

# ID Holdings Corporation

(4709,TSE 1st Section)

July 6, 2020

## Income Margin Forecast to Improve in FY2020 Despite Drop in Net Sales and Operating Income

### 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, 2020)	

Listed on November 11, 1998

<https://www.idnet-hd.co.jp/>

Business type Information and telecommunications

### Key benchmarks as of July 2, 2020

Share price	¥1,350
Year-to-date high	¥1,720 (2/13)
Year-to-date low	¥1,079 (3/23)
Shares outstanding	12,044,302 shares
Trading units	100 shares
Market capitalization	¥16,260 millions
Projected dividend (Company)	¥50.00
Projected EPS (Analyst)	¥106.74
PBR (Results)	1.73

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

The core business of ID Holdings Corporation consists of system and operation management supporting the operation and management of customers' IT systems and software development supporting customers' system development. ID Holdings is an independent information service company. Key customers are financial institutions and banks. Financial institutions account for 40% of consolidated net sales (FY2019).

**i-Bos24** (ID's Business Operations-Outsourcing Service 24)



One-stop solution from consulting to BPO

### Operating income rose 24% in FY2019, marking the 7th consecutive year of increases

In the consolidated financial results for FY2019, operating income increased 24% from the previous fiscal year (YoY) to a record ¥2.07 billion, marking the 7th consecutive period of growth. While net sales declined slightly YoY to ¥26.4 billion, several measures produced success, including shifting engineers into the high-value-added fields of cybersecurity and digital transformation (DX) and strengthening ID Holdings' project-management framework. Continuation of some profitable, large-scale software development projects also contributed. In consideration of the impact from the COVID-19 pandemic, in Q4 ID Holdings paid special allowances and increased its provision for bonuses but was able to absorb these costs. Operating income margin rose from 6.3% to 7.9%.

### Project growth expected to struggle amid pandemic

QUICK forecasts that in FY2020 the group will earn net sales of ¥25.0 billion (-5% YoY) and operating income of ¥2.0 billion (-4% YoY). Under the impact of the COVID-19 pandemic, many companies have instituted remote-working policies. QUICK expects this change to make customers' decision-making about IT investments slower than heretofore, increasing the amount of time until orders are placed. We also expect the pandemic to hamper ability to secure new projects, as face-to-face meetings are difficult to arrange. While net sales and operating income are forecast to fall, cost-reduction effects will be evident as well. We forecast an improvement in operating income margin to 8.0%.

Results	Net sales ¥ million	YoY %	Operating income ¥ million	YoY %	Ordinary income ¥ million	YoY %	Net income ¥ million	YoY %	EPS ¥
FY2019 Results	26,377	-0.5	2,073	24.3	2,111	22.4	1,297	26.1	116.71
FY2020 Company estimates (Announced May 2020)	24,500	-7.1	2,000	-3.5	2,040	-3.4	1,190	-8.3	106.74
FY2020 Analyst estimates	25,000	-5.2	2,000	-3.5	2,040	-3.4	1,190	-8.3	106.74
FY2021 Analyst estimates	25,700	2.8	2,100	5.0	2,140	4.9	1,250	5.0	112.12

## Company Outline

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### Management

- Management

Masaki Funakoshi, President and Representative Director

### Corporate Philosophy

- Corporate Philosophy

## IDentity

### 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 (Waku-Waku) future for everyone.

### Attributes

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

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## 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	Purchased all of Fess's stock and added it to the group as a subsidiary.
	March	Launched sales for SaaS-type remote operation support service using smart glasses.
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

On April 1, 2020, the IT service management (ITSM) business\* of Fess Co., Ltd., a wholly owned subsidiary of ID Holdings, and the robotic process automation (RPA) promotion business of INFORMATION DEVELOPMENT CO., LTD. ("ID") were inherited by the newly established DX CONSULTING CO., LTD. in an absorption-type company split, while a part of ID's system operation management business was inherited by Fess in an absorption-type company split. Upon completion of this split, the trade name of Fess was changed to ID DATA CENTER MANAGEMENT CO., LTD.

\*This business consists of consulting on system administration and management based on the Information Technology Infrastructure Library (ITIL) guidelines for IT service management.

### Major Shareholders

- Major Shareholders

Shareholder	Number of shares (1,000s)	Shareholding ratio (%)
A.K. Corporation	1,043	9.13
Mizuho Trust Systems Co., Ltd.	823	7.20
ID Employee Ownership Account	709	6.20
The Master Trust Bank of Japan, Ltd (Trust Account)	634	5.55
Japan Trustee Service Bank, Ltd. (Trust Account)	621	5.43
Mizuho Trust & Banking Co., Ltd.	422	3.69
Fukuda Trading Inc.	300	2.62
TDC SOFT Inc.	284	2.48
Trust & Custody Services Bank, Ltd. (Trust Account E)	282	2.46
Akemi Funakoshi	198	1.73
Total	5,321	46.55

