Presentation Material of Financial Results for the Second Quarter of FY2020 (from January 1, 2020 to June 30, 2020)

July 30, 2020

Information Services International-Dentsu, Ltd.

Note: This English translation is solely for reference purposes and not a legally definitive translation of the original Japanese text.
In the event a difference arises regarding the meaning herein, the original Japanese version will prevail as the official authoritative version.

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Financial results for the second quarter of FY2020

1. Consolidated Results for the 2Q of FY2020

Year on year	Net sales and all profits items achieved record highs for the second consecutive fiscal year for the first half.
Vs. initial forecast	Mainly sales in Business Solutions segment and Communication IT segment exceeded than forecasts. (Revisions to forecasts were announced on July 16, 2020.)
Interim dividends	Implemented ¥43 per share in line with initial forecast (year on year ¥8 increase)

(Unit : Million yen)

	2Q of FY2020 (cumulative)	YoY			Vs. initial forecast (announced on February 10, 2020)		
		2Q of FY2019 (cumulative)	Variance	% change	Forecast	Variance	% change
Net sales	55,020	49,185	+5,835	+11.9	52,300	+2,720	+5.2
Gross profit	19,163	16,232	+2,931	+18.1	17,749	+1,414	+8.0
Profit margin	34.8%	33.0%	+1.8p	-	33.9%	+0.9p	-
Selling, general and administrative expenses	12,192	11,027	+1,165	+10.6	12,449	-257	-2.1
Operating income	6,971	5,204	+1,767	+33.9	5,300	+1,671	+31.5
Operating margin	12.7%	10.6%	+2.1p	-	10.1%	+2.6p	-
Ordinary income	6,862	5,152	+1,710	+33.2	5,164	+1,698	+32.9
Profit attributable to owners of parent	4,512	3,412	+1,100	+32.2	3,450	+1,062	+30.8
Average number of employees during the period	2,959	2,849	+110	+3.9	3,002	-43	-1.4

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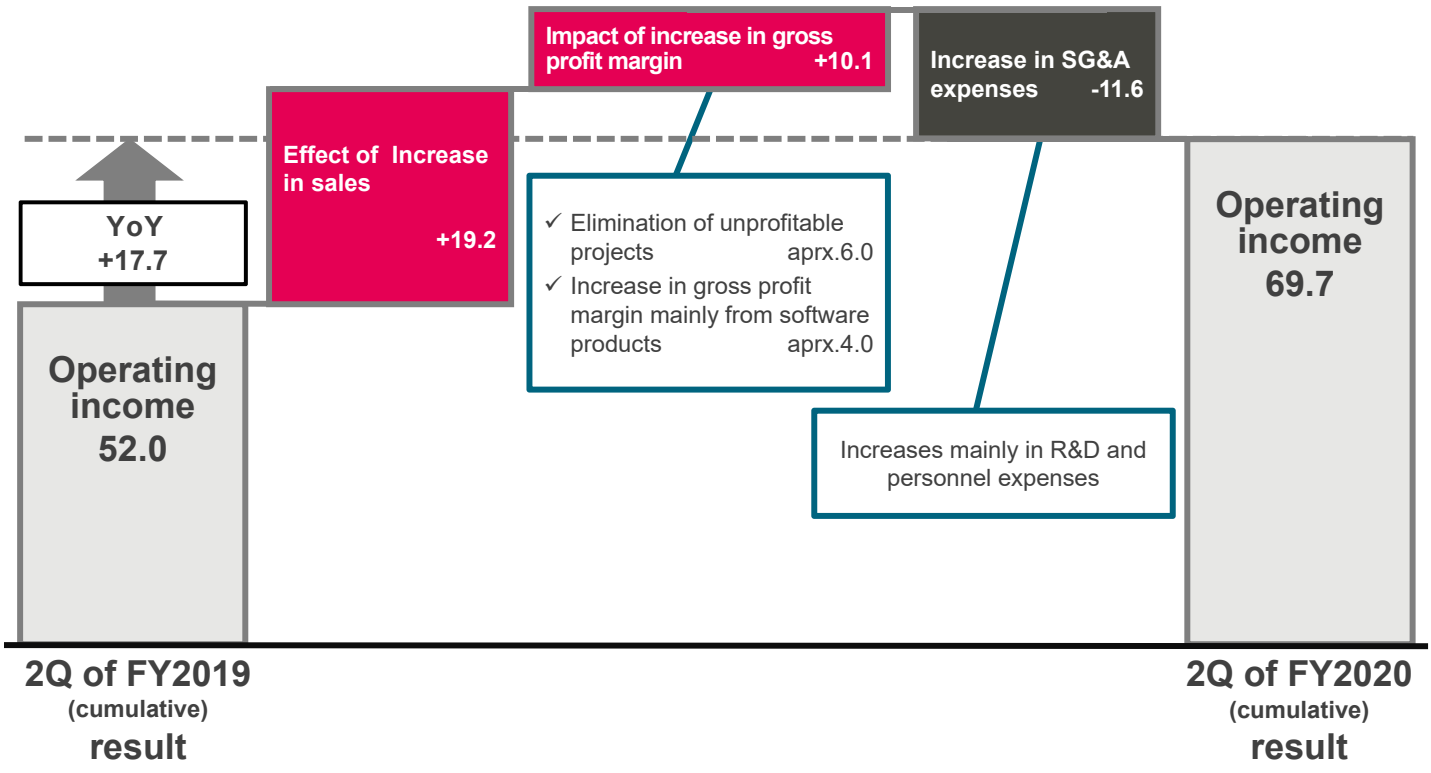
2-1. Factors for Increase/Decrease in Operating Income (YoY)

