

July 30, 2019

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2020



INES Corporation

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1. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2020 (April 1, 2019 to June 30, 2019)

(1) Consolidated Operating Results

(Million yen, figures in percentages denote year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent
Three months ended June 30, 2019	8,910	15.9%	607	—%	618	—%	404
Three months ended June 30, 2018	7,689	6.2%	(114)	—%	(94)	—%	(135)

(Note) Comprehensive income Three months ended June 30, 2019: ¥386 million (—%)
 Three months ended June 30, 2018: ¥132 million (—%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)
Three months ended June 30, 2019	17.00	—
Three months ended June 30, 2018	(5.05)	—

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of June 30, 2019	54,687	36,568	66.9
As of March 31, 2019	54,443	36,538	67.1

(Reference) Shareholders' equity As of June 30, 2019: ¥36,568 million As of March 31, 2019: ¥36,538 million

2. Dividends

	Dividends per share (Yen)				
	End of Q1	End of Q2	End of Q3	Fiscal year end	Annual
Year ended March 31, 2019	—	10.00	—	15.00	25.00
Year ending March 31, 2020	—				
Year ending March 31, 2020 (Forecast)		15.00	—	15.00	30.00

(Note) Revisions to dividend forecasts published most recently: No

3. Forecasts for Consolidated Financial Results for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(Million yen, figures in percentages denote year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	Profit per share (Yen)
Full year	40,000	4.9%	1,600	(26.3)%	1,650	(26.1)%	1,550	3.9%
								65.22

(Note) Revisions to results forecasts published most recently: Yes

*Notes

(1) Significant changes in subsidiaries during the first quarter under review (changes in subsidiaries causing a change in the scope of consolidation): No

(2) Application of special accounting treatment to the preparation of consolidated financial statements: Yes

(3) Changes in accounting policies and changes or restatement of accounting estimates

1. Changes in accounting policies associated with the revision of accounting standards, etc.: No
2. Changes in accounting policies other than (1.): No
3. Changes in accounting estimates: No
4. Restatement: No

(4) Number of shares outstanding (common shares)

1. Number of shares outstanding at the term end (including treasury shares)
FY2020/3 Q1: 23,900,000 shares
FY2019/3: 23,900,000 shares
2. Number of treasury shares at the term end
FY2020/3 Q1: 134,597 shares
FY2019/3: 134,160 shares
3. Average number of shares outstanding
FY2020/3 Q1: 23,765,567 shares
FY2020/3 Q1: 26,726,942 shares

**** Quarterly consolidated financial statements are placed outside the scope of quarterly reviews performed by a certified public accountant or an audit corporation.***

**** Explanation regarding the proper use of results forecasts and other important notes***

(Disclaimer regarding forward-looking statements)

Forward-looking statements such as the results forecasts provided in this document are prepared based on currently available information and assumptions that are deemed reasonable, but the Company does not intend to guarantee their achievement. Actual results may differ significantly from the above forecasts for various reasons. For conditions regarding the assumptions for results forecasts and notes on the use of results forecasts, etc., please refer to page 4 of the accompanying materials “1. Qualitative Information on Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2020, (2) Explanation of revisions to forecasts for consolidated financial results” of the accompanying materials.

1. Qualitative Information on Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2020

(1) Details of operating results

During the first quarter under review, the Japanese economy sustained a modest recovery supported by factors such as a pickup in consumer spending, better employment conditions and improved corporate earnings, although concerns persisted over overseas economies, such as Brexit and the trade friction between the United States and China. In the information industry in which the INES Group operates, corporate IT investments for digital transformation and other business activities remained steady.

Net sales for the first quarter under review are presented in the consolidated net sales by sector below. The Company's sales are usually low in the first quarter compared to levels in the remaining quarters. However, net sales for the first quarter under review soared 15.9% year on year, to 8,910 million yen, reflecting a concentration of demand for system repair associated with revisions in different types of laws in the public sector, as well as an increase in the number of projects for retailers and the growth in the number of newly acquired customers in the general industry

On the profit side, operating profit stood at ¥607 million (an operating loss of ¥114 million yen in the same period of the previous year), due to the elimination of the negative effects of projects that had been performing poorly in the same period of the previous year and increased sales mainly in the public and general industry sectors. As a result, ordinary profit and profit attributable to owners of parent came to ¥618 million yen (an ordinary loss of ¥94 million yen in the same period of the previous year) and ¥404 million yen (the loss attributable to owners of parent of ¥135 million yen in the same period of the previous year).

Consolidated net sales by sector and by product/service are as follows.