(Source) Annual Securities Report

As of March 31, 2020

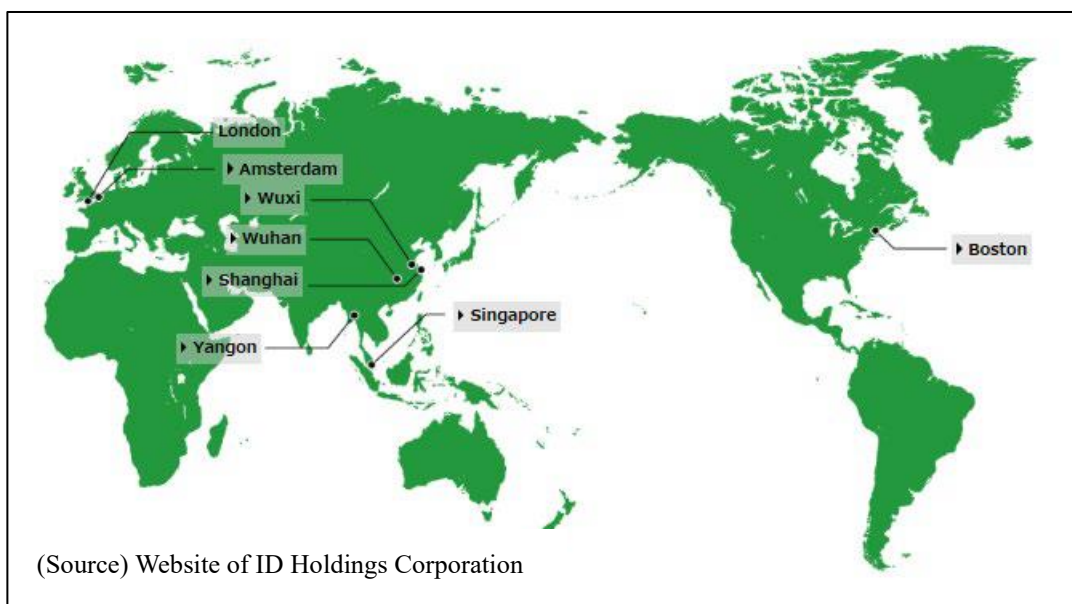
## Corporate Overview

### Services

- Services

The group is a one-stop IT service provider which provides ID's Business Operations-Outsourcing Service 24 (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 Business Process Outsourcing (BPO). The group'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 group leverages its global network to support overseas business activities.

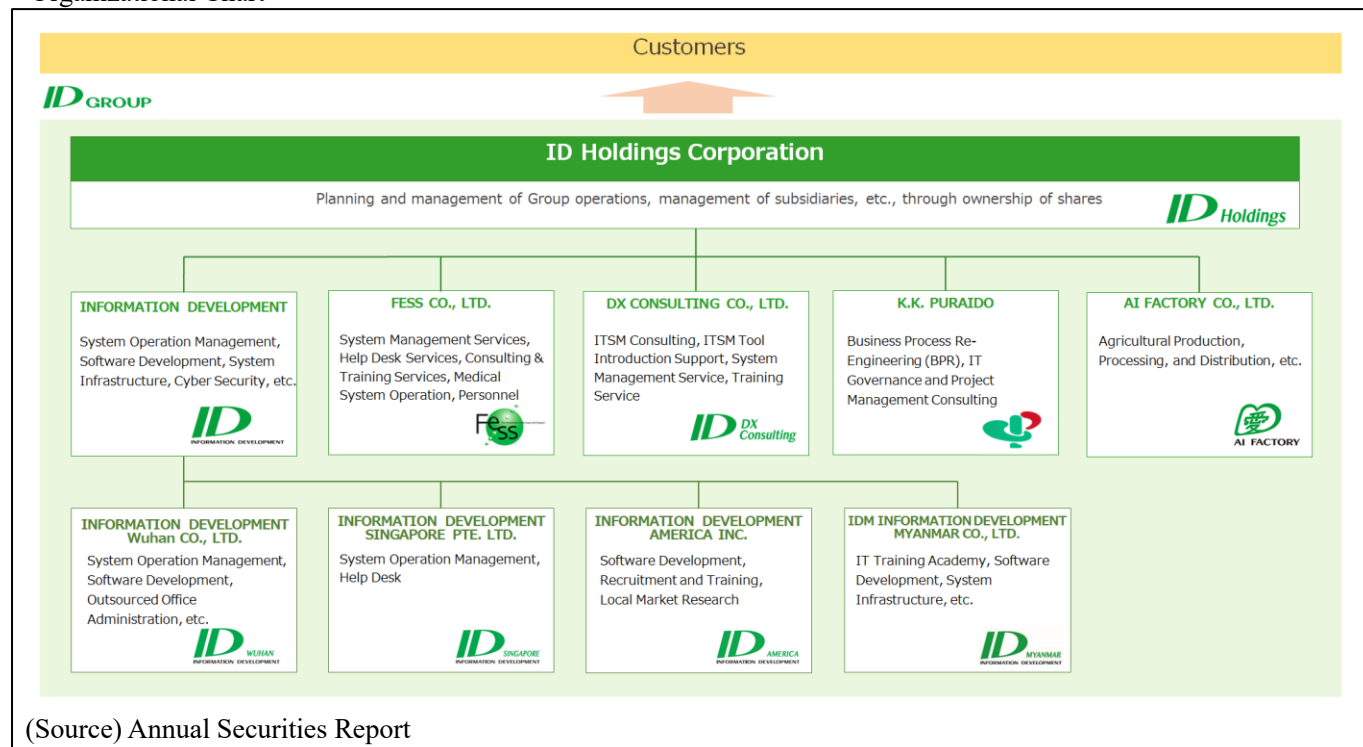
### Global Expansion



As a holding company, ID Holdings maintains overall control of its subsidiaries, through which it provides system operation management, software development, system infrastructure, cybersecurity, consulting, training and other services.

## Corporate Overview

### Organizational Chart



ID Holdings' operations are as follows (please refer to Table 1). ID Holdings has four core businesses: system operation management; software development; system infrastructure; and cybersecurity, consulting and training.

System operation management consists of managing, administering and operating customers' IT systems. These services operate 24 hours a day, 365 days a week, through a group-wide staff of over 1,600 engineers. ID Holdings' data management services manage data-center systems for customers in industries such as finance, energy, communications and shipping, providing services such as operation management, operations, system operation management, operation monitoring, transfer and installation, and operation testing.

Software development involves system planning, design, development, operation and maintenance, as well as project management support based on customers' management strategy. In addition to trunk and peripheral systems of major banks, securities firms and insurers, ID Holdings develops systems for major energy providers such as electricity and gas utilities, as well as the public sector.

In its system infrastructure business, ID Holdings designs, builds, operates and maintains customers' IT platforms. ID Holdings serves customers' system needs by providing a system infrastructure environment leveraging hardware and packaged software.

ID Holdings' cybersecurity, consulting and training business consists of the sale of security products for networks and Web applications as well as construction, installation and support of security systems.