(Unit : 100 million yen)



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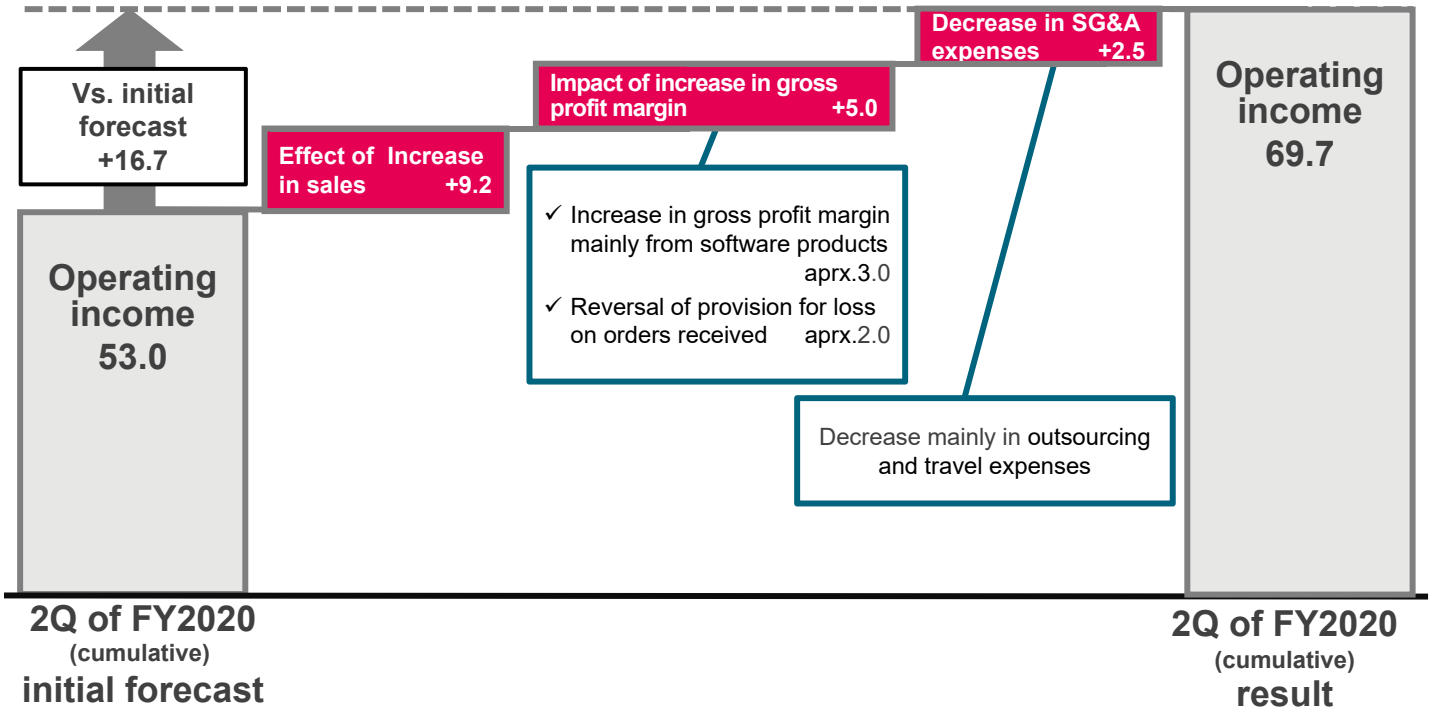
2-2. Factors for Increase/Decrease in Operating Income (vs. initial forecast)

(Unit : 100 million yen)



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3. Net Sales and Operating Income by Reportable Segment

(Unit : Million yen)