Consolidated net sales by sector

(Million yen)

Category/ Term	Three months ended June 30, 2018		Three months ended June 30, 2019		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
Public	2,449	31.9	3,486	39.1	42.3
Financial	2,709	35.2	2,709	30.4	(0.0)
General industry	1,614	21.0	1,771	19.9	9.8
Other	916	11.9	943	10.6	2.9
Total	7,689	100.0	8,910	100.0	15.9

Note) Starting from the first quarter under review, the Company has partially changed the classification of the business sector of customers. Amounts for the same period of the previous year are also presented based on the revised classification.

Consolidated net sales by product/service

(Million yen)

Category/ Term	Three months ended June 30, 2018		Three months ended June 30, 2019		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	2,936	38.2	4,008	44.9	36.5
System operation	2,339	30.4	2,857	32.1	22.2
System maintenance	1,081	14.1	1,111	12.5	2.9
Sales of information equipment	317	4.1	262	2.9	(17.3)
Other	1,016	13.2	670	7.6	(34.0)
Total	7,689	100.0	8,910	100.0	15.9

(2) Explanation on revisions to forecasts for consolidated financial results

As described in “3. Forecasts for Consolidated Financial Results for the Fiscal Year Ending March 31, 2020 (April 1, 2019 to March 31, 2020)” in the “Consolidated Financial Statements for the Fiscal Year Ended March 31, 2019” announced on April 26, 2019, the Company considered relocation to a new office to enhance the efficiency of facilities and production and the disposal of real properties it owns for further improvements in asset efficiency and reductions in ownership costs. Costs that were yet to be estimated as of April are expected to be as follows.

Description of expenses or profits	Estimated amount (Billion yen)
Extraordinary expenses for the office relocation (operating expenses)	(0.8)
Gains on sale of non-current assets (*) (extraordinary income)	4.4
Losses on sale of non-current assets (extraordinary loss)	(3.6)

(*) Disclosed on November 27, 2018

Also, as a result of reviewing the future outlook factoring in recent earnings trends, the Company has decided to revise the forecasts for full year consolidated financial results.

[Revision to the forecasts for full year consolidated financial results for the fiscal year ending March 31, 2020]

(Million yen)

	Net sales	Operating profit	Ordinary profit	Profit attributable to owners of parent
Before the revision (A)	39,000	2,200	2,250	—
After the revision (B)	40,000	1,600	1,650	1,550
Change (B-A)	1,000	(600)	(600)	1,550
Change (%)	2.6	(27.3)	(26.7)	—
Results in the previous year (Fiscal year ended March 31, 2019)	38,143	2,169	2,233	1,492

Dividends for the fiscal year under review remain unchanged from the dividend forecast announced on April 26, 2019.

(Caution on future forecast information)

Forward-looking statements such as results forecasts provided in this document are prepared based on currently available information and assumptions that are deemed reasonable, but the Company does not intend to guarantee their achievement. Actual results may differ significantly from the above forecasts for various reasons.

Quarterly Consolidated Financial Statements and Important Notes

Quarterly consolidated balance sheet

As of March 31 and June 30, 2019

(Million yen)

	FY2018 (As of March 31, 2019)	1Q of FY2019 (As of June 30, 2019)
ASSETS		
Current assets:		
Cash and deposits	9,940	14,047
Notes and accounts receivable - trade	9,326	4,862
Work in process	1,163	1,560
Raw materials and supplies	117	136
Prepaid expenses	209	301
Other	91	206
Allowance for doubtful accounts	(9)	(5)
Total current assets	20,839	21,109
Non-current assets		
Property, plant and equipment		
Buildings and structures	16,456	16,547
Accumulated depreciation	(8,501)	(8,658)
Buildings and structures, net	7,955	7,889
Tools, furniture and fixtures	4,354	4,383
Accumulated depreciation	(2,948)	(3,004)
Tools, furniture and fixtures, net	1,406	1,378
Land	12,709	12,709
Total property, plant and equipment	22,071	21,977
Intangible assets		
Software	3,649	3,616
Other	23	24
Total intangible assets	3,673	3,641
Investments and other assets		
Investment securities	1,589	1,737
Long-term prepaid expenses	413	364
Deferred tax assets	4,512	4,487
Long-term time deposits	300	300
Other	1,043	1,068
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	7,859	7,958
Total non-current assets	33,604	33,577
Total assets	54,443	54,687

Quarterly consolidated balance sheet

As of March 31 and June 30, 2019

(Million yen)