## Corporate Overview

Table 1. Operations by business category

Category	Operations
System operation management	<ul style="list-style-type: none"> <li>Management and operation of customer IT systems</li> </ul>
Software development	<ul style="list-style-type: none"> <li>System planning, design development, operational maintenance and project management support, based on each customer's management strategy</li> </ul>
System infrastructure	<ul style="list-style-type: none"> <li>Design, configuration, operation and maintenance of customer IT platforms</li> </ul>
Cybersecurity, consulting and training	<ul style="list-style-type: none"> <li>Sale of network and Web-application security products</li> <li>Configuration, introduction, support, assessment and advisory services with respect to security systems</li> <li>Consulting and training in business process reengineering (BPR), IT governance and IT management</li> </ul>
Others	<ul style="list-style-type: none"> <li>Sale of products other than network security and consulting</li> <li>Clerical services, personnel recruiting and training, local market surveying, information gathering, etc.</li> </ul>

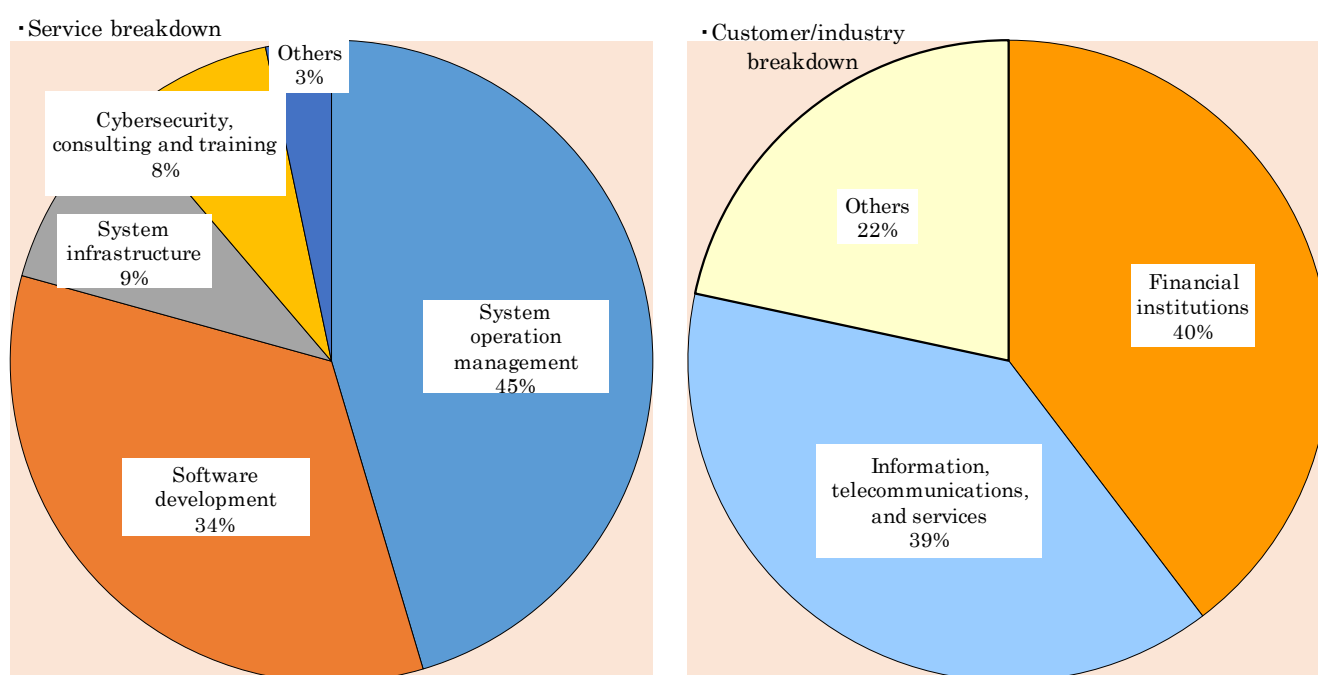
(Source) Prepared by QUICK Corporation based on ID Holdings Corporation's Annual Securities Report.

### Breakdown of Sales

#### ● Sales Breakdown

The business segment is a single segment, the information service business segment. Within that segment, the sales composition by service in FY2019 (on an outside-customer basis) was as follows (please refer to Figure 1). System operation management: 45%, software development: 34%, system infrastructure: 9%, cybersecurity, consulting and training: 8%, others: 3%. The sales breakdown by customer and industry was as follows. Financial institutions: 40%, information, telecommunications and services: 39%, others: 22%. Top customers in terms of share of net sales were IBM Japan and Mizuho Trust Systems, accounting for 14% and 12% of the total respectively.

Figure 1. Sales composition (FY2019)



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

## Business Environment

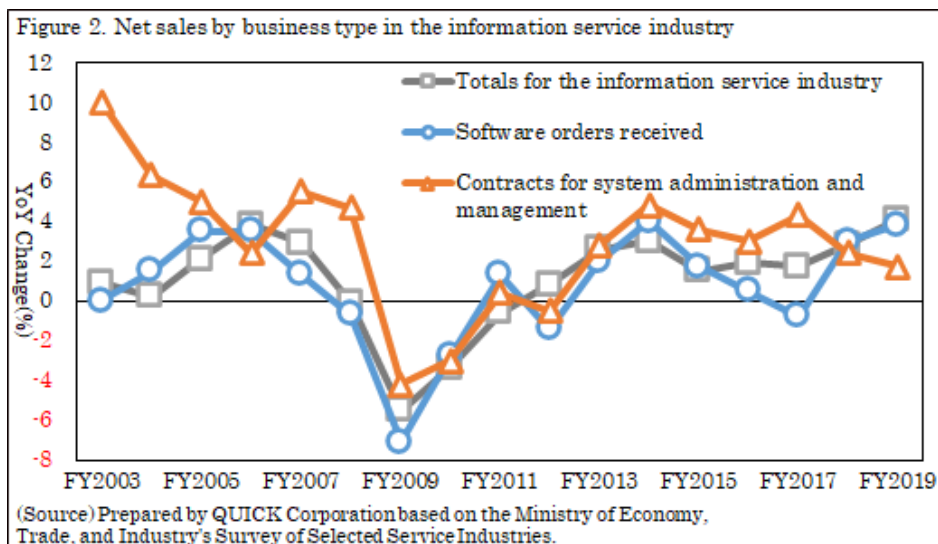
Steady growth in contracts for system administration and management

### ● Business Environment

IT investment delays and project cancellations were prominent in the information service industry after the financial meltdown in autumn 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. In the breakdown by industry type, system administration and management contracts and software orders received correspond to ID Holdings' system operation management business and software development business, respectively.

