

# ID Holdings Corporation

(4709,TSE 1st Section)

July 5, 2019

## Record Net Sales and Operating Income Forecast to Continue in FY2019

### Basic Report

Quick Corporation  
Toshiaki Maeda

### Company Outline

Headquarters	Chiyoda-ku, Tokyo
Representative	Masaki Funakoshi
Established	October 1969
Capital	¥592 million

(as of March 31, 2019)

Listed on	November 11, 1998
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<https://www.idnet-hd.co.jp/>

Business type	Information and telecommunications
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### Key benchmarks as of July 3, 2019

Share price	¥1,197
Year-to-date high	¥1,522 (2/6)
Year-to-date low	¥1,016 (6/4)
Shares outstanding	12,044,302 shares
Trading units	100 shares
Market capitalization	¥14,417 millions
Projected dividend (Company)	¥50.00
Projected EPS (Analyst)	¥95.64
PBR (Results)	1.60

### Independent information service company. Core strength: System operation

An independent information service company whose core strength is providing operational support through its system operation management business. Markets software development and other lines of business to support system building. Key customers are financial institutions and banks. Financial institutions account for more than 40% of consolidated net sales.



### In FY2018, revenues increased 14% and productivity improved, driving a 33% increase in operating income

In the consolidated financial results for FY2018, net sales increased 14% from the previous fiscal year (YoY) to ¥26.5 billion, and operating income was ¥1.7 billion (+33% YoY). Both results marked new record highs for the Group, with net sales posting a seventh, and operating income posting a sixth, consecutive year of growth. Fess Co., Ltd., a subsidiary, delivered double-digit growth. Expenses were appropriated for movement of Fess's headquarters, as was provision for product warranties related to software development, but strengthened project management is yielding higher productivity. Resulting synergies produced operating-income growth exceeding 30%.

### Start of three-year Mid-term Management Plan

Quick forecasts that in FY2019 the ID Group will earn net sales of ¥26.6 billion and operating income of ¥1.67 billion, both marking only slight improvements on the previous fiscal year. We agree with the assessment in the company plan that a pullback from the previous fiscal year can be expected. However, business results should improve, if slightly, posting new record highs. In view of the effects of a round of projects at financial institutions and a retreat from some major public-sector projects, we will pay close attention to whether the Group can capture new demand for software investment. We expect the Group to recover gradually from the pullback on the strength of new projects in the public sector.

The Group has launched its latest three-year Mid-term Management Plan. The plan calls for net sales of ¥30 billion and operating income of ¥1.85 billion in FY2021.

	Results	Net sales ¥ million	YoY %	Operating income ¥ million	YoY %	Ordinary income ¥ million	YoY %	Net income ¥ million	YoY %	EPS ¥
FY2018	Results	26,515	14.3	1,667	32.9	1,724	35.3	1,028	65.2	93.15
FY2019	Company estimates (Announced May 2019)	26,800	1.1	1,670	0.2	1,710	-0.8	1,060	3.1	95.64
	Analyst estimates	26,600	0.3	1,670	0.2	1,710	-0.8	1,060	3.1	95.64
FY2020	Analyst estimates	27,500	3.4	1,760	5.4	1,800	5.3	1,120	5.7	101.06

## Company Outline

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- Company Outline

An independent information service company whose core strength is providing operational support for installed systems through its system operation management business. Markets software development and other lines of business to support system building. Main customers are financial institutions and banks. Financial institutions account for more than 40% of consolidated net sales.

## Management

- Management

Masaki Funakoshi, President and Representative Director

## Corporate Philosophy

- Corporate Philosophy

The logo for IDentity, featuring the word "IDentity" in a stylized green font. The "ID" is in a bold, italicized sans-serif font, and "entity" is in a script font.

Innovation Driven Visionary Company

- Pride

We will always make decisions based on business ethics rather than profitability.

- Mission

We are an information service company dedicated to the creation of exciting futures for everyone.

- Attributes

- High technology is ID's life force.
- High quality service is ID's mission.
- Challenging the unknown is ID's proposition.

- Organization

- Organization that promotes forward thinking.
- Organization that promotes organizational innovation.
- Organization that promotes employee personal growth.

## Company Outline

## History

## ● History

1969	October	Established to provide a broad range of technical services for advanced computing purposes.
	December	Purchased IBM0024 punching machines and IBM0056 verifying machines and began using them for data entry. Provided direct data entry services for the first time for Yasuda Trust & Banking Co., Ltd. (now Mizuho Trust & Banking Co., Ltd.).
1970	May	Launched system operation management business. Performed system operation management for The Industrial Bank of Japan, Ltd. (now Mizuho Bank).
	July	Launched software development business. Provided software development services to Yasuda Trust & Banking Co., Ltd. (now Mizuho Trust & Banking Co., Ltd.).
1998	November	Information Development Co., Ltd. registered with the Japan Securities Dealers Association.
2004	April	Established Information Development Wuhan Co., Ltd. (now a consolidated subsidiary) in Wuhan, China to secure a base of operations for software production.
2012	February	Formed a business alliance with Kawatec Pte., Ltd., a Singaporean company that provides technical support and builds and operates LANs.
	August	Established Information Development America Inc. (now a consolidated subsidiary) in Boston, Massachusetts to attract and train global personnel.
2013	July	Achieved JASDAQ standard listing on the Tokyo Stock Exchange in conjunction with the merger of the Tokyo Stock Exchange and the Osaka Stock Exchange.
	December	Listed on the second section of the Tokyo Stock Exchange.
2014	March	Formed a business alliance with DeClout (headquartered in Singapore) and its subsidiary (a provider of a broad range of IT services, including cloud solutions, disaster recovery services, and network building services) to expand into IT services in Southeast Asia.
	September	Listed on the first section of the Tokyo Stock Exchange.
2016	May	AI Factory Co., Ltd., a consolidated subsidiary, was certified as a special subsidiary by the Minister of Health, Labour and Welfare.
2017	January	Formed a business alliance with the US company Seceon Inc.
2018	January	Formed a business alliance with the US company Seceon Inc.
	March	Purchased all of Fess's stock and added it to the group as a subsidiary
2019	April	INFORMATION DEVELOPMENT CO., LTD. transitioned to a holding-company structure, changed its business name to "ID Holdings Corporation," and carried out an incorporation-type company split creating "INFORMATION DEVELOPMENT CO., LTD." as the successor company.

