (PLM) solution Teamcenter, expanded mainly in the appliance, precision industries. In addition, the expansion of smart factory domain software product sales and consulting services in the automotive industry were favorable, causing sales to increase. Profit also increased in line with the rise in sales.

Communication 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, 2018, system development and outsourcing, operation and

maintenance services for the Dentsu Group expanded. Also, business from collaborations with the Dentsu Group was positive, causing sales to increase. The increase in sales caused profit to rise.

(2) Explanation of Financial Position

i. Assets

At the end of the third quarter of the fiscal year under review, total assets amounted to ¥77,298 million, up ¥5,295 million from ¥72,003 million at the end of the previous fiscal year. Current assets increased ¥3,513 million, due mainly to an increase in advance payments-trade, work in process and deposits paid, while notes and accounts receivable-trade decreased. Non-current assets rose ¥1,782 million, because of an increase in property, plant and equipment and investment securities.

ii. Liabilities

At the end of the third quarter of the fiscal year under review, total liabilities amounted to ¥27,632 million, up ¥3,429 million from ¥24,203 million at the end of the previous fiscal year. Non-current liabilities rose ¥360 million, due mainly to an increase in lease obligations, as well as current liabilities increased ¥3,069 million, due mainly to an increase in accrued expenses and advances received.

iii. Net assets

At the end of the third quarter of the fiscal year under review, total net assets amounted to ¥49,666 million, up ¥1,865 million from ¥47,800 million at the end of the previous fiscal year, due mainly to an increase in retained earnings, while accumulated other comprehensive income decreased.

(3) Explanation of Consolidated Financial Results Forecasts

We maintain unchanged our forecasts for the full fiscal year, as announced on February 9, 2018.

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 Statements

(1) Consolidated Balance Sheets

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

	As of December 31, 2017	As of September 30, 2018
Assets		
Current assets:		
Cash and deposits	3,369	2,877
Notes and accounts receivable - trade	18,706	17,078
Merchandise and finished goods	107	390
Work in process	1,318	2,535
Raw materials and supplies	21	29
Advance payments - trade	6,548	9,655
Deposits paid	27,276	27,962
Other	1,964	2,296
Allowance for doubtful accounts	(1)	(1)
Total current assets	59,311	62,824
Non-current assets:		
Property, plant and equipment	3,243	4,099
Intangible assets	2,849	2,961
Investments and other assets:		
Investments and other assets	6,599	7,414
Allowance for doubtful accounts	(1)	(1)
Total investments and other assets	6,598	7,413
Total non-current assets	12,692	14,474
Total assets	72,003	77,298
Liabilities:		
Current liabilities:		
Notes and accounts payable - trade	6,086	6,665
Income taxes payable	1,326	1,521
Advances received	7,790	8,974
Provision for loss on order received	622	520
Other	6,124	7,337
Total current liabilities	21,950	25,019
Non-current liabilities:		
Net defined benefit liability	15	22
Asset retirement obligations	895	897
Other	1,341	1,693
Total non-current liabilities	2,252	2,612
Total liabilities	24,203	27,632

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

	As of December 31, 2017	As of September 30, 2018
Net assets		
Shareholders' equity:		
Capital stock	8,180	8,180
Capital surplus	15,285	15,285
Retained earnings	23,897	25,893
Treasury shares	(29)	(29)
Total shareholders' equity	47,334	49,330
Accumulated other comprehensive income:		
Valuation difference on available-for-sale securities	96	69
Foreign currency translation adjustment	340	238
Total accumulated other comprehensive income	436	307
Non-controlling interests	28	27
Total net assets	47,800	49,666
Total liabilities and net assets	72,003	77,298

(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.)