ID Holdings' software orders slumped severely in FY2009, in a glaring illustration of the depressive effect on IT investment of the financial meltdown. Contracts for system administration and management exhibited negative growth in FY2009, but the decline was lower than that for software orders. System administration and management contracts and software orders both continued to grow from FY2013 onward. Software orders declined against the previous fiscal year in FY2017, for the first time in five years, but returned to growth in FY2018. In FY2019 both system administration and management contracts and software orders continued to expand.

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. System operation management accounted for almost half of consolidated net sales in FY2019. As such, the group's business results can be expected to remain relatively stable when compared with other companies in the same industry mainly involved in software development.

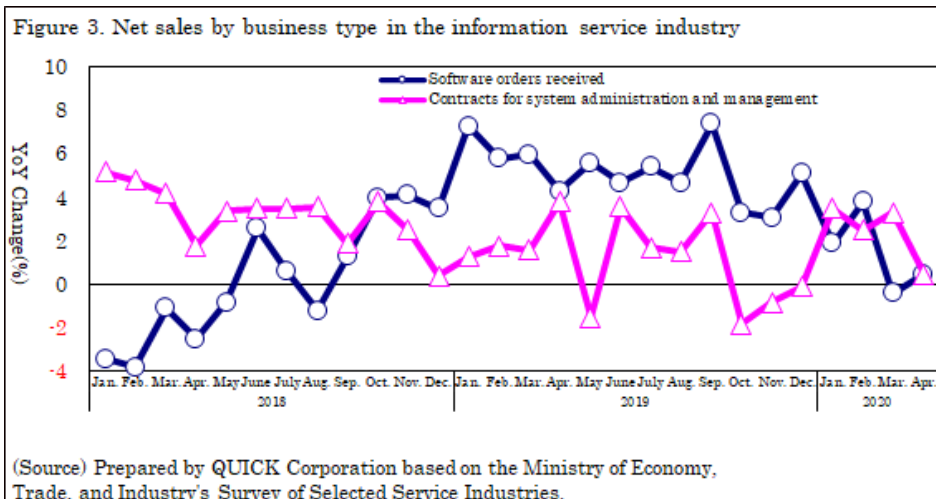


The impact of the COVID-19 pandemic in FY2020 has clouded the outlook for IT investment. Based on the view that the effects of the pandemic on the Japanese economy became apparent from March onward, confirmation of monthly net sales in the information service industry (please see Figure 3) reveal that both system administration and management contracts and software orders had been growing in January and February 2020. In March, however, system administration and



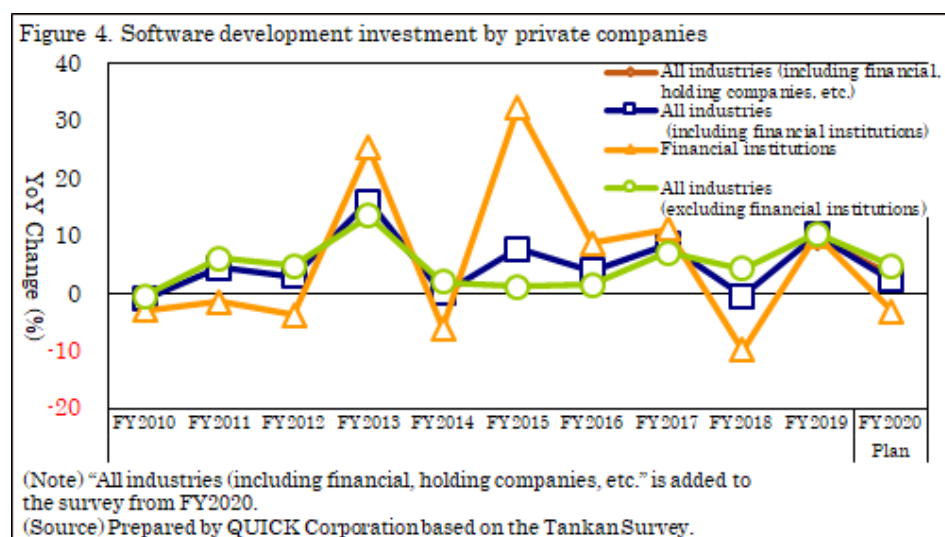
## Business Environment

management contracts continued to grow while software orders fell YoY. In April, which is the beginning of the fiscal year for most companies in Japan, system administration and management contracts and software orders were roughly unchanged YoY. While April's results hinted at stagnation, a single month's figures are prone to considerable variance. It is therefore too soon to tell whether the slowdown is temporary or will break out into a recession.



Increased private-sector software investment expected from the Bank of Japan's June 2020 Survey to FY2020

According to the most recent Bank of Japan Tankan survey (Figure 4: June 2020 survey, published July 2020), software investment in all industries (including financial institutions) in FY2019 swelled 10.2% YoY. Among both manufacturers and financial institutions, the latter of which are the group's main customer base, software investment grew approximately 10% YoY. Software investment in all industries (including financial institutions) in FY2020 is expected to grow 2.4% YoY. While software investment in both manufacturing and non-manufacturing industries is forecast to expand, it is forecast to retreat 3.1% in FY2020 for the financial sector.