Reportable segment		2Q of FY2020 (cumulative)	YoY Variance	YoY % change	YoY Overview	Vs. initial forecast Variance	Vs. initial forecast % change
Financial Solutions	Net sale	12,224	-16	-0.1	Net sales were at the same level as in 1H of FY19 due to a steady increase for government-affiliated financial institutions and business companies. Profits increased due to the elimination of unprofitable projects.	-33	-0.3
	Operating income	866	+159	+22.5		-	-
	%	7.1	+1.3p	-			
	employees	719	+27	+3.9		-	-
Business Solutions	Net sale	10,885	+1,313	+13.7	Net sales increased due to an expansion of licensing sales and installation of SAP solutions in addition to software developed in-house such as POSITIVE, Ci*X and STRAVIS. Despite an increase in R&D investment, profits increased due to the effects of higher sales and improved profitability.	+1,001	+10.1
	Operating income	1,720	+501	+41.1		-	-
	%	15.8	+3.1p	-			
	employees	564	+29	+5.4		-	-
Manufacturing Solutions	Net sale	15,531	+391	+2.6	Despite delays in consulting services due to the impact of the COVID-19, net sales increased due to a steady increase of licensing sales and installation of PLM and CAE, particularly for the automotive industry. Profits decreased mainly due to a decrease in sales of highly profitable consulting services.	-326	-2.1
	Operating income	1,257	-94	-7.0		-	-
	%	8.1	-0.8p	-			
	employees	647	+18	+2.9		-	-
Communication IT	Net sale	16,378	+4,147	+33.9	In addition to steady growth in large-scale system upgrade project in Dentsu Group's core system field, the expansion of businesses supporting digital transformation through collaboration with Dentsu Group resulted in higher net sales and profits.	+2,078	+14.5
	Operating income	3,126	+1,200	+62.3		-	-
	%	19.1	+3.4p	-			
	employees	453	+31	+7.2		-	-

* POSITIVE : human capital management solution STRAVIS : consolidated accounting solution Ci*X : financial solution system PLM: product lifecycle management CAE : computer aided engineering

* Employees : average umber of employees during the period

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4. Consolidated Net Sales by Service Category

(Unit : Million yen)

Service category	2Q of FY2020 (cumulative)	YoY			Vs. initial forecast	
		Variance	% change	Overview	Variance	% change
Consulting Services	3,019	-578	-16.1	Decrease in Manufacturing Solutions and Communication IT segments	-327	-9.8
Custom System Development	14,995	+1,083	+7.8	Expansion of Communication IT and Business Solutions segments	+143	+1.0
In-house Software	10,124	+1,741	+20.8	Expansion of POSITIVE, Ci*X, STRAVIS and iPLAss	+1,043	+11.5
Third-party Software	16,699	+1,986	+13.5	Expansion of Salesforce Solutions, PLM, CAE and SAP solution	+1,077	+6.9
Outsourcing, Operation and Maintenance Services	6,090	+1,477	+32.0	Expansion of Communication IT segment	+1,302	+27.2
IT Equipment Sales and Others	4,090	+125	+3.2	Almost same level as in 1H of FY19	-517	-11.2

* iPLAss : marketing platform

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5. Consolidated Net Sales by Industry

(Unit : Million yen)

Industry	2Q of FY2020 (cumulative)		YoY	
	Net Sales	Composition Ratio (%)	Variance	% change
Banks	9,813	17.8	+257	+2.7
Other financial institutions	2,128	3.9	-761	-26.3
Financial	11,942	21.7	-504	-4.1
Transportation equipment	8,368	15.2	+903	+12.1
Electric appliances Precision instruments	4,607	8.4	-69	-1.5
Machinery	3,389	6.2	-69	-2.0
Others products	4,078	7.4	+114	+2.9
Manufacturing	20,443	37.2	+879	+4.5
Services and public offices	18,555	33.7	+4,863	+35.5
Distributions and others	4,082	7.4	+597	+17.1

Sales to the Dentsu Group

Dentsu Group Inc. and it's subsidiaries	14,464	26.3	+4,057	+39.0

* As reviewed some of our customers' industries, we used reclassified figures for comparison in the same period of the previous fiscal year.