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Net sales	59,225	64,625
Cost of sales	40,891	43,287
Gross profit	18,333	21,337
Selling, general and administrative expenses	15,016	15,675
Operating profit	3,316	5,662
Non-operating income:		
Interest and dividend income	27	33
Gain on sales of investment securities	55	—
Dividend income of insurance	42	48
Subsidy income	29	18
Miscellaneous income	13	40
Total non-operating income	168	141
Non-operating expenses:		
Interest expenses	12	17
Share of loss of entities accounted for using equity method	2	21
Foreign exchange losses	18	35
Loss on investments in partnership	17	31
Miscellaneous loss	5	21
Total non-operating expenses	56	128
Ordinary profit	3,428	5,675
Extraordinary income:		
Gain on sales of non-current assets	657	—
Total extraordinary income	657	—
Extraordinary losses:		
Provision for loss on litigation	152	—
Total extraordinary losses	152	—
Profit before income taxes	3,933	5,675
Income taxes - current	1,676	2,452
Income taxes - deferred	(511)	(575)
Total income taxes	1,164	1,876
Profit	2,768	3,798
Profit attributable to non-controlling interests	9	9
Profit attributable to owners of parent	2,759	3,788

[Consolidated Statements of Comprehensive Income]

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

	Nine months ended September 30, 2017	Nine months ended September 30, 2018
Profit	2,768	3,798
Other comprehensive income:		
Valuation difference on available-for-sale securities	27	(27)
Foreign currency translation adjustment	22	(102)
Total other comprehensive income	49	(129)
Comprehensive income	2,817	3,669
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,808	3,659
Comprehensive income attributable to non-controlling interests	9	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

1. 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	Communication 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 profit on the “Consolidated Statements of Income.”

2. The third quarter cumulative period (from January 1, 2018 to September 30, 2018)

Sales and Profit (Loss) by Reportable Segment

(Millions of yen)

	Business segment				
	Financial Solutions	Business Solutions	Engineering Solutions	Communication IT	Total
Net sales					
Sales to customers	16,330	11,732	21,645	14,916	64,625
Inter-segment sales and transfers	—	—	—	—	—
Total	16,330	11,732	21,645	14,916	64,625
Segment profit (loss)	1,233	356	1,873	2,198	5,662

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

3. Supplementary Information

Status of Production, Orders and Sales

(1) Production

The status of production through the third quarter cumulative period (from January 1, 2018 to September 30, 2018) by business segment is as follows:

Business segment	Production output	(Millions of yen)
		YoY
Financial Solutions	12,522	107.7%
Business Solutions	7,035	91.8%
Engineering Solutions	4,595	116.6%
Communication IT	6,039	112.3%
Total	30,192	105.5%

Notes:

- Figures are calculated from sales prices.
- Figures do not include consumption tax or other additions.

(2) Orders

The status of orders through the third quarter cumulative period (from January 1, 2018 to September 30, 2018) by business segment is as follows:

Business segment	Orders received	YoY	(Millions of yen)	
			Order backlog	YoY
Financial Solutions	23,173	146.6%	12,058	207.9%
Business Solutions	12,207	102.0%	6,470	116.3%
Engineering Solutions	24,426	116.4%	11,217	118.9%
Communication IT	16,220	106.3%	5,785	104.5%
Total	76,027	118.8%	35,531	134.9%

Notes:

- From FY2018, figures have been changed to the calculation method for all service items.
- Figures do not include consumption tax or other additions.

(3) Sales

- The status of sales through the third quarter cumulative period (from January 1, 2018 to September 30, 2018) by business segment is as follows:

Business segment	Sales volume	(Millions of yen)
		YoY
Financial Solutions	16,330	107.7%
Business Solutions	11,732	91.6%
Engineering Solutions	21,645	116.1%
Communication IT	14,916	118.4%
Total	64,625	109.1%

Notes:

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

Client	Third Quarter of FY2017 (From January 1, 2017 to September 30, 2017)		Third Quarter of FY2018 (From January 1, 2018 to September 30, 2018)	
	Amount	Proportion	Amount	Proportion
Dentsu, Inc. and its group companies	10,245	17.3%	12,485	19.3%