

INFORMATION DEVELOPMENT CO., LTD.

(4709, TSE 1st Section)

December 19, 2018

Increase in Full-Year Forecast Due to Unexpectedly High Results in the First Half

Update Report

Quick Corporation
Toshiaki MaedaKey benchmarks as of
December 17, 2018

| | |
|------------------------------|-------------------|
| Share price | ¥1,332 |
| Year-to-date high | ¥1,782 (9/13) |
| Year-to-date low | ¥1,231 (7/5) |
| Shares outstanding | 12,044,302 shares |
| Trading units | 100 shares |
| Market capitalization | ¥16,043 million |
| Projected dividend (Company) | ¥40.00 |
| Projected EPS (Analyst) | ¥87.83 |
| PBR (Results) | 1.94 |

Issuance date of preceding reports

| | |
|---------------|-----------------|
| Research Note | August 31, 2018 |
| Basic | July 6, 2018 |

In the first half, operating income increased by 2.5 times due to rebound from unprofitable projects, increased productivity, etc.

Net sales were ¥13.2 billion (+23% YoY) and operating income was ¥730 million (+250% YoY) in the consolidated financial results for the first half of FY2018. Revenue increased by nearly 30% in the system operation management business, which had been augmented by the addition of Fess Co., Ltd. (many conducts systems operations business such as operation of medical systems and ITSM consulting), a company that was acquired in the previous period (January 2018). In the software development business, revenue increased by more than 10% due to the receipt of large-scale projects. In addition to expenses related to relocation of the Fess headquarters (July 2018), the company also recorded provision for product warranties related to software development in the previous fiscal year. In addition to a rebound from income that was suppressed by unprofitable projects, etc., in the same period of the previous fiscal year, the company was successful in initiatives such as improving productivity by strengthening project management. Overall, this resulted in a significant increase in income.

Forecasting a 14% increase in revenue and a 31% in operating income for FY2018

Quick Corporation adjusted its forecast for consolidated results in FY2018 to net sales of ¥26.5 billion (+14% YoY) and operating income of ¥1.65 billion (+31% YoY), which are in accordance with the company plan. In the first half, growth of the software development business exceeded expectations and improvements in profitability were realized. Although outsourcing costs, etc., increased due to improved treatment of employees, education expenses, and labor shortages, the relocation of the Fess headquarters was completed in July and cost allocation for the second half is no longer necessary. As a result of such factors, we forecast that operating income will increase by 30%.

For consolidated results in FY2019, Quick Corporation forecast net sales of ¥27.5 billion (+4% YoY) and operating income of ¥1.8 billion (+9% YoY). The current Mid-term Management Plan will end in FY2018 and there is a high possibility that a new mid-term plan will be formulated. Quick Corporation forecasts results as an extension of current initiatives.

Scheduled to transition to a holding-company structure on April 1, 2019

Assuming that approval is obtained at the company's Extraordinary General Meeting of Shareholders that is scheduled to be held on January 24, 2019, the company plans to transition to a holding-company structure on April 1. In conjunction with this transition, the company will change its trade name to ID Holdings. The transition will clearly separate the management function and executive function of the company, and will facilitate the construction of a more dynamic and efficient group operation system. Through these changes, the company is seeking to improve the corporate value of the group.

| 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 estimates (Announced October 2018) | 26,600 | 14.6 | 1,640 | 30.7 | 1,700 | 33.4 | 960 | 54.2 | 86.93 |
| | Analyst estimates | 26,500 | 14.2 | 1,650 | 31.5 | 1,710 | 34.1 | 970 | 55.8 | 87.83 |
| FY2019 | Analyst estimates | 27,500 | 3.8 | 1,800 | 9.1 | 1,840 | 7.6 | 1,070 | 10.3 | 96.89 |