(Source) Annual Securities Report

## Company Outline

### Corporate Action

- Recent Corporate Action

In April 2019 the Group conducted a company split, completing its shift to a holding-company structure. All operations were transferred to the new company created by the company split, Information Development Co., Ltd., and the name of the existing company was changed to ID Holdings Corporation.

### Major Shareholders

- Major Shareholders

Shareholder	Number of shares (1,000s)	Shareholding ratio (%)
A.K. Corporation	1,243	10.90
Mizuho Trust Systems Co., Ltd.	1,023	8.97
ID Employee Ownership Account	731	6.41
Japan Trustee Service Bank, Ltd. (Trust Account)	522	4.57
The Master Trust Bank of Japan, Ltd.(Trust Account)	433	3.79
Mizuho Trust & Banking Co., Ltd.	422	3.70
Trust & Custody Services Bank, Ltd. (Trust Account E)	327	2.87
有限会社福田商事	300	2.62
TDC SOFT Inc.	284	2.48
Akemi Funakoshi	198	1.73
Total	5,488	48.09

(Source) Annual Securities Report

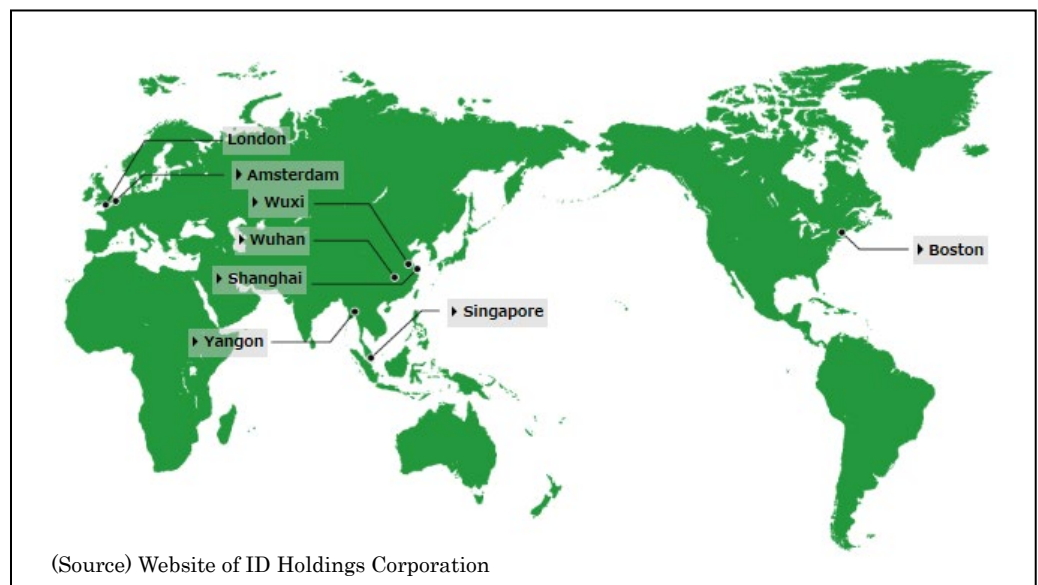
As of March 31, 2019

## Corporate Overview

### Services

- Services

Information Development (the company) is a one-stop IT service provider which provides i-Bos24®, a comprehensive outsourcing service, as well as a range of solutions from consultation services to system operation management, software development, cloud security, and BPO (Business Process Outsourcing). The company's main business development efforts are in Japan, but it has also begun to expand overseas, starting with the establishment of a local office in Wuhan, China in 2004, followed by subsidiaries in Singapore, the US, Indonesia, and Myanmar. The company leverages its global network to support overseas business activities.