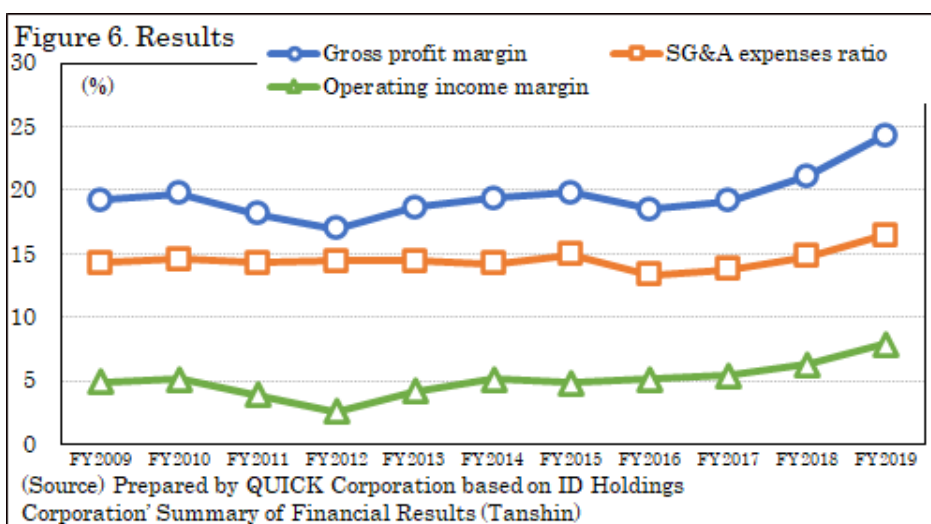
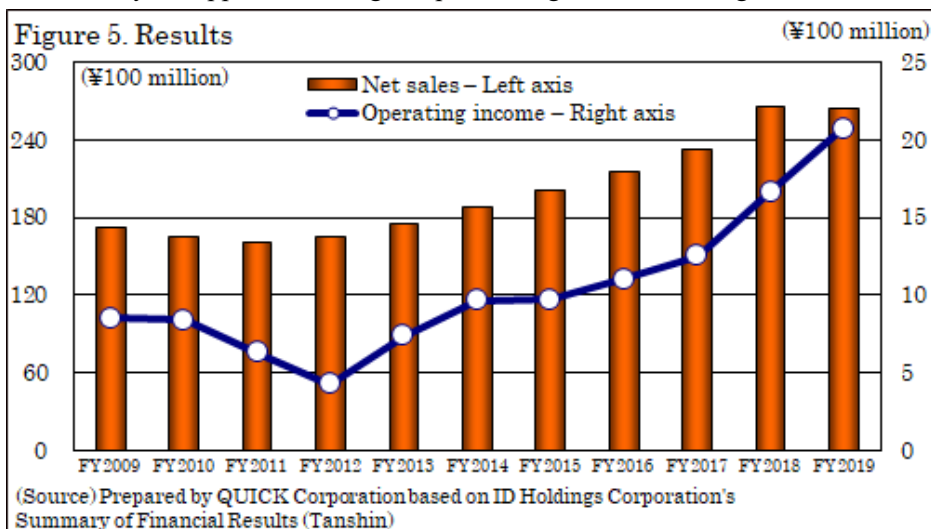


## Financial Analysis

Net sales declined in FY2019 for the first time in eight years

### ● Financial Analysis

Past results (see Figure 5) show that net sales and operating income had been growing for several years until FY2019, when net sales declined for the first time in eight years. As enterprises' appetite for IT investment returned paced by the financial institutions that are ID Holdings' main customers, business results also brightened, but major projects for financial institutions in FY2019 wrapped up. At the same time, operating income rose to the highest level in ID Holdings' history, which operating income margin climbed to almost 8% (see Figure 6). ID Holdings is continuing to see the results of various measures implemented over the past several years, including shifting engineers to high-value-added fields and strengthening its project management framework, which powered a rise in gross profit margin. Selling, general, and administrative (SG&A) expenses increased moderately, amid increases in personnel expenses, goodwill depreciation associated with mergers and acquisitions (M&A), and educational and other expenses. However, these costs were absorbed by the appreciation in gross profit margin, modest though it was.

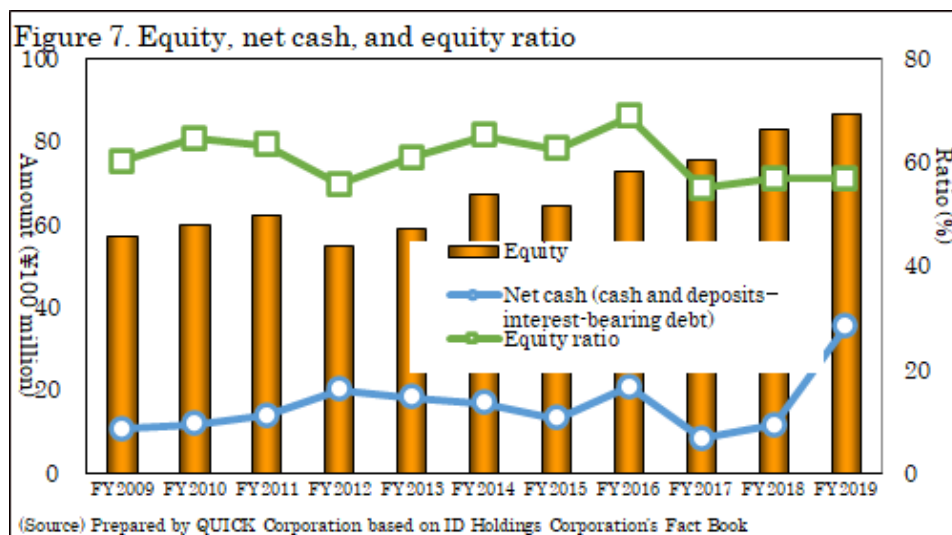


## Financial Analysis

Essentially  
debt-free. Solid  
financial  
constitution

Every year the group increases its retained earnings, building up robust equity (see Figure 7). QUICK considers the financial constitution of ID Holdings to be sound. ID Holdings maintains a net cash position, meaning that cash and deposits exceed interest-bearing debt, rendering it effectively debt-free. (if ID Holdings' interest-bearing debt exceeded cash and deposits, its position would be a net debt position.)