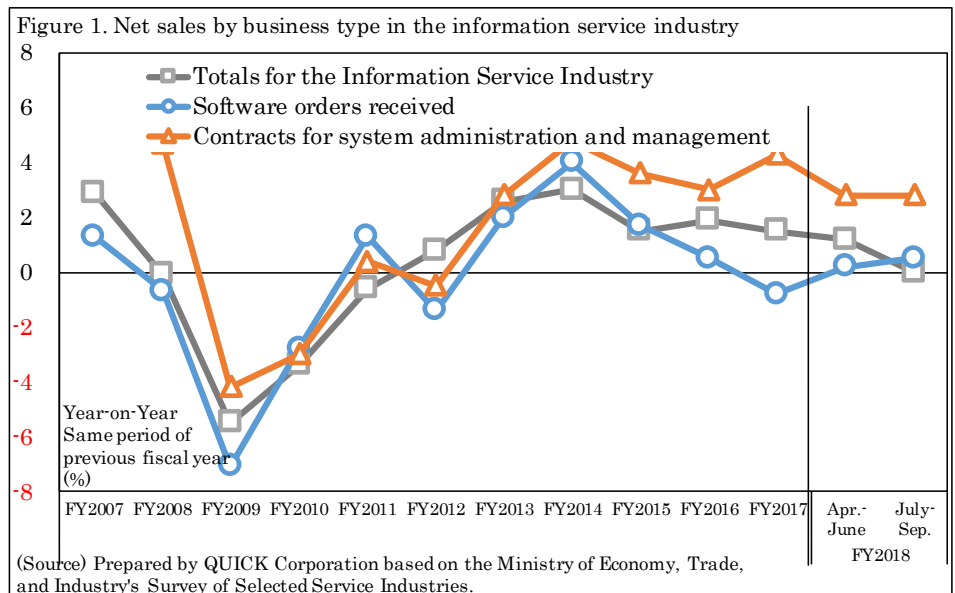
Business Environment

Increasing trend in contracts for system administration and management

- Business Environment

IT investment delays and project cancellations were prominent in the information service industry after the collapse of Lehman Brothers in 2008. Industry growth stagnated for years. However, there has been a gradual recovery in the past few years. This trend is evident based on the information service sales figures reported in the Survey of Selected Service Industries published by the Ministry of Economy, Trade, and Industry. The net sales for each type of business within the information service industry are shown in Figure 1. The breakdown of system administration and management contracts and software orders received by industry are categorized as net sales for industries related to the company's system operation management business and software development business, respectively.

The company's software orders experienced negative growth in FY2008 and slumped severely in FY2009. Although contracts for system administration and management also experienced negative growth in FY2009, this business did not slump as severely as software orders, and it continued to grow thereafter, exceeding the performance of the software orders business. In FY2017, software orders failed to reach values from the previous fiscal year for the first time in 5 years, while contracts for system administration and management achieved a greater growth percentage than in FY2016. Contracts for system administration and management continue to grow steadily in FY2018. Software orders received also entered a slightly profitable area.

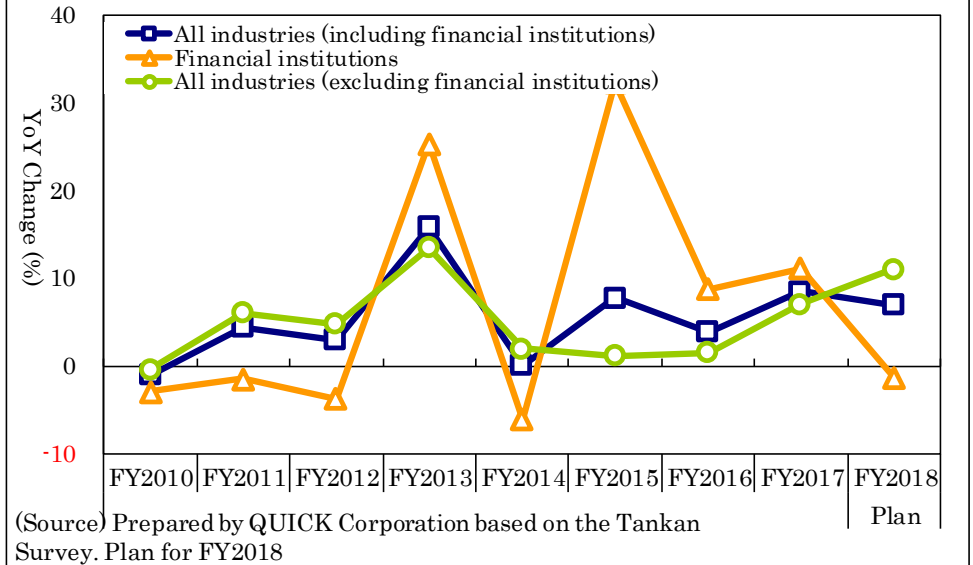


Increase of 6.4% in private-sector software development investment from the Bank of Japan's December 2018 Tankan Survey to FY2018