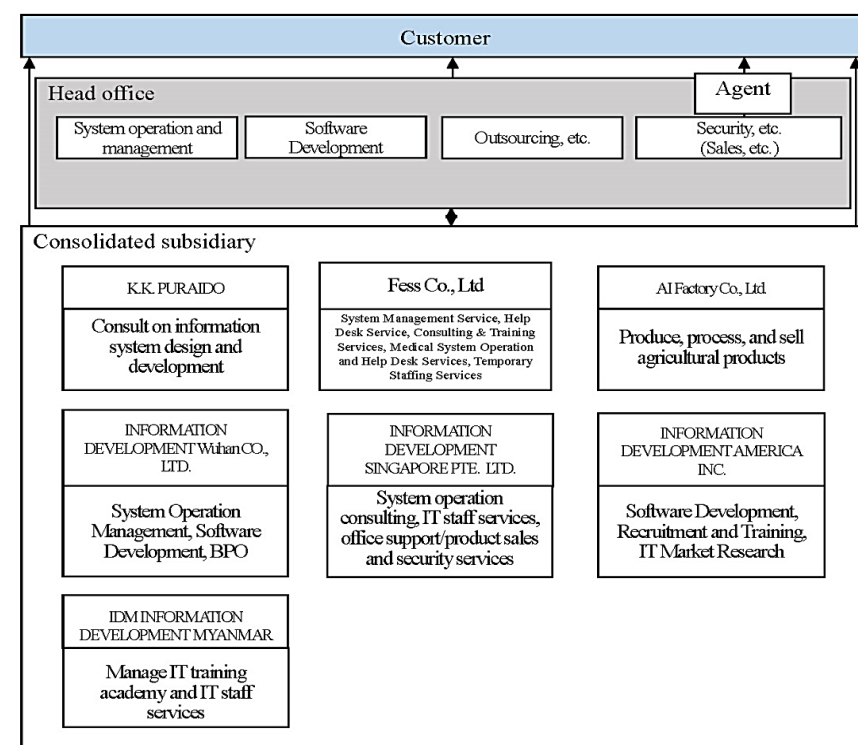
The company has two core businesses: system operation management and software development. System operation management is its main business and consists of permanently stationing staff at customers' computer departments to manage, administer, and operate information processing systems, as well as to help administer or build systems when installing new ones or reconfiguring existing ones. The company provides customers with everything from middleware customization and hardware maintenance services to 24-hour system operations.

For its software development business, the company takes on comprehensive development outsourcing for clients and provides both consigned in-house development within the group and on-site development with employees stationed at client offices. The company provides services to a wide range of clients, including financial institutions (mainly banks), transportation and energy companies, and many others.

Other business activities include network security product sales, security system building/installation support, and training and consulting on information system development and operations technologies.

## Corporate Overview

ID Group Business Line Diagram



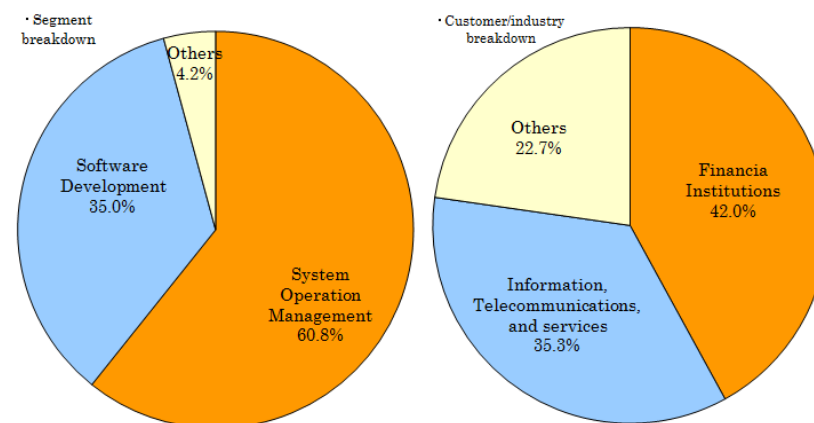
(Note) Head office :ID Holdings  
(Source) Annual Securities Report

## Breakdown of Sales

### ● Sales Breakdown

The sales composition by segment in FY2019 (outside customer basis) was as follows. System operation management: 61%, software development: 35%, and others: 4%. The sales breakdown by customer and industry was as follows. Financial institutions: 42%, information, telecommunications, and services: 35%, and others: 23%. Top customers were Mizuho Trust Systems and IBM Japan, accounting for both 11% of the total, respectively.

Figure 1. Sales composition (FY2018)



(Source) Prepared by QUICK Corporation based on Information Development's Summary of Financial Results (Tanshin) and closing-of-accounts statements

## Business Environment

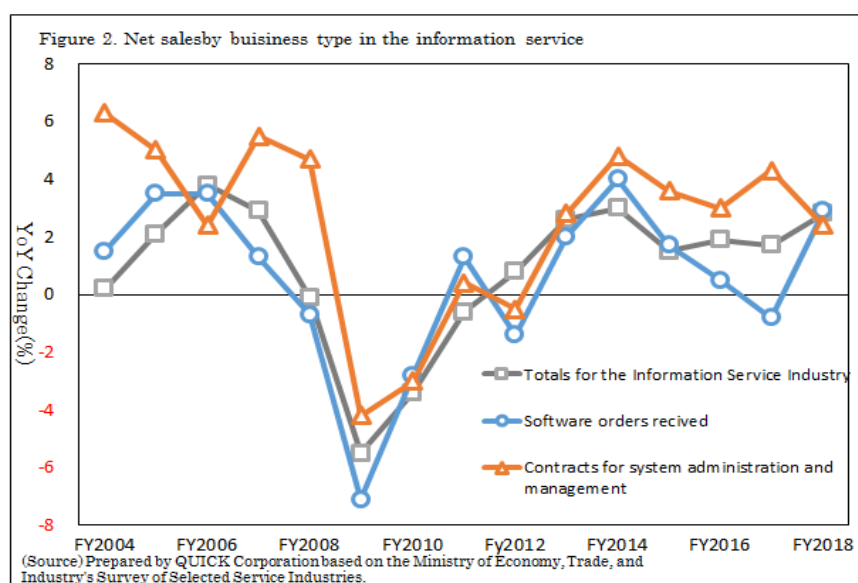
Steady growth in contracts for system administration and management

### ● 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 2. 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. Contracts for system administration and management exhibited negative growth in FY2009, but the decline was lower than that for software orders. Since then, growth has been stable and relatively high for several years in succession. Software orders received dropped in FY2017 YoY for the first time in five years, but growth turned positive again in FY2018.