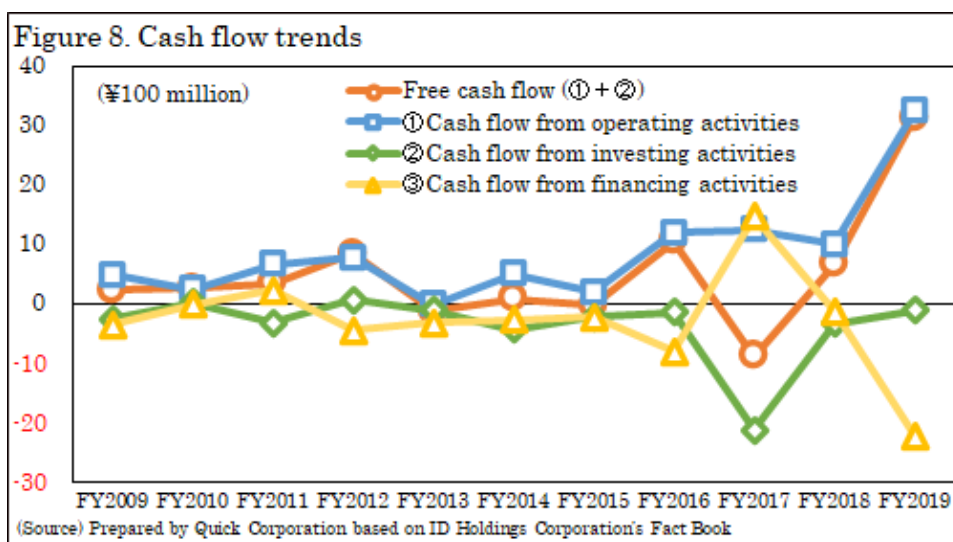
In FY2017 the group carried out a major acquisition. Funding for the acquisition was mainly obtained in the form of loans from financial institutions, resulting in an increase in interest-bearing debt and a decline in ID Holdings' equity ratio. Despite the increase in interest-bearing debt from its largest-ever acquisition, however, ID Holdings continued to maintain a net cash position, thanks to its ample cash and deposits. Its financial condition therefore continued to be sound. In FY2019 a sizable final increase in income enabled ID Holdings to increase equity further while continuing to repay interest-bearing debt, raising its net cash position at a high level.



Movements in cash and deposits can be confirmed by looking at cash flow (Figure 8). 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 a major acquisition. At the same time, because most of the funding for the acquisition was obtained through interest-bearing debt, cash flow from financing activities was strongly positive (cash inflow), partially offsetting a negative position in free cash flow (cash flow from operating activities plus cash flow from investing activities). In FY2019, while cash flow from operating activities was positive at ¥3.2 billion, a lack of major investment initiatives engendered negative cash flow from investing activities of over ¥100 million, in turn generating positive free cash flow of ¥3.1 billion. Reduction of interest-bearing debt in FY2019 resulted in negative cash flow from financial activities of ¥2.2 billion. However, net cash swelled, bolstered by free cash flow.

## Financial Analysis

Application of ID Holdings' internal capital reserves is expected to focus on training of technicians who can work in high-value-added fields such as DX, constructing services that use cutting-edge technologies such as artificial intelligence (AI) and the Internet of Things (IoT), and acquiring new products. ID Holdings is also expected to enhance its investments to promote its global strategy, embracing China, Singapore, Myanmar, the United States and the countries of Europe, to prepare for future operational expansion and enhance business results.



## Results

Net sales declined slightly in FY2019, while operating income grew 24%

### ● Results Analysis

Consolidated operating income in FY2019 surged 24% YoY to ¥2.07 billion, marking an all-time high and the seventh consecutive fiscal year of rising operating income. Net sales eased slightly to ¥26.4 billion YoY, but measures such as shifting engineers into high-value-added fields such as cybersecurity and DX and strengthening the project management framework yielded success. Continuation of certain profitable, large-scale software-development projects also contributed. In view of the impact from the COVID-19 pandemic, in Q4 ID Holdings paid employees a special allowance and increased provision for bonuses but was able to absorb these costs. Operating income margin rose from 6.3% to 7.9%.

Orders received increased 3% YoY to ¥26.2 billion. While system operation management and software development were sluggish, system infrastructure and cybersecurity, consulting and training improved. The balance of orders received at end of FY2019 subsided 2% from the end of the previous fiscal year, to ¥5.8 billion.

Table 2. Results

¥ million

	FY2018 Full-year A	FY2019 Full-year B	FY2019 Full-year	
			B/A	B-A
Net sales	26,515	26,377	-0.5%	-138
System operation management	12,273	11,974	-2.4%	-299
Software development	9,355	8,941	-4.4%	-414
System infrastructure	2,310	2,499	8.2%	189
Cybersecurity, consulting and training	1,592	2,091	31.3%	499
Others	983	869	-11.6%	-114
Cost of sales	20,917	19,967	-4.5%	-950
Gross profit	5,597	6,409	14.5%	812
SG&A	3,930	4,336	10.3%	406
Operating income (Operating income margin)	1,667 6.3%	2,073 7.9%	24.3% -	406 -
Ordinary income	1,724	2,111	22.4%	387
Net income	1,028	1,297	26.1%	268

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

We now turn to net sales by segment. Net sales in system operation management declined 2% YoY to ¥12.0 billion. Certain major projects related to the financial sector were concluded, and while ID Holdings won some projects from existing customers in the public sector and financial industry, these were insufficient to offset the loss of said large projects. In software development, net sales shrank 4% YoY to ¥8.9 billion. A number of large-scale projects related to the public sector continued, while orders received from existing customers in shipping and manufacturing increased. Unfortunately, however, ID Holdings was hard-hit by the wrap-up of a major public-sector project in the previous fiscal year. In system infrastructure, net sales expanded 8% YoY to ¥2.5 billion. In addition to capturing new projects from existing customers in the public sector ID Holdings broadened its orders received from existing customers in the financial world. Net sales in cybersecurity, consulting and training swelled 31% YoY to ¥2.1 billion, driven by expanding orders received for cybersecurity services, growth in product sales and expansion in consulting.