According to the Bank of Japan's December 2018 Tankan Survey, investment in software development for all industries (including financial institutions) in FY2018 is scheduled to increase by 6.4% YoY (see Figure 2), in which is a slight downward revision from the previous Tankan Survey (September). This will be the eight consecutive year of growth. When excluding financial institutions, investment is scheduled to increase for all industries by 11.6% YoY. It is forecasted that active investment will continue, with an increase of around 10% for manufacturing industries (transportation machinery, material industries, etc.) and non-manufacturing industries (telecommunications, wholesale, retail, etc.). On the other hand, the plan schedules a 4.1% decrease YoY in software development for financial institutions, and was revised downward from the previous survey. Although an increase is forecasted for the insurance industry, cooperative financial institutions industry, etc., the plan schedules a 7.1% decrease YoY in the banking industry, which is closely related to the company. One of the background factors is how megabank investment for renovating enterprise systems has nearly come full circle.

Business Environment

Figure 2. Software development investment by private companies



Results

Net sales +23%,
operating income
+250% in first half

- Results Analysis

Net sales were ¥13.2 billion (+23% YoY) and operating income was ¥730 million (+250% YoY) in the consolidated financial results for the first half of FY2018. Revenue increased by nearly 30% in the system operation management business, which had been augmented by the addition of Fess Co., Ltd. (mainly conducts systems operations business such as operation of medical systems and ITSM consulting), a company that was acquired in the previous period (January 2018). In the software development business, revenue increased by more than 10% due to the receipt of large-scale projects. In addition to expenses related to relocation of the Fess headquarters (July 2018), the company also recorded provision for product warranties related to software development in the previous fiscal year. In addition to a rebound from income that was suppressed by unprofitable projects, etc., in the same period of the previous fiscal year, the company was successful in initiatives such as improving productivity by strengthening project management. Overall, this resulted in a significant increase in income. The company also achieved the first-half plan (net sales: ¥12.7 billion; operating income: ¥570 million) that was announced at the beginning of the fiscal year.

Table 1. Results

¥ million

| | FY2017 H1 A | FY2018 H1 | | |
|-----------------------------|-------------------|--------------|--------|-------|
| | | B | B/A | B-A |
| Net sales | 10,749 | 13,171 | 22.5% | 2,423 |
| By segment | | | | |
| System operation management | 6,294 | 8,099 | 28.7% | 1,805 |
| Software development | 3,994 | 4,583 | 14.8% | 589 |
| Others | 460 | 488 | 6.1% | 28 |
| Cost of sales | 8,908 | 10,492 | 17.8% | 1,584 |
| Gross profit | 1,840 | 2,679 | 45.6% | 839 |
| SG&A | 1,545 | 1,944 | 25.8% | 399 |
| Operating income | 294 | 734 | 149.2% | 440 |
| (Operating income margin) | 2.7% | 5.6% | - | - |
| Ordinary income | 309 | 786 | 154.2% | 477 |
| Net income | 104 | 450 | 332.6% | 347 |

(Source) Prepared by QUICK Corporation based on Information Development's Summary of Financial Results (Tanshin) and other materials

Fess increased
net sales of the
system
operation
management
business

When looking at net sales by segment, net sales in the system operation management business were ¥8.1 billion (+29% YoY). In addition to contributions by Fess, the company also exceeded in enhancing transactions with existing financial customers in operation management. Despite an increase in net sales for platform development (services for designing/constructing a low-cost and high-reliability systems operation environment) in the public sector, net sales decreased in the financial sector. For software development, net sales were ¥4.6 billion (+15% YoY). Although major projects in the financial sector and transportation sector concluded, results were led by the receipt of major projects in the public sector. In regards to other businesses, consulting and overseas subsidiaries also grew, and net sales were ¥490 million (+6% YoY).

