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In the event a difference arises regarding the meaning herein, the original Japanese version will prevail as the official authoritative version.

July 30, 2020

Consolidated Financial Results for the Second Quarter of Fiscal Year Ending December 31, 2020 (Japan GAAP)

Name of Listed Company: Information Services International-Dentsu, Ltd.
Listed Exchange: Tokyo
Code Number: 4812
URL: https://www.isid.co.jp/english/
Representative: Ryoichi Nawa, President, CEO and COO
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Date of scheduled filing of securities report: August 7, 2020
Date of scheduled payment of dividends: September 1, 2020
Quarterly earnings supplementary explanatory documents: Yes
Quarterly earnings presentation: Yes

(Amounts less than one million yen are rounded down.)

1. Consolidated Business Performance for the Second Quarter of FY2020 (from January 1, 2020 to June 30, 2020)

(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)	(%)
Second Quarter of FY2020	55,020	11.9	6,971	33.9	6,862	33.2	4,512	32.2
Second Quarter of FY2019	49,185	14.2	5,204	36.9	5,152	33.5	3,412	29.2

* Net income attributable to parent company's shareholders.

Note: Comprehensive income: Second Quarter of FY2020: 4,464 million yen (up 33.8%); Second Quarter of FY2019: 3,337 million yen (up 32.8%)

	Earnings per share	Diluted earnings per share
	(yen)	(yen)
Second Quarter of FY2020	138.50	–
Second Quarter of FY2019	104.74	–

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	(million yen)	(million yen)	(%)
As of June 30, 2020	96,994	57,973	59.7
As of December 31, 2019	87,305	54,882	62.8

Reference: Total shareholders' equity: As of June 30, 2020: 57,952 million yen; As of December 31, 2019: 54,858 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)
FY2019	–	35.00	–	42.00	77.00
FY2020	–	43.00			
FY2020 (forecast)			–	43.00	86.00

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

3. Consolidated Forecasts for FY2020 (from January 1, 2020 to December 31, 2020)

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)
Full year	105,000	4.3	10,500	4.2	10,217	5.9	6,911	11.0	212.11

* Net income 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 the six months under review (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 the end of the period, including treasury stock:	June 30, 2020:	32,591,240 shares	December 31, 2019:	32,591,240 shares
ii. Number of treasury stock at the end of the period:	June 30, 2020:	8,889 shares	December 31, 2019:	8,869 shares
iii. Average number of shares outstanding for each period (cumulative quarterly period):	Six months ended June 30, 2020:	32,582,363 shares	Six months ended June 30, 2019:	32,582,548 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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I. Qualitative Information on the Consolidated Financial Results for the Subject Period

1. Explanation of Business Results

(Millions of yen)

	Second quarter of FY2019 (cumulative)	**Second quarter of FY2020 (cumulative)**	YoY	
			Variance	% change
Net sales	49,185	55,020	5,835	11.9%
Operating income	5,204	6,971	1,767	33.9%
Operating margin	10.6%	12.7%	2.1p	–
Ordinary income	5,152	6,862	1,710	33.2%
Profit attributable to owners of parent	3,412	4,512	1,100	32.2%

During the first half of the fiscal year under review (from January 1, 2020 to June 30, 2020), although the Japanese economy started on a moderate recovery trend thanks to improvements in employment and the income environment, the economy deteriorated rapidly and became extremely difficult due to the consequent influence of worldwide outbreak of the Coronavirus Disease 2019 (COVID-19). Amid the lack of prospects for the convergence of the COVID-19, there is a strong sense of uncertainty about the outlook for the domestic and overseas economies, and there is concern that the negative impact on corporate performance will prolong in the future. Meanwhile, in the information service industry, some companies have begun to restrain or postpone IT investment due to the deterioration in business conditions, however, corporate IT investment demand for the creation of innovative services and the transformation of business processes has remained firm.

Amid such conditions, the ISID Group is advancing the medium-term management plan “ISID X (Cross) Innovation 2021,” which ends in the fiscal year ending December 2021. Under the three basic policies of “core business evolution”, “the new business creation” and “the business foundation innovations," we aim to achieve consolidated net sales of ¥110 billion, operating income of ¥11 billion, operating margin of 10.0% and ROE of 12.5% by the fiscal year ending December 2021. In the fiscal year under review, the second year of the medium-term management plan, we will work to further create new businesses by reinforcing existing businesses and promoting X Innovation while actively strengthening our personnel structure, investing in R&D and creating a comfortable working environment. Through these efforts, we will work to strengthen the foundations for future growth.

During the first half of the fiscal year under review, net sales were ¥55,020 million (up 11.9% year on year), operating income was ¥6,971 million (up 33.9% year on year), ordinary income was ¥6,862 million (up 33.2% year on year) and profit attributable to owners of parent was ¥4,512 million (up 32.2% year on year).