## Results

### ● Mid-term Management Plan

ID Holdings is currently implementing its new three-year Mid-term Management Plan, Next 50 Episode I: Awakening!, whose first fiscal year is FY2019 (see Figure 9). The Plan proposes the following three basic policies: (1) Development of a future-oriented corporate culture, (2) deployment of an upgraded business model based on DX, and (3) promotion of ESG. ID Holdings is undertaking measures related to each (see Table 3).

Figure 9. Mid-term Management Plan

#### Mid-term Management Plan “Next 50 Episode I: Awakening!” (FY2019 to FY2021)



(Source) Annual Securities Report



## Results

Table 3. Three Basic Policies and Key Measures

Basic Policies	Key Measures
Development of a future-oriented corporate culture	<ul style="list-style-type: none"> <li>Improving productivity by revolutionizing marketing methods and shifting workstyles to working at home</li> <li>Introduction of various systems to spur innovation and revising remuneration systems to revolutionize employee benefits</li> <li>Leveraging the personnel management system to allocate personnel flexibly and appropriately from a Group-wide perspective, thereby strengthening customer-service capabilities</li> <li>Through the newly established Global Innovation Center (GIC), strengthening the system for developing Group-wide bulk order receiving and expanding the contract service domain</li> <li>Creating innovation by fusing diverse senses of value and strengthening cooperation among bases through measures such as building a production system that leverages time differences with/among overseas bases</li> <li>Radically revising in-house work processes and core systems to advance and streamline management work</li> </ul>
Deployment of an upgraded business model based on DX <sup>Note 1)</sup>	<ul style="list-style-type: none"> <li>Advancement of training for early cultivation of DX engineers who can handle advanced technologies, including use of digital technologies to propose services to customers and plan and manage projects</li> <li>Construction of solution-driven business using DX and focused on DX strategic task teams to promote transformation toward high-value-added business models</li> <li>Constant gathering of information on leading-edge IT technologies through investment in funds while actively forming academic-industrial partnerships and partnering with venture companies possessing leading-edge technologies</li> </ul>
Promotion of ESG <sup>Note 2)</sup>	<ul style="list-style-type: none"> <li>Forming a Group Internal Controls Meeting and further strengthening corporate governance to achieve sustainable growth and work toward a better society</li> <li>Providing employment opportunities for the disabled and contributing to regional development through AI Factory Co., Ltd., a special subsidiary that manages plant factories</li> <li>Expansion of smart work styles using remote work and satellite offices and promotion of health management to enhance workstyle diversity and boost productivity</li> <li>Advancing training and activation of personnel by expanding investment in personnel training and introducing systems for encouraging career formation</li> <li>Advancement of environmental activities, such as concerted efforts to pursue green purchasing and reduction of use of wastepaper and electrical power</li> </ul>

Notes:

1) DX stands for "Digital Transformation." This is the transformation of existing businesses by combining existing service solutions with advanced technologies such as RPA, AI and IoT.

2) ESG stands for "Environmental, Social and Governance (investments)." It is an approach in which an appropriate response to each of these fields constitutes a driving force for long-term growth of an enterprise and plays a role in the formation of a sustainable society.

(Source) Prepared by QUICK Corporation based on ID Holdings Corporation's Annual Securities Report.

## Results

7% decrease in net sales, 4% decrease in operating income forecast for FY2020

Projecting decreases in net sales (-5%) and operating income (-4%) in FY2020

### ● Company Plan

ID Holdings forecasts net sales of ¥24.5 billion (down 7% YoY) and operating income of ¥2.0 billion (down 4% YoY) for the consolidated financial results of FY2020. ID Holdings' planning this fiscal year is based on six assumptions, based on business operations in accordance with the basic policies of the Mid-term Management Plan and the impact of the COVID-19 pandemic.

- (1) The COVID-19 pandemic will come to a temporary conclusion around August 2020 and reemerge around the period from December 2020 to April 2021.
- (2) A full-fledged resumption of IT investment by corporate customers will occur in or after Q2 FY2020.
- (3) The group's employment levels will be preserved.
- (4) The impact of the COVID-19 pandemic on the fields of system operation management and cybersecurity consulting, which account for most of the group's consolidated net sales, will be slight.
- (5) In the software development and system infrastructure fields, the expected IT investment policies of corporate customers will change, possibly resulting in the delay or cancellation of projects currently under way.
- (6) Measures for rationalization and streamlining of management will be implemented to reduce costs.

### ● QUICK's Projections

Many companies today are adopting remote work as a response to the COVID-19 pandemic. QUICK expects that, as a result, corporate customers will take longer to make IT investment decisions than at normal times, causing delays in placement of orders. Because of the difficulty of conducting face-to-face sales discussions, winning of project orders will be stalled to a degree. In terms of production, we believe that ID Holdings can avoid obstruction of deliveries to customers, as it is supporting systems for remote work and its offshore bases in China and elsewhere are gradually returning to their original systems.

QUICK forecasts net sales of ¥25.0 billion (down 5% YoY) and operating income of ¥2.0 billion (down 4% YoY) for ID Holdings' consolidated financial results in FY2020. Even considering the end of the expenses for year-long events that characterized the previous fiscal year, as well as the effects of efforts to streamline management and raise efficiency, we forecast that the dip in operating income cannot be avoided. While net sales and operating income will decline, we expect that operating income margin will improve somewhat due to cost-cutting effects.

In net sales by segment, QUICK forecasts a slight decrease in net sales for system operation management, as projects are scaled back due to the COVID-19 pandemic. The wrap-up of major projects in software development and stalling of new projects in system infrastructure are expected to deal each of these segments a 10% decrease in net sales. In cybersecurity, consulting and training, we believe that the increase in working at home will bolster demand for cybersecurity, so we forecast a slight increase in net sales in this segment.