- Company Plan

In addition, FY2018 is the final fiscal year for the company's "I-vision 50" Mid-term Management Plan, a three-year plan that was formulated in April 2016. While maintaining its basic policy, the company has revised its quantitative targets for the final fiscal year based on changes to the business environment at the beginning of the fiscal year. Since the plan was exceeded in the first half, the company increased its forecast for the fiscal year from the values announced at the beginning of the fiscal year. The forecasted consolidated results for FY2018 are net sales of ¥26.6 billion (+15% YoY) and operating income of ¥1.64 billion (+31% YoY).

Results

Table 2. Results estimates

| | | ¥ million | | | | | |
|---|-----------------------------|------------------------|--------------------|---------------|------------|--------------------|-----------|
| | | FY2017 Results A | FY2018 projections | | | FY2019 projections | |
| | | | Company | QUICK | | QUICK | |
| | | | B | B/A | C | C/B | |
| Net sales | | 23,207 | 26,600 | 26,500 | 14.2% | 27,500 | 3.8% |
| By segment | System operation management | 13,589 | | 16,100 | 18.5% | 16,400 | 1.9% |
| | Software development | 8,499 | | 9,200 | 8.2% | 9,800 | 6.5% |
| | Others | 1,118 | | 1,200 | 7.3% | 1,300 | 8.3% |
| Operating income (Operating income margin) | | 1,254 5.4% | 1,640 6.2% | 1,650 6.2% | 31.5% - | 1,800 6.5% | 9.1% - |
| Ordinary income | | 1,274 | 1,700 | 1,710 | 34.1% | 1,840 | 7.6% |
| Net income | | 622 | 960 | 970 | 55.8% | 1,070 | 10.3% |

(Source) Prepared by QUICK Corporation based on Information Development's Summary of Financial Results (Tanshin) and other materials.

The Mid-term Management Plan promotes various initiatives. The company supports "I-vision 50" by defining three base policies for its working style reforms as "thorough business process reengineering (BPR)," "building new growth areas," and "strengthening group governance." The company also defines the seven priority initiatives (see Table 3) of 1) work style reforms, 2) structural reforms, 3) adopting new technologies, 4) diversity and inclusion, 5) global business advancement, 6) strengthening the governance of consolidated management activities, and 7) business operations outsourcing (BOO; the approach of providing a single client with comprehensive IT outsourcing services spanning from consulting to software development, systems operation management, cloud services, and cybersecurity).

Table 3. Priority initiatives under the management strategy

| | | |
|-----|--|--|
| (1) | Work style reforms | <ul style="list-style-type: none"> The ID Group is certified by Tottori Prefecture as an "enterprise that promotes equal participation in the workplace by men and women." (San'in Branch) [(4)] The ID Group is certified and registered by Tottori Prefecture as an "outstanding enterprise that empowers women." (San'in Branch) [(4)] Introduction of the volunteer leave system [(4)] |
| (2) | Structural reforms | <ul style="list-style-type: none"> Implementation of business reform and improvement activities based on company-wide call for suggestions [(1)] The Group has established a Committee for Visualization of Personnel Affairs, aiming for visualization of employees' skills, experience and career paths. [(4)] |
| (3) | Adopting new technologies | <ul style="list-style-type: none"> The Group established an Cutting-Edge Technology Office, tasked with promoting the Group's beneficial use of new technologies such as robotic process automation (RPA), AI and IoT. The Group invested in the ff Graphite (v), L.P. Venture Fund, a fund targeting cutting-edge IT technology The Group started a cooperative business with Keio University in the cyber-security field The Group held the "Night for Considering Technology Promotion and Business Innovation Powered by ID" at Venture Café Tokyo, of which the Group is a sponsor The Group started training technicians in "Agile Development," a leading software development management method for rapid development with adaptability and reduced risk The Group executed a memorandum with the Ireland's ActionPoint Technology Group regarding Agile Development [(5)] |
| (4) | Diversity and inclusion | <ul style="list-style-type: none"> Percentage of women in management positions: 14% Percentage of non-Japanese workers at the ID Group: 9% [(5)] |
| (5) | Global business advancement | <ul style="list-style-type: none"> INFORMATION DEVELOPMENT Wuhan CO., LTD.: Won the award for "most influential enterprise in the software and information service industries in China in FY2017–FY2018." Became the first Japanese company to participate as a member of the Netherlands' Hague Security Delta [(3)] |
| (6) | Strengthening the governance of consolidated management activities | <ul style="list-style-type: none"> Fess Co., Ltd.: Moved to the head office of the parent company to improve business efficiency by pursuing synergies and centralizing management functions. |
| (7) | Business operations outsourcing (BOO) | - |

