

Summary of Non-consolidated Financial Results

for the second quarter of Fiscal Year Ending June 2020 (Japanese GAAP)

February 5, 2020

1. Financial results for this term (July 1, 2019 to December 31, 2019)

(Percentage represents year-on-year change)

(Rounded down to the nearest million yen)

(1) Results of operations

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1 st half, June 2020	4,967	(1.4)	368	37.1	360	27.8	237	15.8
1 st half, June 2019	5,039	7.4	269	41.5	281	43.0	204	58.4

	EPS	Fully diluted EPS
	Yen	Yen
1 st half, June 2020	9.03	—
1 st half, June 2019	7.78	—

(2) Financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
1 st half, June 2020	9,814	6,542	66.7
FY ended June 2019	10,032	6,372	63.5

(Reference) Shareholders' equity: As of 1st half, June 2020 ¥6,542 million As of June 2019 ¥6,372 million

2. Dividends

	Dividend per share				
	Q1-end	Q2-end	Q3-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended June 30, 2019	—	0.00	—	9.00	9.00
Year ending June 30, 2020	—	0.00			
Year ending June 30, 2020 (Forecast)			—	9.00	9.00

(Note) Revision of forecasts on the dividends: No

3. Forecast of financial results for the fiscal year ending June 30, 2020
(July 1, 2019 to June 30, 2020)

(Percentage represents year-on-year change)

	Net sales		Operating income		Ordinary income		Net income		EPS
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full Year	10,600	1.5	1,000	8.5	1,040	9.1	720	5.3	27.37

(Note) Revision of forecast on the financial results: No

Notes:

(1) Adaption of unique accounting method for quarterly financial statements: No

(2) Changes in Accounting Policies and Accounting Estimates / Restatements

(i) Changes in accounting policies due to revisions of accounting standards, etc.: No

(ii) Changes in accounting policies other than (i) above: No

(iii) Changes in accounting estimates: No

(iv) Restatements: No

(3) Number of shares issued (common stock)

(i) Number of shares issued at year-end (including treasury stock)	As of December 31, 2019	26,340,000	As of June 30, 2019	26,340,000
(ii) Number of shares of treasury stock at year-end		35,707		31,907
(iii) Average number of shares during the full year		26,246,126	As of December 31, 2018	26,314,189

※ Summary of financial results are not subject to audit by a certified public accountant or audit corporations.

※ Explanation on the proper use of financial forecasts

The forward-looking statements and other forward-looking statements contained in this material are based on currently available information and uncertainty. Actual results may differ from forecast figures due to changes in business conditions.

※ This document has been translated from the Japanese original for the convenience of overseas investors. In the event of any discrepancy between this document and the Japanese original, the original shall prevail.

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1. Overview of Operating Results

(1) Report of Operating Results

The Japanese economy in the first half of the FY06/2020, from July to December 2019, has been on a moderate expanding trend. Business fixed investment has continued on an increasing trend and private consumption has increased moderately despite of effects of the consumption tax hike.

January 10 2020, Ministry of Economy, Trade and Industry released that the number of registered merchants of Point Reward Project for Consumers using Cashless Payment started on October 2019 amounted 950,000, and subjected gross billing paid by credit cards climbed to 1.4 trillion yen in two months. The use of cashless payments is steadily progressing.

In the credit card industry, which is our main business domain, business deals related to capital investment projects keep its stability and our favorable business environment continues.

In the first half of the FY06/2020, the company recorded net sales of 4,967 million yen (1.4% decrease YoY), operating income of 368 million yen (37.1% increase YoY), ordinary income of 360 million yen (27.8% increase YoY) and net income of 237 million yen (15.8% increase YoY). Although net sales recorded slightly below 5,000 million yen of the initial forecast, our business generally has progressed as the initial planned. Despite SG & A expenses increased from the previous year due to the labor costs increase, operating income recorded 368 million yen to the initial forecast of 360 million yen.

In the Financial Systems Solutions business segment, software development works has been processed securely and earned operating income as initially projected. For the cloud service business, its profitability has been improving from the previous fiscal year by the growth of the sales.