Generally speaking, in times of recession investment in new system development tends to be cut from budgets, as projects are postponed or frozen, while budgets for systems already in operation cannot be cut, so these operations tend not to be suspended. The system operation management business comprises roughly 60% of the Group's net sales. As such, the Group's business results can be expected to remain relatively stable when compared with those of companies mainly involved in software development





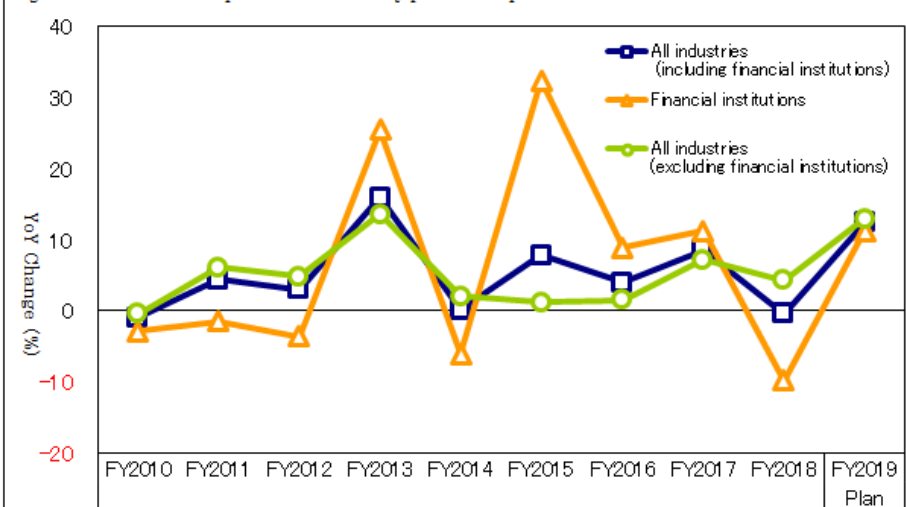
## Business Environment

Increased private-sector software development investment expected in FY2019

According to the most recent Bank of Japan Tankan survey (Figure 3: June 2019 survey, published July 2019), software investment in all industries (including financial institutions) in FY2018 declined 0.4% YoY, marking the first such reversal in eight years. Among financial institutions, which constitute the Group's main customer base, the retreat was 9.8% YoY. Investment by the financial instruments business and cooperative financial institutions grew during the period, while investment by the insurance industry was stable. However, investment by the financial sector, whose investment levels are typically high, retreated 10.3%, placing a brake on overall investment growth. The financial sector's long run of high investment in system integration and similar projects is thought to have peaked.

The Bank of Japan is predicting an average of 12.4% YoY growth in software development investment across all industries (including financial institutions) in FY2019. The financial sector plans to return to high investment in software, with a growth of 11.2% in this field. For all industries except the financial sector, vigorous growth in software investment is expected to continue, with a rate of 12.9%.

Figure 3. Software development investment by private companies



(Source) Prepared by QUICK Corporation based on the Tankan Survey.  
Plan for FY2019