(Note) The numbers in [] indicate items which also correspond with other priority measures.

BOO (business operations outsourcing) strategy refers to the approach of providing a single client with comprehensive IT outsourcing services.

(Source) Prepared by QUICK Corporation based on Information Development's closing-of-accounts materials

Results

Scheduled to transition to a holding-company structure on April 1, 2019

Assuming that approval is obtained at the company's Extraordinary General Meeting of Shareholders that is scheduled to be held on January 24, 2019, the company plans to transition to a holding-company structure on April 1. In conjunction with a company split (incorporation-type company split) that will establish the new company Information Development as a company established via the incorporation-type company split, the company will change its trade name to ID Holdings. The transition will clearly separate the management function and executive function of the company, and will facilitate the construction of a more dynamic and efficient group operation system. Through these changes, the company is seeking to improve the corporate value of the group.

Predicting increases in net sales (+14%) and operating income (+31%) in FY2018

- Forecasted Results

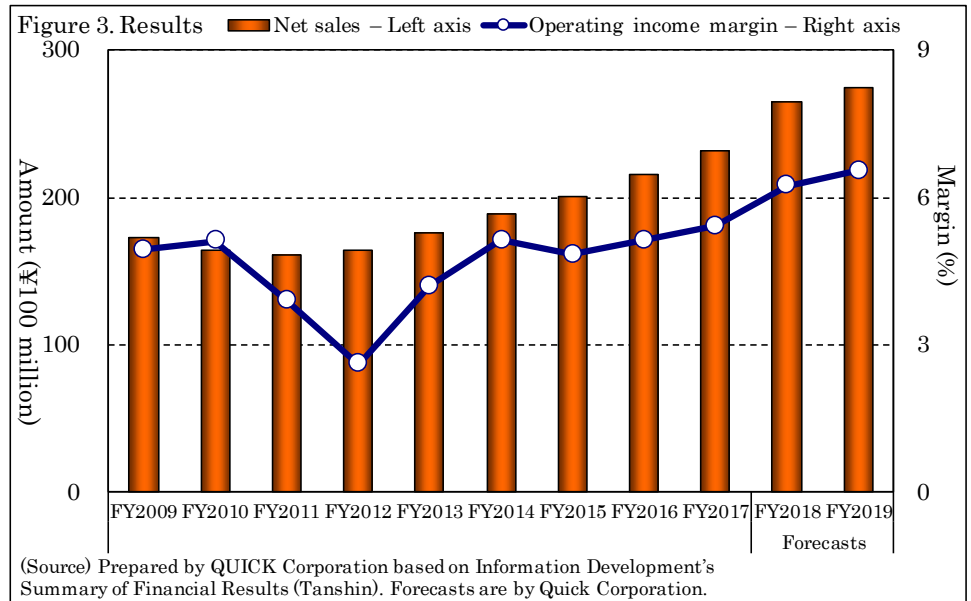
Quick Corporation adjusted its forecast for consolidated results in FY2018 to net sales of ¥26.5 billion (+14% YoY) and operating income of ¥1.65 billion (+31% YoY), which are in accordance with the company plan. In the first half, growth of the software development business exceeded expectations and improvements in profitability were realized. Although outsourcing costs, etc., increased due to improved treatment of employees, education expenses, and labor shortages, the relocation of the Fess headquarters was completed in July and cost allocation for the second half is no longer necessary. As a result of such factors, we forecast that operating income will increase by 30%.