Orders received for this segment surpassed the result of the last first quarter for FY06/2020 contributed by the orders received for the cloud services launched for new customers. Orders for software development business increased steadily as well and we have no sign of the business environment change.

(Financial Systems Solutions Business)

In this business segment, the company recorded net sales by jobs consisted of the software development, maintenance service and sales of in-house developed package software and hardware for our customers, mainly credit card companies. The segment achieved the net sales of 4,527 million yen, (1.9% decrease YoY) and operating income of 493 million yen, (55.6% increase YoY).

In the first half of the FY06/2020, the company recorded the sales from the FEP (Front End Processing) system development project for new customer, the investment project related to BCP (Business Continuity Plan) of the customer, and other projects, both sales of software development business and hardware sales business declined from the same period of the previous fiscal year. As a result, net sales of this half of the FY06/2020 ended slightly below 4,614 million yen for the same period of the previous fiscal year. The sales of cloud service business grew from the same period of the previous fiscal year. The launch of both cloud services, IOASIS (i-oasis) providing the merchant-acquiring business operations, and IFINDS (i-finds) providing fraud-detection operations for credit card transactions, have contributed to the sales growth.

Software development works has been processed securely and we have had no unprofitable development project in the first half. For the cloud service business, the profitability has been improving from the previous fiscal year by the growth of the sales. This business segment recorded 493 million yen for operating income exceeded the result of the same period of the previous fiscal year.

The size of the development project of the segment is varied each order.

There is a possibility which the development cost over the initial estimate incur in each phase of the development works. Gross margin of each development project is not fixed and flat and that causes the fluctuation of the profit for the segment. Additionally, hardware such as servers is sold for the system development and system renewal projects and the net sales of hardware is varied by the designs and details of those projects. The variety of the profit from the sales of hardware also causes the fluctuation of the profit for the segment.

(Product Solutions Business)

By the sale of CWAT, in-house developed product preventing from information leakage inside the enterprise, and the sale of cyber-security products from third-parties, the company recorded net sales of 440 million yen (3.6% increase YoY) and operating loss of 125 million yen (48 million yen in the previous fiscal year) in this business segment.

The net sales surpassed compared with the result of the previous fiscal year though, the operating income fell below as due to the reduction of the sales of the product higher-margin.

(2) Report of Financial Position

(Assets)

The balance of assets at the end of the first half of the current fiscal year decreased by 217 million yen from the end of the previous fiscal year to 9,814 million yen. Current assets decreased by 464 million yen from the end of the previous fiscal year to 5,589 million yen. This was mainly due to the increase of 206 million yen in inventories and the decrease of 756 in cash and deposits. Non-current assets increased 246 million yen from the end of the previous fiscal year to 4,224 million yen. This was mainly due to the increase of 245 million yen in investment securities.

(Liabilities)

The balance of liabilities at the end of the first half of the current fiscal year decreased by 388 million yen from the end of the previous fiscal year to 3,271 million yen. This was mainly due to the increase of 112 million yen in notes and accounts payable, the decrease of 273 million yen in income tax payable and the decrease 46 million yen in provision for bonuses.

(Net Assets)

Net assets at the end of the first half of the fiscal year increased 170 million yen from the end of the previous fiscal year to 6,542 million yen. This was mainly due to the increase of 169 million yen in valuation difference on available-for-sale securities.

(Report of Cash Flows)

The balance of cash and deposits at the end of first half of the current fiscal year was ended 2,498 million yen (2,390 million yen at the end of the previous fiscal year).

(Cash flows from operating activities)

Net cash provided by operating activities in the first half of the current fiscal year amounted to 38 million yen (net cash used in the previous fiscal year was 4 million yen). This was mainly attributable to the fact that income before taxes amounted 360 million yen and inventories increased 206 million yen by the cost of system development works in progress, trade payable increased 100 million yen by the accounts payable of outsourcing expenses.