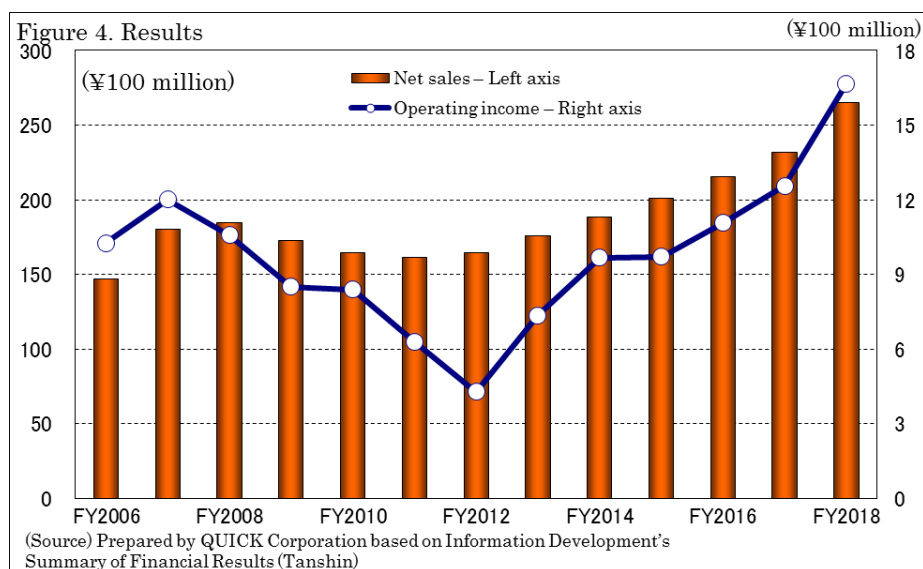


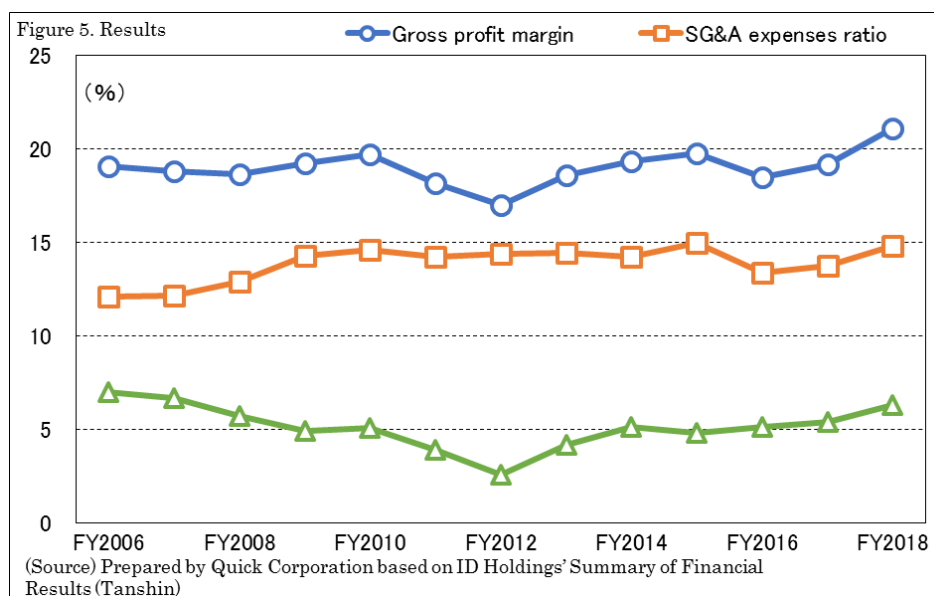
Business results  
reached record highs

## ● Financial Analysis

Past results (see Figure 4) show the various business cycles experienced by the company: pullback, stagnation, recovery, and now growth. As we explained in the Business Environment section, restrained corporate IT investment led to years of stagnation. Net sales began a clear decline around FY2008, and cost reductions were unable to keep up with the decreasing revenue, leading to a declining trend in operating income as well. To break out of these trends, the company enacted initiatives for restructuring its businesses, such as reviewing assets in its possession. While the company proceeded with these restructuring efforts, businesses such as its main clients, financial institutions, invested more in corporate IT, leading to improved performance figures. Business results have grown steadily over the past several years, as the Group posted record highs in net sales and operating income in FY2018. Operating income margin also improved, albeit at a leisurely pace: 6.3% in FY2018 versus 5.4% in FY2017, well short of the 7.0% pace achieved in FY2006. It is instructive to break the operating income margin into the gross profit margin, and selling, general, and administrative (SG&A) expenses ratio (Figure 5). Gross profit margin has remained relatively stable, despite dipping temporarily due to factors such as unprofitable projects. Strengthened project management succeeded in boosting this figure to 21.1% in FY2018. On the other hand, in the SG&A expenses ratio, goodwill depreciation associated with mergers and acquisitions (M&A) increased, worsening 1.1 points in FY2018 to 14.8%.

As is described later in this report, the ID Group begins a new Mid-term Management Plan in FY2019. We forecast that operating income margin will be 6.2% in the final year of this plan, FY2021, little changed from FY2018. Given the Group's plans to invest in training and systems, we expect SG&A expenses to increase.





Essentially  
debt-free. Solid  
financial  
constitution

The financial constitution of the Group is sound. Every year the Group increases its retained earnings, building up robust shareholder equity (Figure 6). As part of this effort, the Group maintains a net cash position (cash and deposits exceed interest-bearing debt), rendering it effectively debt-free. However, though the Group's equity ratio had been gently rising year by year, in FY2017, it declined precipitously.