In the system operation management business, we forecast an increase due to factors such as the effect of Fess on consolidated results for the fiscal year and an increase in platform development in the public sector. As explained in the section on the business environment, we forecast an increase in software investment for private companies. Although we forecast decreased investment by banks, an area of strength for the company, we also predict increased revenue in the software development business due to contributions by non-bank financial institutions (insurance companies, etc.) and by major public projects which grew in the first half. In regards to other businesses, we forecast growth in consulting and overseas subsidiaries.

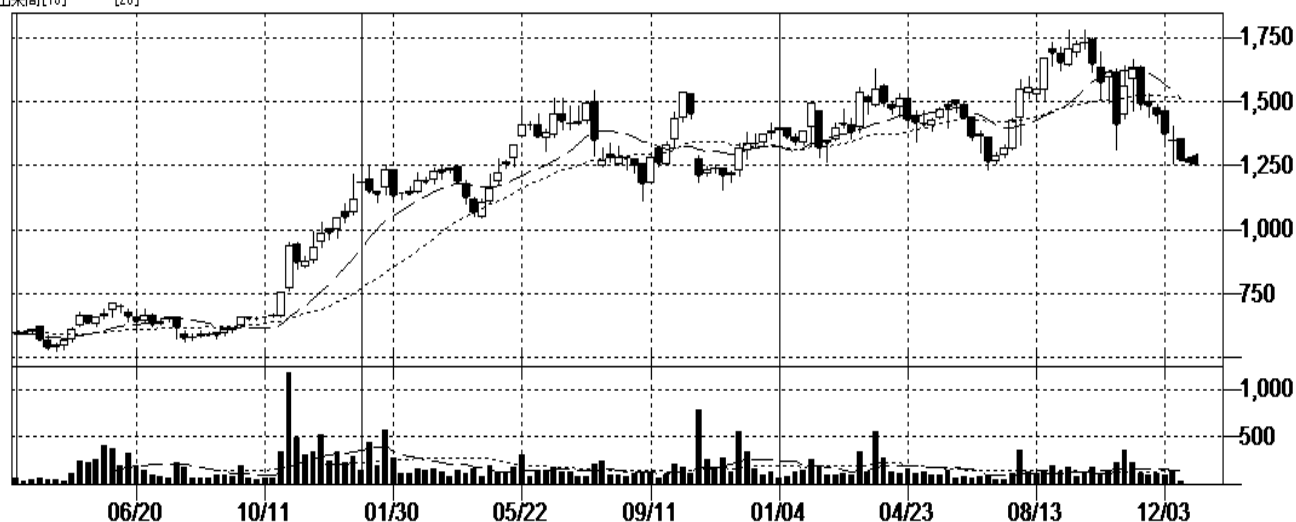
Predicting increases in net sales (+4%) and operating income (+9%) in FY2019

For the consolidated financial results of FY2019, we predict new performance records for the company, with net sales reaching ¥27.5 billion (+4% YoY) and operating income reaching ¥1.8 billion (+9% YoY) (see Figure 3). Since the current Mid-term Management Plan ends with FY2018, there is a high probability the company will establish a new Mid-term Management Plan. For the moment, our performance predictions are based on a continuation of the current policies. We expect that Fess acquired a portion of its current orders through its previous parent company, so we anticipate some gradual reduction in volume. Since the company needs to increase direct sales, our estimate for the system operation management business's growth ratio is slightly low. For the software development business, corporate software investment is expected to continue on its slight upward trend, so we anticipate an increase in orders received.