## Results

Table 4. Results estimates

¥million

	FY2019 Results	FY2020 projections			FY2021 projections	
		Company	QUICK		QUICK	
				YoY		YoY
Net sales	26,377	24,500	25,000	-5.2%	25,700	2.8%
System operation management	11,974		11,800	-1.5%	12,000	1.7%
Software development	8,941		8,000	-10.5%	8,300	3.8%
System infrastructure	2,499		2,260	-9.6%	2,350	4.0%
Cybersecurity, consulting and training	2,091		2,100	0.4%	2,200	4.8%
Others	869		840	-3.3%	850	1.2%
Operating income	2,073	2,000	2,000	-3.5%	2,100	5.0%
(Operating income margin)	7.9%	8.2%	8.0%	-	8.2%	-
Ordinary income	2,111	2,040	2,040	-3.4%	2,140	4.9%
Net income	1,297	1,190	1,190	-8.3%	1,250	5.0%

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

Projecting  
increases in net  
sales (+3%) and  
operating income  
(+5%) in FY2021

For the consolidated financial results of FY2021, we predict net sales of ¥25.7 billion (+3%YoY) and operating income of ¥2.1 billion (+5% YoY). We expect the impact of the COVID-19 pandemic to subside and growth to resume in FY2021. When projects deferred due to the pandemic begin to move again, orders received should expand. QUICK forecasts that both system operation management and software development will grow at this time.



			FY2017	FY2018	FY2019	FY2020 (Analyst)
Share price	Share price (52-week high)	¥	1,636	1,782	1,540	-
	Share price (52-week low)	¥	1,047	1,125	1,059	-
	Average monthly volume	100's of shares	7,821	5,493	6,081	-
Results	Net sales	¥ million	23,207	26,515	26,377	25,000
	Operating income	¥ million	1,254	1,667	2,073	2,000
	Ordinary income	¥ million	1,274	1,724	2,111	2,040
	Net income	¥ million	622	1,028	1,297	1,190
	EPS	¥	56.84	93.15	116.71	106.74
	ROE	%	8.4	12.9	15.3	13.1
Main balance sheet items	Total current assets	¥ million	8,344	9,298	10,116	-
	Total non-current assets	¥ million	5,404	5,301	5,133	-
	Total assets	¥ million	13,748	14,600	15,249	-
	Total current liabilities	¥ million	5,923	5,293	5,857	-
	Total non-current liabilities	¥ million	207	964	661	-
	Total liabilities	¥ million	6,131	6,258	6,519	-
	Total shareholders' equity	¥ million	7,033	7,638	8,219	-
	Total net assets	¥ million	7,617	8,342	8,730	-
Main cash flow statement items	Cash flow from operating activities	¥ million	1,237	1,004	3,231	-
	Cash flow from investment activities	¥ million	-2,129	-336	-114	-
	Cash flow from financing activities	¥ million	1,464	-126	-2,219	-
	Cash and cash equivalent balance at end of period	¥ million	2,944	3,489	4,367	-

Note 1: In accordance with the "Partial Revision of Accounting Standard for Tax-effect Accounting" (Enterprise Accounting Standard No. 28, February 16, 2018), the accounting categories in the balance sheet for deferred tax assets and liabilities are changed from FY2018 onward. The figures for FY2017 are retroactively adjusted to reflect the application of these accounting standards.

Business Risks

- Business Risks

- Reliance on Specific Trading Partners

In FY2019 the Mizuho Financial Group accounted for 22% of ID Holdings' consolidated net sales. ID Holdings enjoys a long-term, stable business relationship with the companies under the Mizuho Financial Group umbrella. Nonetheless, the Mizuho Financial Group's large share of ID Holdings' net sales means that changes to the orders received from this group may negatively affect ID Holdings' business results and financial condition.

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

The software development and infrastructure-building segments account for 43% of the consolidated net sales of ID Holdings. The ever-increasing levels of sophistication and complexity in these industries, as well as demands for shorter turnaround times, raise the risk of mid-project requirement changes, reduced quality levels and delivery delays. To mitigate the risk of such problems, ID Holdings has implemented the ISO 9001 quality management system. When ID Holdings receives an inquiry regarding a new, large-scale project, it convenes an order receiving examination committee, which examines questions such as business policy, profitability, staffing frameworks, technical capabilities and opportunities for acquiring technologies, from a management perspective. The Quality Management Division then conducts risk analysis and management from the proposal and estimate stages to final delivery of each project. For each project, ID Holdings conducts regular reviews of quality, cost and delivery (QCD) to detect and predict abnormalities and enact countermeasures in the early stages, to prevent becoming involved in projects that are unprofitable. Despite these efforts, however, profitability of a project can be compromised if the planned quality cannot be secured or the project cannot be completed by the development deadline, requiring added expenses to complete the project or even liability for damages. Such incidents can adversely impact the business results and financial condition of ID Holdings. To strengthen its project management, ID Holdings reorganized in FY2020, gathering the organizations that had previously handled batch development into the GIC. ID Holdings also appointed a Project Director and built a system for the centralized management of projects. Through these measures, ID Holdings moved to strengthen management of projects received in bulk and achieve flexible and appropriate personnel allocation.

- Risks in the Execution of System Operation Management Projects

The system operation management segment accounts for 45% of the consolidated net sales of ID Holdings. System failures and delays in provision of information may arise due to operational errors in system operation management. If a major system failure occurs, ID Holdings may be required to pay damages or may suffer negative impact on its business results and financial condition. To prevent such failures, ID Holdings implements measures such as thorough implementation of double-checking systems for high-impact work and advancement of automation using appropriate tools. Having instituted a Quality Management Division, ID Holdings plans and executes training to prevent failures, analysis and feedback of

## Risk Analysis

failure factors, and on-site inspections. ID Holdings is ISO 9001 certified and is striving continuously to improve the quality of its services.

In system operation management, ID Holdings is moving forward with DX. This work entails reduction of maintenance costs for existing systems, automation, use of the public cloud, shifting of customers to next-generation systems and centralizing operations. At such a key turning point for ID Holdings, the group risks shrinking if it limits itself to conventional, simple operations. ID Holdings is advancing a range of DX measures, such as launching projects to revolutionize operational services and automating operations to add value in view of the potential of the system operation business. At the same time, it is shifting personnel to other segments by providing them with new skills.



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