Net sales increased in year on year thanks to strong performance in Business Solutions segment, Manufacturing Solutions segment and Communication IT segment among the four businesses in which we operate. In terms of operating income, in addition to the effects of higher sales, the gross profit margin improved due to the elimination of the negative impact of projects that were unprofitable in the same period of the previous fiscal year, resulting in a significant increase in year on year profits.

Due to the COVID-19, there were delays or disruptions to the progress of some projects, mainly consulting services. However, the impact on results was limited in the first half of the fiscal year under review.

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

In order to reflect the operating results of each reportable segment more appropriately, the method of allocation of some expenses has been changed to the method of allocation based on rational allocation standards that are appropriate for the actual conditions of each segment since the second quarter of the fiscal year under review. Also, segment information for t the first half of the previous fiscal year is also presented based on the revised method for calculating profit or loss.

Net Sales and Operating Income by Reportable Segment

(Millions of yen)

Reportable Segment	Second quarter of FY2019 (cumulative)			**Second quarter of FY2020 (cumulative)**			Variance	
	Net sales	Operating Income	Operating margin	Net sales	Operating Income	Operating margin	Net sales	Operating income
Financial Solutions	12,240	707	5.8%	12,224	866	7.1%	(16)	159
Business Solutions	9,572	1,219	12.7%	10,885	1,720	15.8%	1,313	501
Manufacturing Solutions	15,140	1,351	8.9%	15,531	1,257	8.1%	391	(94)
Communication IT	12,231	1,926	15.7%	16,378	3,126	19.1%	4,147	1,200
Total	49,185	5,204	10.6%	55,020	6,971	12.7%	5,835	1,767

Status of Business Operations by Reportable Segment

Financial Solutions

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

During the first half of the fiscal year under review, net sales were at the same level as in the previous year due to a steady increase in projects for government-affiliated financial institutions and business companies participating in the financial service business. Profits increased due to the elimination of the negative impact of projects that were unprofitable in the same period of the previous fiscal year.

Business Solutions

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

During the first half of the fiscal year under review, net sales increased due to an expansion of licensing sales and installation of SAP solutions in addition to software developed in-house such as the human resource management solution POSITIVE, the accounting solution Ci*X and the consolidated accounting solution STRAVIS, as a result of continuing demand for system upgrades triggered by corporate work style reforms, and the end of the support period and aging of existing systems. Despite an increase in R&D investment aimed at new product development, profits also increased due to the effects of higher sales and improved profitability.

Manufacturing Solutions

The main business of this segment is providing IT solutions for the entire product lifecycle, from product development and production, to sales and maintenance in the manufacturing industry.

During the first half of the fiscal year under review, although there were delays in progress and interruptions in some consulting services projects due to the impact of the COVID-19, net sales increased due to a steady increase of licensing sales and installation of third-party software such as PLM*1 and CAE*2, particularly for the automotive industry. Profits decreased mainly due to a decrease in sales of highly profitable consulting services.

*1 PLM: Product Lifecycle Management

*2 CAE: Computer Aided Engineering

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 first half of the fiscal year under review, in addition to steady growth in large-scale system upgrade projects 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. Explanation of Financial Position

Status of Assets, Liabilities and Net Assets

(1) Assets

At the end of the second quarter of the fiscal year under review (as of June 30, 2020), total assets amounted to ¥96,994 million, up ¥9,689 million from the end of the previous fiscal year. Current assets up ¥8,350 million from the end of the previous fiscal year to ¥78,078 million due to a decrease in notes and accounts receivable-trade and an increase in deposits due to the expansion of transactions, as well as an increase in advance payments due to the renewal of prepaid rental fees and maintenance contracts for customer services. Non-current assets rose ¥1,340 million from the end of the previous fiscal year to ¥18,916 million due to the acquisition of intangible lease assets (software) for customer services and additional investment in affiliated companies.

(2) Liabilities

At the end of the second quarter of the fiscal year under review, total liabilities amounted to ¥39,020 million, up ¥6,597 million from the end of the previous fiscal year. Current liabilities up ¥6,009 million from the end of the previous fiscal year to ¥35,465 million, primarily due to an increase in notes and accounts payable-trade accompanying the expansion of the scale of transactions and an increase in advances received, mainly from the renewal of contracts for rental and maintenance fees received. Non-current liabilities up ¥589 million from the end of the previous fiscal year to ¥3,555 million, mainly due to an increase in lease obligations associated with an increase in intangible lease assets and an increase in asset retirement obligations associated with the lease of a new office.

(3) Net assets

At the end of the second quarter of the fiscal year under review, total net assets amounted to ¥57,973 million, up ¥3,090 million from the end of the previous fiscal year. This change was primarily due to an increase in retained earnings caused by the recording of net income attributable to owners of parent, despite dividends from retained earnings.

3. Explanation of Consolidated Financial Results Forecasts

The full-year earnings forecast announced on February 10, 2020 remains unchanged due to the uncertainty of future business performance resulting from the spread of the COVID-19. We will promptly disclose any necessary revisions to forecasts in the light of the affairs, business trends and other factors.

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.