Results



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(Source) QUICK Corporation

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| | | | FY2015 | FY2016 | FY2017 | FY2018 (Analyst) |
|---|--------------------------------------|-----------------|--------|--------|--------|---------------------|
| Share price | Share price (52-week high) | ¥ | 698 | 1,260 | 1,636 | - |
| | Share price (52-week low) | ¥ | 544 | 527 | 1,047 | - |
| | Average monthly volume | 100's of shares | 3,731 | 9,395 | 7,821 | - |
| Results | Net sales | ¥ million | 20,082 | 21,554 | 23,207 | 26,500 |
| | Operating income | ¥ million | 970 | 1,105 | 1,254 | 1,650 |
| | Ordinary income | ¥ million | 964 | 1,133 | 1,274 | 1,710 |
| | Net income | ¥ million | 548 | 654 | 622 | 970 |
| | EPS | ¥ | 50.73 | 60.13 | 56.84 | 87.83 |
| | ROE | % | 8.3 | 9.5 | 8.4 | 12.4 |
| Main balance sheet items | Total current assets | ¥ million | 6,551 | 6,901 | 8,727 | - |
| | Total non-current assets | ¥ million | 3,768 | 3,650 | 5,189 | - |
| | Total assets | ¥ million | 10,319 | 10,552 | 13,917 | - |
| | Total current liabilities | ¥ million | 3,105 | 2,890 | 5,923 | - |
| | Total non-current liabilities | ¥ million | 705 | 340 | 375 | - |
| | Total liabilities | ¥ million | 3,810 | 3,230 | 6,299 | - |
| | Total shareholders' equity | ¥ million | 6,388 | 6,801 | 7,033 | - |
| Main cash flow statement items | Total net assets | ¥ million | 6,509 | 7,321 | 7,617 | - |
| | Cash flow from operating activities | ¥ million | 187 | 1,185 | 1,237 | - |
| | Cash flow from investment activities | ¥ million | -219 | -137 | -2,129 | - |
| | Cash flow from financing activities | ¥ million | -231 | -801 | 1,464 | - |
| Cash and cash equivalent balance at end of period | ¥ million | 2,167 | 2,391 | 2,944 | - | |

Note: The company carried out a 1-for-1.5 stock split with an ex-rights date of December 28, 2016. The share price, average monthly volume, and EPS have been retroactively revised to reflect the stock split.

Business Risks

● Business Risks

▪ Risks in the Execution of Software Development and Infrastructure-Building Projects

The software development and infrastructure-building projects face ever-increasing levels of sophistication and complexity, as well as demands for shorter turnaround times. Information Development has implemented the ISO 9001 quality management system to mitigate the risk of problems that may arise due to factors such as mid-project requirement changes, reduced quality levels, and delivery delays. In the project and systems division and quality management division, the company has been carefully reviewing the QCD (quality, cost, and delivery) status of each project, inspecting for and predicting abnormalities, and enacting countermeasures in the early stages, working to prevent projects from becoming unprofitable. In spite of this initiative, the company may not be able to prevent all problems, and it is possible that additional costs may make some projects unprofitable or affect the company's results.

▪ Risks in the Execution of System Operation Management Projects

System failures and service delays may arise due to operational errors in system operation management. To address this risk, the company has created a quality management division to prevent these errors and plan and implement initiatives, including training to prevent failures from happening. The division also implements analyzing and giving feedback on the causes of failures and conducts on-site inspections. The company received the ISO 9001 certification and is always striving to improve the quality of its services. However, if a service provided by the company leads to a major system failure, the company may be liable for damages, which could negatively affect results.

▪ Personnel Risks

Hiring talented personnel is critically important for the company to keep up with the latest information technology and improve customer satisfaction. The company is reevaluating its human resource system and devoting resources to hiring activities so that it can retain qualified personnel who will add value to the business. However, if the company cannot hire and train talented personnel or cannot fill positions that match its needs in a way that is aligned with the changing business environment, it could potentially harm the company's results.

▪ Bringing on Personnel from Partner Companies

The company is actively bringing on personnel from partner companies to flexibly match the needs of each project. It continues to progress on this path by both deepening cooperative relationships with its over 150 current partner companies and developing partner relationships with new companies. However, if the company is unable to successfully place personnel for projects, this may negatively affect its results.

▪ Reliance on Specific Trading Partners

A large percentage of Information Development's net sales is to companies affiliated with the Mizuho Financial Group. Changes to the orders from this group may negatively affect the company's results.

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