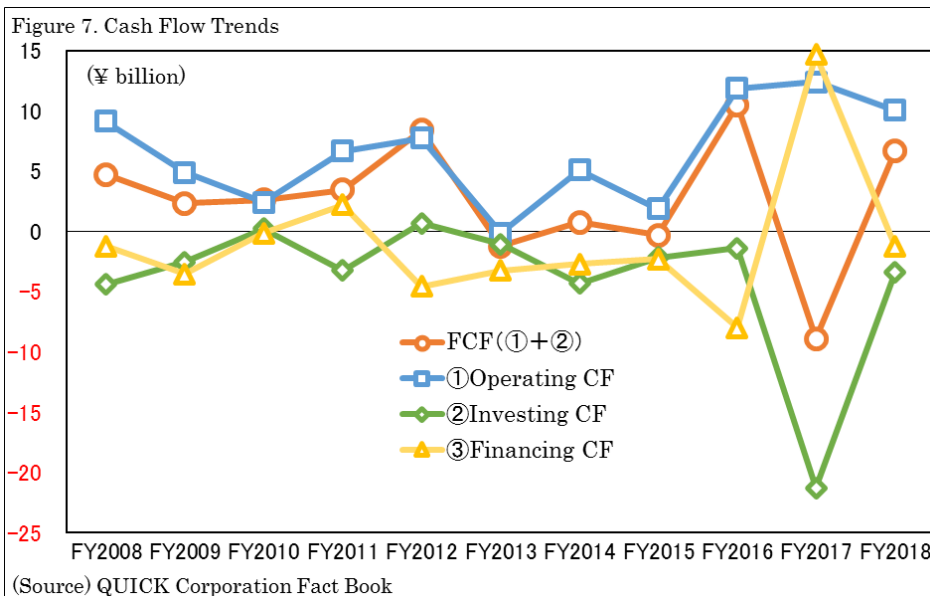
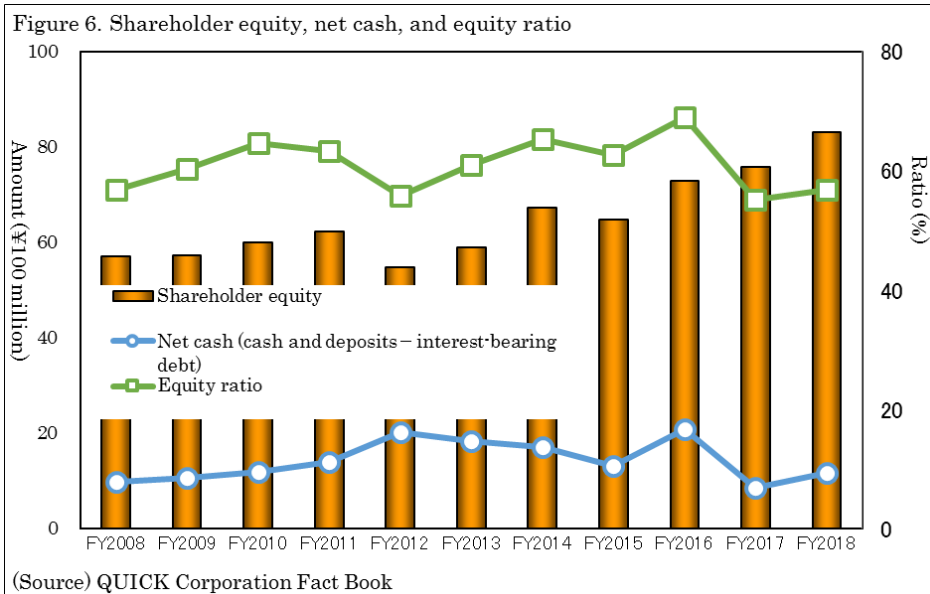
In FY2017 the Group acquired all shares of an information systems company, Fess Co., Ltd., from Saison Information Systems, Co., Ltd., making Fess a wholly-owned subsidiary of the Group. Funding for the acquisition was mainly obtained in the form of loans from financial institutions, resulting in an increase in interest-bearing debt and a decline in the Group's equity ratio. Despite the increase in interest-bearing debt from its largest-ever acquisition, the Group continues to maintain a net cash position, thanks to abundant cash and deposits. This state of affairs also supported the Group's sound financial constitution.

Movements in cash and deposits can be confirmed by looking at cash flow (Figure 7). Here we see that cash flow from operating activities continued to be positive (cash inflow), while cash flow from investing activities turned dramatically negative (cash outflow) in FY2017 due to the acquisition of Fess. At the same time, because most of the funding for the acquisition was obtained through interest-bearing debt, cash flow from financing activities were strongly positive, partially supporting a negative position in free cash flow (cash flow from operating activities plus cash flow from investing activities). In FY2018, while cash flow from operating activities remained positive, cash flow from investing activities was negative, continuing a trend of YoY decline. Net cash position increased, bolstering the Group's financial constitution.

In addition, the company's internal capital reserves are expected to be applied to

## Financial Analysis

investments for future expansion and efforts to increase performance such as training technicians who can provide the high added-value IT solutions that clients have strong needs for, developing frameworks for services which use cutting-edge technology such as artificial intelligence (AI) and Internet of Things (IoT), and acquiring new products, as well as promoting global strategy in areas such as China, Singapore, Myanmar, the United States, and Europe.



## Results

Net sales +14%,  
operating income  
+33% in FY2018

### ● Results Analysis

In the consolidated financial results for FY2018, net sales increased 14% from the previous fiscal year (YoY) to ¥26.5 billion, and operating income was ¥1.7 billion (+33% YoY). Both results marked new record highs for the Group, with net sales posting a seventh, and operating income posting a sixth, consecutive year of growth. Fess Co., Ltd., a subsidiary, delivered double-digit growth. Expenses were appropriated for movement of Fess's headquarters, as was provision for product warranties related to software development, but strengthened project management is yielding higher productivity. Resulting synergies produced operating-income growth exceeding 30%.

Orders received increased 7% YoY to ¥24.5 billion, growing for both the system operation management segment and software development segment. The balance of orders received at the end of FY2018 was 32% lower than a year previously, amounting to ¥1.9 billion.

Table 1. Results

¥ million

		FY2017 Full-year A	FY2018 Full-year		
			B	B/A	B-A
Net sales		23,207	26,515	14.3%	3,308
By segment	System operation mana	13,589	16,108	18.5%	2,519
	Software development	8,499	9,282	9.2%	783
	Others	1,118	1,124	0.5%	5
Cost of sales		18,758	20,917	11.5%	2,159
Gross profit		4,448	5,597	25.8%	1,149
SG&A		3,193	3,930	23.0%	736
Operating income		1,254	1,667	32.9%	413
(Operating income mar		5.4%	6.3%	-	-
Ordinary income		1,274	1,724	35.3%	450
Net income		622	1,028	65.2%	406

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

Segment net sales show that system operation management reached ¥16.1 billion, a 19% YoY increase. While revenues from platform development operations for financial-sector customers (services to design and construct low-cost, high-reliability system operating environments) and operation-management operations declined, those from platform development operations for public-sector customers increased. The operations of Fess, a subsidiary, also contributed to revenues throughout the fiscal year. Software-development revenues increased 9% YoY to ¥9.3 billion. Although large projects in finance and transportation were wrapped up, major projects in the public sector contributed to revenues. A slump in security-related revenues was offset by expansion in revenues from consulting operations. Overall

## Results

the Group secured revenues of ¥1.1 billion, slightly exceeding the figure for the previous fiscal year.