	FY2018 (As of March 31, 2019)	1Q of FY2019 (As of June 30, 2019)
LIABILITIES		
Current liabilities:		
Accounts payable – trade	1,961	1,755
Accrued expenses	899	1,009
Income taxes payable	981	265
Accrued consumption taxes	389	247
Advances received	124	731
Provision for bonuses	1,119	1,773
Provision for bonuses for directors (and other officers)	48	16
Provision for losses on orders received	584	339
Other	1,941	2,142
Total current liabilities	8,050	8,281
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	150	126
Retirement benefit liability	9,453	9,513
Asset retirement obligations	162	114
Other	88	83
Total non-current liabilities	9,854	9,837
Total liabilities	17,904	18,119
NET ASSETS		
Shareholders' equity		
Share capital	15,000	15,000
Capital surplus	14,582	14,582
Retained earnings	7,895	7,943
Treasury shares	(166)	(167)
Total shareholders' equity	37,311	37,358
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	150	93
Remeasurements of defined benefit plans	(923)	(883)
Total accumulated other comprehensive income	(773)	(790)
Total net assets	36,538	36,568
Total net assets and liabilities	54,443	54,687

Quarterly consolidated statement of income

For the three months ended June 30, 2018 and 2019

(Million yen)

	1Q of FY2018 (April 1, 2018 to June 30, 2018)	1Q of FY2019 (April 1, 2019 to June 30, 2019)
Net sales	7,689	8,910
Cost of sales	6,345	6,832
Gross profit	1,344	2,077
Selling, general and administrative expenses	1,459	1,470
Operating profit (loss)	(114)	607
Non-operating income:		
Interest income	1	1
Dividends income	4	5
Rental income from real estate	15	16
Others	14	4
Total non-operating income	35	27
Non-operating expenses:		
Interest expenses	0	0
Rental expenses on real estate	13	14
Others	1	1
Total non-operating expenses	15	16
Ordinary profit (loss)	(94)	618
Extraordinary income:		
Gain on bargain purchase	—	49
Total extraordinary income	—	49
Extraordinary losses:		
Loss on retirement of non-current assets	1	1
Total extraordinary losses	1	1
Profit (loss) before income taxes	(96)	667
Income taxes	38	263
Profit (loss)	(135)	404
Profit (loss) attributable to owners of parent	(135)	404

Quarterly consolidated statement of comprehensive income

For the three months ended June 30, 2018 and 2019

(Million yen)

	1Q of FY2018 (April 1, 2018 to June 30, 2018)	1Q of FY2019 (April 1, 2019 to June 30, 2019)
Profit (loss)	(135)	404
Other comprehensive income:		
Valuation difference on available-for-sale securities	(37)	(57)
Remeasurements of defined benefit plans, net of tax	39	40
Total other comprehensive income	2	(17)
Comprehensive income	(132)	386
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	(132)	386

Quarterly consolidated statement of cash flow

For the three months ended June 30, 2018 and 2019

(Million yen)

	1Q of FY2018 (April 1, 2018 to June 30, 2018)	1Q of FY2019 (April 1, 2019 to June 30, 2019)
I. Cash flows from operating activities:		
Profit (loss) before income taxes	(96)	667
Depreciation	545	538
Increase (decrease) in provision for bonuses	580	615
Increase (decrease) in provision for bonuses for directors (and other officers)	(34)	(32)
Increase (decrease) in provision for loss on order received	235	(244)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(18)	(24)
Increase (decrease) in retirement benefit liability	111	62
Loss on retirement of non-current assets	1	1
Gain on bargain purchase	—	(49)
Decrease (increase) in trade receivables	5,901	5,121
Decrease (increase) in inventories	(219)	(416)
Decrease (increase) in other assets	(115)	(81)
Increase (decrease) in trade payables	(1,031)	(213)
Increase (decrease) in other liabilities	96	12
Other, net	(72)	(87)
(Subtotal)	5,882	5,867
Income taxes paid	(72)	(892)
Net cash provided by (used in) operating activities:	5,810	4,974
II. Cash flows from investing activities		
Net decrease (increase) in time deposits	(0)	199
Purchase of property, plant and equipment	(233)	(127)
Purchase of intangible assets	(948)	(228)
Purchase of long-term prepaid expenses	(154)	(31)
Purchase of investment securities	—	(229)
Payments of leasehold and guarantee deposits	(34)	(50)
Proceeds from refund of leasehold and guarantee deposits	33	40
Payments for asset retirement obligations	(2)	—
Proceeds from merger	—	87
Other	21	6
Net cash provided by (used in) investing activities:	(1,318)	(331)
III. Cash flows from financing activities:		
Repayments of lease obligations	(5)	(1)
Purchase of treasury shares	(0)	(0)
Proceeds from disposal of treasury shares	2,945	—
Cash dividends paid	(243)	(334)
Net cash provided by (used in) financing activities	2,696	(336)
IV. Net increase (decrease) in cash and cash equivalents	7,188	4,306
V. Cash and cash equivalents at beginning of period	10,026	8,706
VI. Cash and cash equivalents at end of period	17,215	13,013