(Cash flows from investing activities)

Net cash used in investing activities in the first half of the current fiscal year was 405 million yen (compared with 244 million yen used in the previous fiscal year). This was mainly due to the purchase of intangible fixed assets by the development works of the software for sales purposes and the internal use by 295 million yen, and the purchase of the equipment such as servers for our cloud service business by 119 million yen.

(Cash flows from financing activities)

Net cash used in financing activities in the first half of the current fiscal year was 389 million yen (200 million yen used in the previous fiscal year).

This was mainly due to cash dividends paid of 235 million yen and the purchase of treasury stocks of 136 million yen.

(3) Statement for the Future Forecast such as Business Forecast

There is no revision to the business forecast announced on August 7, 2019, "Summary of Non-consolidated Financial Results for the Fiscal Year Ended June 2019".

2. Financial Statements

(1) Balance Sheet

	Thousands of yen	
	Previous term end (as of June 30,2019)	Current term end (as of December 31, 2019)
Assets		
Current assets		
Cash and deposits	3,254,913	2,498,122
Notes and accounts receivable	1,455,554	1,513,385
Inventories	640,892	847,741
Other	702,914	730,736
Total current assets	6,054,274	5,589,985
Non-current assets		
Property, plant and equipment	540,988	543,663
Intangible assets		
Software	1,188,857	1,148,709
Other	152,363	273,483
Total intangible assets	1,341,221	1,422,192
Investments and other assets		
Investment securities	1,234,859	1,480,297
Other	860,899	778,374
Total investments and other assets	2,095,759	2,258,671
Total non-current assets	3,977,969	4,224,528
Total assets	10,032,243	9,814,513
Liabilities		
Current liabilities		
Notes and accounts payable	332,221	444,356
Income taxes payable	359,462	86,235
Advances received	1,428,303	1,400,877
Provision for bonuses	278,538	232,157
Provision for bonuses for directors	40,175	15,169
Other	619,730	482,021
Total current liabilities	3,058,430	2,660,818
Non-current liabilities		
Provision for retirement benefits	451,172	474,041
Provision for retirement benefits for directors	23,885	26,942
Asset retirement obligations	86,947	87,329
Other	39,292	22,585
Total non-current liabilities	601,297	610,899
Total liabilities	3,659,728	3,271,717

Thousands of yen

	Previous term end (as of June 30,2019)	Current term end (as of December 31, 2019)
Net assets		
Shareholders' equity		
Capital stock	843,750	843,750
Capital surplus	561,186	573,099
Retained earnings	4,518,091	4,518,425
Treasury stock	(14,955)	(26,687)
Total shareholders' equity	5,908,072	5,908,586
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	464,442	634,208
Total valuation and translation adjustments	464,442	634,208
Total net assets	6,372,515	6,542,795
Total liabilities and net assets	10,032,243	9,814,513

(2) Income Statement

	Thousands of yen	
	Previous term (from July 1, 2018 to December 31, 2018)	Current term (from July 1, 2019 to December 31, 2019)
Net sales	5,039,355	4,967,041
Cost of sales	3,841,680	3,633,129
Gross income	1,197,675	1,333,911
Selling, general and administrative expenses	928,614	965,130
Operating income	269,060	368,781
Non-operating income		
Interest income	321	305
Dividend income	5,663	20,735
Insurance claim income	4,000	—
Subsidy income	3,474	—
Other	1,277	2,366
Total non-operating income	14,737	23,408
Non-operating expenses		
Interest expenses	89	55
Commitment fee	1,935	2,113
Compensation expenses	—	29,618
Other	45	348
Total non-operating expenses	2,070	32,135
Ordinary income	281,727	360,053
Extraordinary income	—	—
Extraordinary losses	—	—
Income before income taxes	281,727	360,053
Income taxes - current	176,631	65,785
Income taxes - deferred	(99,724)	57,161
Total income taxes	76,907	122,947
Net income	204,819	237,106