- Company Plan

With the Group's three-year Mid-term Management Plan coming to an end in FY2018, the Group has prepared a new three-year Mid-term Management Plan, whose first fiscal year is FY2019: Next 50 Episode I: Awakening! For the previous Mid-term Management Plan, the Group had set targets of ¥24 billion in net sales ¥1.68 billion in operating income and operating income margin of 7.0%. While the Fess acquisition increased net sales and operating income had been rising according to plan, the target for operating income margin was not met in the previous Mid-term Management Plan.

In drafting its new Mid-term Management Plan, the Group confronted a rapidly changing business environment in information services. Digital technologies such as robotic process automation (RPA) and AI are rapidly transforming existing businesses, while system operations are switching from an "owning" to a "using" model, IoT devices are quickly proliferating, and cyberattacks are becoming increasingly sophisticated. Amid these many changes, customer needs are diversifying, wreaking dramatic changes to the sales environment. Viewing these changes in the market as growth opportunities, the Group set its sights on business expansion in its new Mid-term Management Plan.

In October 2019 the ID Group will celebrate the 50<sup>th</sup> anniversary of its foundation. Naturally, the Group is positioning the new three-year Mid-term Management Plan as a springboard for the next half-century. The Group's plan is to execute a strategy aimed at future growth, bolstering enterprise value while returning stable and continuous value to shareholders. Given this expected operating environment, the Group's main targets for the new Mid-term Management Plan are to attain net sales of ¥30 billion, operating income of ¥1.85 billion and operating income margin of 6.2% by FY2021, the final year of the Mid-term Management Plan. Though the figures for net sales and operating income represent significant increases, the targeted operating income margin is expected to be in line with the figure for FY2018.

The company stated the three major policies of the medium-term management plan as follows.

1. Development of a future-oriented corporate culture

Diversity of personnel and fostering of innovation are indispensable for the sustainable growth of the ID Group. The ID Group will hire and train diverse individuals while continuously overhauling its organization, systems, and work

## Results

environment so that all personnel can achieve their maximum potential. We will also cultivate a work environment that embraces future-oriented challenge and innovation.

### 2. Deployment of an upgraded business model based on digital transformation(DX)

Amid today's rapid trend toward digitalization, the ID Group's corporate clients are moving forward with the introduction and use of innovative technologies. Informed by knowledge and expertise in customer systems accumulated over many years, the ID Group will roll out an upgraded service model that brings added value to customer needs by combining existing service solutions with advanced technologies.

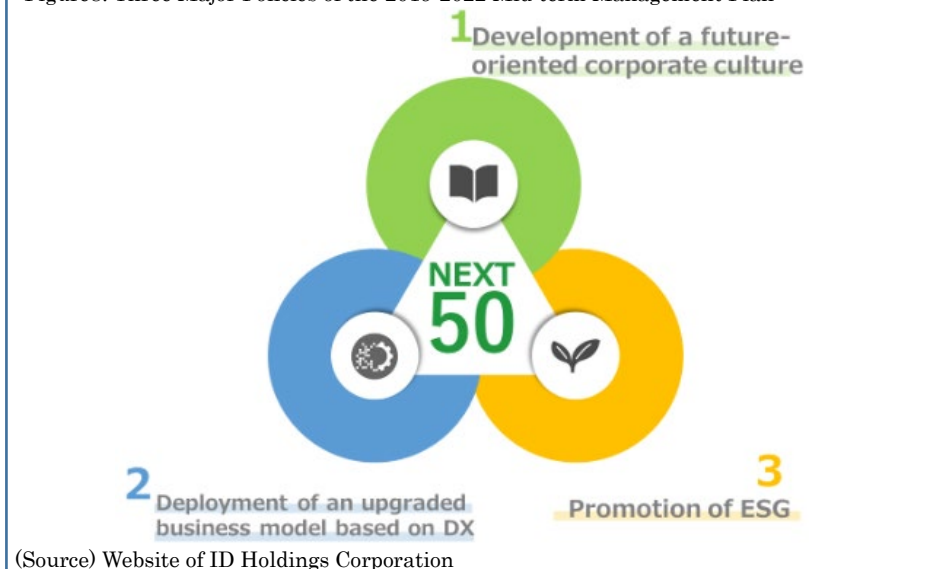
During these three years, the ID Group will focus squarely on engineer training, to shift existing services to more upstream processes. In so doing, the ID Group will shift from a worker-time-based business model to a result-reward-type business model.

### 3. Promotion of ESG<sup>1</sup>

Through its provision of information services, the ID Group strives to develop solutions to society's problems while creating sustainable growth and social value. By strengthening its commitment to each aspect of ESG investment, the ID Group is working to achieve growth and development for all stakeholders, including customers, shareholders, and employees.

\*1. "ESG" stands for "environmental, social and governance." The ESG approach holds that an appropriate response to each of these three areas of concern is a core driver of the long-term growth of an enterprise and plays a valuable role in the formation of a sustainable society.