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6. Orders received and Order backlog

- Large orders for IT equipment in Communication IT

(Unit : Million yen)

		Orders received		Order backlog	
		2Q of FY2020 (cumulative)	YoY (%)	2Q of FY2020 (cumulative)	YoY (%)
Total		63,894	+13.7	41,376	+7.6
Reportable Segments	Financial Solutions	12,130	+1.4	8,444	-25.2
	Business Solutions	10,921	-3.2	7,403	+1.4
	Manufacturing Solutions	17,553	-2.1	12,748	-2.0
	Communication IT	23,289	+54.8	12,780	+86.3
Service Categories	Consulting Services	2,882	-17.5	708	-11.3
	Custom System Development	14,965	+4.9	8,448	-17.4
	In-house Software	10,449	+6.2	7,020	+15.9
	Third-party Software	21,055	+16.4	15,839	+9.4
	Outsourcing, Operation and Maintenance Services	7,967	+18.0	3,384	-6.6
	IT Equipment Sales and Others	6,573	+74.1	5,974	+82.6

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7. Consolidated Balance Sheets

(Unit : Million yen)

	As of June 30, 2020	As of December 31, 2019	Variance	Main Factors for Increase/Decrease
Total current Assets	78,078	69,728	+8,350	Increase in advance payments - trade (+4,902) Increase in notes and accounts receivable (+2,526) Increase in deposits paid (+1,964)
Total non-Current Assets	18,916	17,576	+1,340	Increase in intangible leased assets (+869) In investment securities (+391) Increase in software (+161)
Total assets	96,994	87,305	+9,689	
Total current liabilities	35,465	29,456	+6,009	Increase in advances received (+5,046) Increase in notes and accounts payable - trade (+925)
Total non-current liabilities	3,555	2,966	+589	Increase in long-term lease obligations (+421)
Total liabilities	39,020	32,423	+6,597	
Total net assets	57,973	54,882	+3,090	Increases in Retained earnings (+3,144)
Total liabilities and net assets	96,994	87,305	+9,689	

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6. Consolidated Statements of Cash Flows

(Unit : Million yen)

	2Q of FY2020 (cumulative)	Main Factors	YoY	
			2Q of FY2019 (cumulative)	Variance
Cash flows from operating activities	5,154	Net Income before income taxes (6,743) Increase in advances received (5,072) Increase in advance payments (-4,910) Increase in notes and accounts payable - trade (-2,566)	5,797	-643
Cash flows from investing activities	-1,850	Purchase of shares of subsidiaries and associates (-813) Purchase of intangible assets (-813) Purchase of property, plant and equipment (-138)	-2,731	+881
Cash flows from financing activities	-1,961	Cash dividends paid (-1,368) Repayments of lease obligations (-587)	-1,587	-374
Effect of exchange rate change on cash and cash equivalents	-73		-93	+20
Net increase (decrease) in cash and cash equivalents	1,270		1,385	-115
Cash and cash equivalents at the beginning of period	36,981		33,620	+3,361
Cash and cash equivalents at the end of period	38,251		35,006	+3,245

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Forecast

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 forecasts as a result of changes in the business environment and other factors.

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Forecast for FY2020

Despite favorable performance in the first half, we have left our forecast unchanged from the forecast announced on February 10, 2020, due to the uncertainty of future performance resulting from factors such as the impact of the spread of the COVID-19.

(Unit : Million yen)

	FY2020	YoY			(Reference)
		FY2019	Variance	% change	Progress in 2Q of FY2020 (cumulative) forecast
Net sales	105,000	100,679	+4,321	+4.3	52.4%
Operating income	10,500	10,075	+425	+4.2	66.4%
Profit margin	10.0%	10.0%	–	–	–
Ordinary income	10,217	9,648	+569	+5.9	67.2%
Profit attributable to owners of parent	6,911	6,226	+685	+11.0	65.3%

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Net Sales Forecast by Business Segment

(Unit : Million yen)

	FY2020	YoY			(Reference)
		FY2019	Variance	% change	Progress in 2Q of FY2020 (cumulative) forecast
Financial Solutions	25,611	24,622	+989	+4.0	47.7%
Business Solutions	20,057	19,289	+768	+4.0	54.3%
Manufacturing Solutions	31,410	30,027	+1,383	+4.6	49.4%
Communication IT	27,920	26,739	+1,181	+4.4	58.7%
Total	105,000	100,679	+4,321	+4.3	52.4%

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Net Sales Forecast by Service Category

(Unit : Million yen)

	FY2020	YoY			(Reference)
		FY2019	Variance	% change	Progress in 2Q of FY2020 (cumulative) forecast
Consulting Services	6,589	6,819	-230	-3.4	45.8%
Custom System Development	29,798	29,153	+645	+2.2	50.3%
In-house Software	18,824	17,126	+1,698	+9.9	53.8%
Third-party Software	31,694	29,945	+1,749	+5.8	52.7%
Outsourcing, Operation and Maintenance Services	9,701	9,524	+177	+1.9	62.8%
IT Equipment Sales and Others	8,390	8,110	+280	+3.5	48.7%
Total	105,000	100,679	+4,321	+4.3	52.4%

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