

ID Holdings Corporation

(4709, TSE 1st Section)

September 18, 2020

Rocked by End of Major Projects, Operating Income Fell 54% in Q1

Research Note		Key benchmarks as of September 16, 2020					Issuance date of preceding report			
Quick Corporation Toshiaki Maeda		Share price	¥1,441			Basic	July 6, 2020			
		Shares outstanding	12,044,302 shares							
		Market capitalization	¥17,355 million							
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	106.71
	Analyst estimates	25,000	-5.2	2,000	-3.5	2,040	-3.4	1,190	-8.3	106.71
FY2021	Analyst estimates	25,700	2.8	2,100	5.0	2,140	4.9	1,250	5.0	112.09

Despite a rough start in Q1, QUICK is maintaining its full-year forecast in view of the launch of new projects.

In Q1 of the fiscal year ending March 31, 2021 (Q1 FY2020: April 1 to June 30, 2020), the ID Group's consolidated operating income dropped 54% compared with the same period of the previous fiscal year (YoY) to ¥230 million. The Group's main business fields, system operation management and software development, fell due to the conclusion of certain large projects. Net sales declined 10% YoY to ¥5.88 billion. Although outsourcing cost and overtime work by Group engineers decreased, a downturn in operating rate made fixed costs onerous. Net sales by service presented a mixed picture. In system operation management, while the Group secured new projects from existing customers in communications and the public sector, the impact of the conclusion of major projects in the financial sector contributed to a 3% decline YoY in this field to ¥2.93 billion. Similarly, the software development field was affected by the wrap-up of three major projects in the public sector and finance. Acquisition of new projects and an increase in staffing levels on existing projects were unable to offset these declines as net sales in this field contracted 22% YoY to ¥1.76 billion. In system infrastructure, the Group won new projects from existing customers in the public sector and increased staffing on shipping-related projects, enjoying a 7% rise YoY in net sales in this field to ¥610 million. Cybersecurity, consulting and training benefited from increases in both operator staffing and product sales, which powered 10% growth YoY in net sales in this field to ¥460 million.

In the view of QUICK, the results for Q1 constituted a rough start to the fiscal year. However, new projects are gradually coming on stream. We are therefore maintaining our forecast of a 5% decline in revenues and a 4% retreat in operating income for the full fiscal year. While the conclusion of major projects portends a drag on earnings, our forecast takes into account the anticipated effects of management streamlining and improvements in efficiency aimed at cutting costs.

The Group conducted acquisitions with a view to expanding services and strengthening its customer base.

With a view to expanding its service menu and strengthening its customer base, the ID Group conducted two acquisitions in succession in the fiscal period under review. First, the Group acquired all shares of ActiveT Co., Ltd., a company with strengths in software development for the automotive sector and public agencies (the share transfer was executed on June 30, 2020). Because ActiveT's main base of operations is Nagoya, the Group judged that the acquisition would enable it to improve service capability in the Chubu region, strengthen its customer base and, by attracting engineers from the area, augment its production framework. Next, the Group acquired all shares of GI Technos Inc., a firm with strengths ranging from software development for core systems to system infrastructure construction and mobile-application development, aimed at the telecommunications-carrier and public sectors (the share transfer was executed on August 3, 2020). With this acquisition, the Group aims to strengthen its customer base, with focus on the telecommunications-carrier and public sectors, and engage in collaborations in the cloud and system-infrastructure fields.

QUICK currently has no forecast regarding the contribution of these two companies to the consolidated business results of the ID Group, as details remain unclear at this point. Although the acquisitions will add to net sales, they will also generate goodwill-depreciation expenses. Accordingly, QUICK expects the impact on income in the full fiscal year to be insignificant.

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