(3) Cash Flow Statement

	Thousands of yen	
	Previous term (from July 1, 2018 to December 31, 2018)	Current term (from July 1, 2019 to December 31, 2019)
Cash flows from operating activities		
Income before income taxes	281,727	360,053
Depreciation	273,592	291,632
Share-based remuneration expenses	21,812	24,282
Increase (decrease) in provision for bonuses	(23,219)	(46,380)
Increase (decrease) in provision for loss on order received	(14,580)	—
Increase (decrease) in provision for bonuses for directors (and other officers)	(131)	(25,005)
Increase (decrease) in provision for retirement benefits	8,227	22,868
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(1,275)	3,057
Interest and dividend income	(5,985)	(21,041)
Insurance claim income	(4,000)	—
Subsidy income	(3,474)	—
Interest expenses	89	55
Compensation expenses	—	29,618
Commitment fee	1,935	2,113
Decrease (increase) in notes and accounts receivable	117,159	(85,257)
Decrease (increase) in inventories	(208,987)	(206,849)
Increase (decrease) in notes and accounts payable	(278,718)	100,471
Other	(118,953)	(100,209)
Subtotal	45,220	349,408
Interest and dividend income received	6,123	21,099
Interest expenses paid	(75)	(47)
Commitment fee paid	(2,258)	(2,215)
Proceeds from subsidy income	3,474	—
Proceeds from insurance income	4,000	—
Income taxes paid	(60,602)	(329,871)
Net cash provided by (used in) operating activities	(4,119)	38,373
Cash flows from investing activities		
Purchase of property, plant and equipment	(69,863)	(119,233)
Purchase of intangible assets	(222,278)	(295,949)
Purchase of investment securities	(202,781)	(1,043)
Proceeds from sales of investment securities	250,000	—
Collection of loans receivable	300	568
Other	359	9,881
Net cash provided by (used in) investing activities	(244,263)	(405,776)

	Thousands of yen	
	Previous term (from July 1, 2018 to December 31, 2018)	Current term (from July 1, 2019 to December 31, 2019)
Cash flows from financing activities		
Repayments of lease obligations	(17,746)	(17,781)
Purchase of treasury stock	(26)	(136,100)
Cash dividends paid	(182,901)	(235,921)
Net cash provided by (used in) financing activities	(200,674)	(389,803)
Effect of exchange rate change on cash and cash equivalents	119	414
Net increase (decrease) in cash and cash equivalents	(448,937)	(756,791)
Cash and cash equivalents at beginning of period	2,839,698	3,254,913
Cash and cash equivalents at end of period	2,390,760	2,498,122

(4) Notes

(Notes on the Going Concern Assumption)

Not applicable.

(Significant Changes in the Amount of Shareholders' Equity)

For the first half of the current fiscal year (July 1, 2019 to December 31, 2019),

Not applicable.

(Adaption of unique accounting method for quarterly financial statements)

For the first half of the current fiscal year (July 1, 2019 to December 31, 2019),

Not applicable.

(Business Segment)

I Previous term (from July 1, 2018 to December 31, 2018)

(1) Net Sales and income or loss by reporting segment

Thousands of yen

	Business Segments			Total
	Financial System Solutions Business	Product Solutions Business	Sub total	
Net Sales				
To external customers	4,614,709	424,645	5,039,355	5,039,355
Intersegment internal sales and transfers	—	—	—	—
Total	4,614,709	424,645	5,039,355	5,039,355
Segment income	317,454	(48,393)	269,060	269,060

(2) There is no adjustment because the total of segment income and the operating income of income statement correspond.

II Current term (from July 1, 2019 to December 31, 2019)

(1) Net Sales and income or loss by reporting segment

Thousands of yen

	Business Segments			Total
	Financial System Solutions Business	Product Solutions Business	Sub total	
Net Sales				
To external customers	4,527,022	440,018	4,967,041	4,967,041
Intersegment internal sales and transfers	—	—	—	—
Total	4,527,022	440,018	4,967,041	4,967,041
Segment income	493,854	(125,073)	368,781	368,781

(2) There is no adjustment because the total of segment income and the operating income of income statement correspond.