Figure8. Three Major Policies of the 2019-2022 Mid-term Management Plan



## Results

Slight increases in  
revenue and income  
forecast for FY2019

### ● QUICK'S Projections

As we stated in the Business Environment section, we expect private-sector investment in software to expand, both at financial institutions in particular and in all industries excluding financial. Quick believes that the operating environment will be favorable. On the other hand, Quick expects a retreat from the strong business results of the previous fiscal year, which were driven by the particular contribution of multiple large projects in that period. The key to the ID Group's success will lie in how skillfully the Group grapples with that pullback, by attracting some of the investment demand the favorable operating environment can be expected to provide.

Quick forecasts that in FY2019 the ID Group will earn net sales of ¥26.6 billion and operating income of ¥1.67 billion, both marking only slight improvements on the previous fiscal year. We agree with the assessment in the company plan that a pullback from the previous fiscal year can be expected. However, business results should improve, if slightly, posting new record highs. In view of the effects of a round of projects at financial institutions and a retreat from some major public-sector projects, we will pay close attention to whether the Group can capture new demand for software investment. We expect the Group to recover gradually from the pullback on the strength of new projects in the public sector.

The ID Group plans to invest vigorously in constructing a new business model. To develop engineering personnel in AI, advanced cybersecurity, information technology information libraries (ITIL) and RPA, the Group will have to increase outlay on expenses, as expenses for education and training and construction and introduction of personnel management systems will mount. In addition, we expect the Group to incur costs for year-long celebrations surrounding the 50<sup>th</sup>-anniversary celebrations in October 2019.

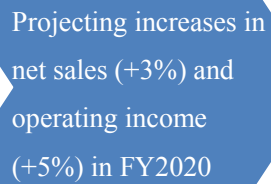
Table 2. Results estimates

		¥ million					
		FY2018 Results A	FY2019 projections Company	QUICK		FY2020 projections QUICK	
				B	B/A	C	C/B
Net sales		26,515	26,800	26,600	0.3%	27,500	3.4%
By segment	System operation management	16,108		16,100	-0.1%	16,600	3.1%
	Software development	9,282		9,300	0.2%	9,600	3.2%
	Others	1,124		1,200	6.8%	1,300	8.3%
Operating income		1,667	1,670	1,670	0.2%	1,760	5.4%
(Operating income margin)		6.3%	6.2%	6.3%	-	6.4%	-
Ordinary income		1,724	1,710	1,710	-0.8%	1,800	5.3%
Net income		1,028	1,060	1,060	3.1%	1,120	5.7%

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



## Results



Projecting increases in  
net sales (+3%) and  
operating income  
(+5%) in FY2020

For the consolidated financial results of FY2020, we predict net sales of ¥27.5 billion (+3%YoY) and operating income of ¥1.76 billion (+5% YoY). Due to a lack of downturn in major projects, Quick expects the ID Group to experience growth in both system operation management and software development. While we expect the rise in education and training expenses to continue, the expenses for year-long celebrations will cease. We forecast that operating income for the ID Group will increase.



(Source) QUICK Corporation

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			FY2017	FY2018	FY2019	FY2020 (Analyst)
Share price	Share price (52-week high)	¥	1,260	1,636	1,782	-
	Share price (52-week low)	¥	527	1,047	1,125	-
	Average monthly volume	100's of shares	9,395	7,821	5,493	-
Results	Net sales	¥ million	21,554	23,207	26,515	26,600
	Operating income	¥ million	1,105	1,254	1,667	1,670
	Ordinary income	¥ million	1,133	1,274	1,724	1,710
	Net income	¥ million	654	622	1,028	1,060
	EPS	¥	60.13	56.84	93.15	95.64
	ROE	%	9.5	8.4	12.9	12.31
Main balance sheet items	Total current assets	¥ million	6,901	8,344	9,298	-
	Total non-current assets	¥ million	3,650	5,404	5,301	-
	Total assets	¥ million	10,552	13,748	14,600	-
	Total current liabilities	¥ million	2,890	5,923	5,293	-
	Total non-current liabilities	¥ million	340	207	964	-
	Total liabilities	¥ million	3,230	6,131	6,258	-
	Total shareholders' equity	¥ million	6,801	7,033	7,638	-
	Total net assets	¥ million	7,321	7,617	8,342	-
Main cash flow statement items	Cash flow from operating activities	¥ million	1,185	1,237	1,004	-
	Cash flow from investment activities	¥ million	-137	-2,129	-336	-
	Cash flow from financing activities	¥ million	-801	1,464	-126	-
	Cash and cash equivalent balance at end of period	¥ million	2,391	2,944	3,489	-

Note1: 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.

Note2: The Group has applied the "Partial Revision of Accounting Standard for Tax-effect Accounting" (Enterprise Accounting Standard No. 28, February 16, 2018) and other standards since the beginning of the fiscal year ended March 31, 2019. For the fiscal years ended March 31, the figures 2017.9 and 2018.3 are retroactively adjusted to reflect the application of these accounting standards.

## Business Risks

## ● Business Risks

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

The software development and infrastructure-building industries 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 system failures. The division also analyzes the causes of failures when they occur, gives feedback, 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.

## ▪ 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.

## ▪ 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

## Risk Analysis

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 match the needs of each project flexibly. 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 place personnel for projects successfully, this may negatively affect its results.

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