

INFORMATION DEVELOPMENT CO., LTD.

(4709, TSE 1st Section) August 30, 2018

Even After Absorbing Significant Transient Expenses,
Q1 Operating Income Rose 240% YoY

Research Note

Quick Corporation
Toshiaki MaedaKey benchmarks as of
August 29, 2018

Share price	¥1,692
Shares outstanding	12,044,302 shares
Market capitalization	¥20,379 million

Previous report date

Basic July 6, 2018

	Results	Net sales ¥ million	YoY %	Operating income ¥ million	YoY %	Ordinary income ¥ million	YoY %	Net income ¥ million	YoY %	EPS ¥
FY2017	Results	23,207	7.7	1,254	13.5	1,274	12.5	622	-4.8	56.84
FY2018	Company estimate (Announced April 2018)	26,300	13.3	1,480	17.9	1,500	17.7	780	25.3	70.91
	Analyst estimate	26,300	13.3	1,500	19.5	1,520	19.2	800	28.5	72.71
FY2019	Analyst estimate	27,000	2.7	1,600	6.7	1,620	6.6	860	7.5	78.16

Software Development Business Receives Major Orders from the Public Sector

The consolidated business results of the ID Group for the first quarter of the fiscal year ending March 31, 2019 (Q1 FY2018) were net sales of ¥6.6 billion, marking a rise of 24% from the same period of the previous fiscal year (YoY); and operating income of ¥4 billion, an increase of 240% YoY. Both the system operation management segment and software development segment grew. Expenses were considerable, including the cost of moving the headquarters of Fess Co., Ltd., which had been made a subsidiary in January 2018 (the move was completed July 23); a provision for product warranties for software development (warranty expenses for guarantee contracts without compensation and warranties against defects in received software development projects); and goodwill amortization. The ID Group enjoyed a significant increase in operating income, due to the fruition of measures to increase productivity from strengthened project management, to prevent the occurrence of unprofitable projects, and bolster sales efforts aimed at enhancing profitability. In net sales by segment, many segments delivered significant growth. Sales in system operation management grew 29% YoY to ¥4.1 billion. Revenues at Fess expanded considerably, while existing businesses held up firmly. In existing business segments, while returns for the platform development segment in the financial sector were sluggish, the operation management business turned in a rise in net sales due to intensive focus on existing customers in the financial sector. The software development segment enjoyed growth of 15% YoY to ¥2.3 billion. The ID Group received orders from major projects in the public sector, offsetting the wrapping-up of major projects in the financial and transportation sectors. Other segments grew 30% YoY to ¥300 million. Sales of security products increased, as did net sales from consulting and at overseas subsidiaries.

Expectations for an Upswing in FY2018 are Strong, but We are Taking a
Wait-and-See Approach for Now

The ID Group's net sales were at the top end of the range forecast by Quick Corporation for Q1 FY2018, while operating income exceeded expectations. The software development segment exhibited solid growth, while the system operation management segment received a boost not only from Fess's contribution but also from solid performance in existing businesses. Despite the burden of transient expenses for the transfer of Fess' headquarters and a provision for product warranties, this segment reported a dramatic increase in operating income and its profitability improved. On the other hand, additional expenses for received projects created a negative impression. Although provisions are expected to cover fully the costs for the projects in question, concerns linger. Quick Corporation has therefore kept its forecast of consolidated business results for FY2018 unchanged. The business environment is favorable, lifting expectations for an upswing, but for now we are taking a wait-and-see approach.

In comparison with the previous fiscal year, growth in sales to the financial sector, which is the ID Group's main financial base, is expected to be challenging due to the completion of major projects, but orders from other customers, with whom the ID Group has been strengthening its relationships, are expected to expand. The system operation management segment, to which Fess should contribute throughout the fiscal year, is forecast to increase its revenue by about 20%, serving as a driving force for the ID Group as a whole. The software development segment is also forecast to grow, powered by projects with customers in the public sector. Both net sales and operating income are anticipated to break previous records.

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