II. Consolidated Financial Statement

1. Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2019	As of June 30, 2020
Assets		
Current assets		
Cash and deposits	3,497	2,841
Notes and accounts receivable - trade	20,263	22,789
Merchandise and finished goods	152	118
Work in process	2,332	1,786
Raw materials and supplies	23	22
Advance payments - trade	8,634	13,536
Deposits paid	33,666	35,630
Other	1,169	1,356
Allowance for doubtful accounts	(11)	(2)
Total current assets	69,728	78,078
Non-current assets		
Property, plant and equipment	4,574	4,428
Intangible assets	3,233	4,263
Investments and other assets		
Investments and other assets	9,952	10,422
Allowance for doubtful accounts	(183)	(198)
Total investments and other assets	9,769	10,224
Total non-current assets	17,576	18,916
Total assets	87,305	96,994
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,668	8,593
Income taxes payable	1,781	2,275
Advances received	10,097	15,143
Provision for loss on order received	575	279
Other	9,334	9,173
Total current liabilities	29,456	35,465
Non-current liabilities		
Retirement benefit liability	34	37
Asset retirement obligations	946	1,058
Other	1,986	2,459
Total non-current liabilities	2,966	3,555
Total liabilities	32,423	39,020

(Millions of yen)

	As of December 31, 2019	As of June 30, 2020
Net assets		
Shareholders' equity		
Share capital	8,180	8,180
Capital surplus	15,285	15,285
Retained earnings	31,238	34,383
Treasury shares	(30)	(30)
Total shareholders' equity	54,675	57,819
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	68	97
Foreign currency translation adjustment	115	36
Total accumulated other comprehensive income	183	133
Non-controlling interests	23	20
Total net assets	54,882	57,973
Total liabilities and net assets	87,305	96,994

2. Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

[Consolidated Statements of Income]

(Millions of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Net sales	49,185	55,020
Cost of sales	32,953	35,857
Gross profit	16,232	19,163
Selling, general and administrative expenses	11,027	12,192
Operating profit	5,204	6,971
Non-operating income		
Interest and dividend income	21	20
Dividend income of insurance	62	59
Subsidy income	15	25
Miscellaneous income	8	16
Total non-operating income	107	122
Non-operating expenses		
Interest expenses	15	20
Share of loss of entities accounted for using equity method	103	175
Foreign exchange losses	23	5
Loss on investments in investment partnerships	15	10
Miscellaneous loss	1	19
Total non-operating expenses	159	230
Ordinary profit	5,152	6,862
Extraordinary losses		
Loss on valuation of investment securities	54	119
Total extraordinary losses	54	119
Profit before income taxes	5,097	6,743
Income taxes - current	1,560	2,151
Income taxes - deferred	118	77
Total income taxes	1,678	2,228
Profit	3,419	4,514
Profit attributable to non-controlling interests	6	1
Profit attributable to owners of parent	3,412	4,512

[Consolidated Statements of Comprehensive Income]

(Millions of yen)

	Six months ended June 30, 2019	Six months ended June 30, 2020
Profit	3,419	4,514
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	29
Foreign currency translation adjustment	(80)	(79)
Total other comprehensive income	(81)	(509)
Comprehensive income	3,337	4,464
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,330	4,462
Comprehensive income attributable to non-controlling interests	6	1

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

(Additional Information)

Not applicable

■ Segment Information

I. The second quarter cumulative period of FY2019 (from January 1, 2019 to June 30, 2019)

1. Sales and Income (Loss) by Reportable Segment

(Millions of yen)

	Reportable Segment				
	Financial Solutions	Business Solutions	Manufacturing Solutions	Communication IT	Total
Net sales					
Sales to customers	12,240	9,572	15,140	12,231	49,185
Inter-segment sales and transfers	–	–	–	–	–
Total	12,240	9,572	15,140	12,231	49,185
Segment income	707	1,219	1,351	1,926	5,204

Notes: Total values for segment income match those for the operating income on the "Consolidated Statements of Income."

II. The second quarter cumulative period of FY2020 (from January 1, 2020 to June 30, 2020)

1. Sales and Income (Loss) by Reportable Segment

(Millions of yen)

	Reportable Segment				
	Financial Solutions	Business Solutions	Manufacturing Solutions	Communication IT	Total
Net sales					
Sales to customers	12,224	10,885	15,531	16,378	55,020
Inter-segment sales and transfers	–	–	–	–	–
Total	12,224	10,885	15,531	16,378	55,020
Segment income	866	1,720	1,257	3,126	6,971

Notes: 1. Total values for segment income match those for the operating income on the "Consolidated Statements of Income."

2. Sales and Income (Loss) by Reportable Segment

In order to reflect the operating results of each operating segment more appropriately, the method of allocation of some expenses has been changed to the method of allocation based on rational allocation standards that are appropriate for the actual conditions of each segment since the second quarter of the fiscal year under review. Also, segment information for the first half of the previous fiscal year is also presented based on the revised method for calculating profit or loss.