

October 29, 2019

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



INES Corporation

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1. Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2020 (April 1, 2019 to September 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	
Six months ended Sep. 30, 2019	19,822	12.3	1,495	150.3	1,520	140.8	(784)	—
Six months ended Sep. 30, 2018	17,655	9.3	597	150.5	631	152.2	359	185.6

(Note) Comprehensive income Six months ended September 30, 2019: ¥757 million (—%)
 Six months ended September 30, 2018: ¥487 million (96.3%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)
Six months ended Sep. 30, 2019	(32.97)	—
Six months ended Sep. 30, 2018	13.19	—

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of September 30, 2019	53,680	35,470	66.1
As of March 31, 2019	54,443	36,538	67.1

(Reference) Shareholders' equity As of September 30, 2019: ¥35,470 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	—	15.00			
Year ending March 31, 2020 (Forecast)			—	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	42,000	10.1	2,000	(7.8)	2,050	(8.2)	1,850	24.0	77.72

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

*** Notes**

(1) Significant changes in subsidiaries during the first half 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 (i): 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 H1: 23,900,000 shares
FY2019/3: 23,900,000 shares
2. Number of treasury shares at the term end
FY2020/3 H1: 95,484 shares
FY2019/3: 134,160 shares
3. Average number of shares outstanding
FY2020/3 H1: 23,782,326 shares
FY2019/3 H1: 27,258,474 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 Half of the Fiscal Year Ending March 31, 2020, (2) Information on consolidated results forecasts.”

(Method of obtaining the contents of the first half financial results briefing)

The Company plans to hold a financial results briefing for institutional investors and analysts on October 29, 2019 (Tuesday). The materials distributed at the briefing are scheduled to be disclosed on the Company’s website.

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

(1) Details of operating results

During the first half of the fiscal year ending March 31, 2020, 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 trade issues and economic conditions in China. In the information industry in which the INES Group operates, corporate IT investments for digital transformation and other business activities remained steady.

Amid such circumstances, the INES Group conducted aggressive marketing activities to increase orders and net sales and focused on developing the advanced version of WebRings, a core product for local governments, in the first half of the fiscal year under review.

Moreover, based on the business and capital tie-up agreement with Mitsubishi Research Institute Inc. (“MRI”) Group concluded in May 2018, the INES Group has had positive results from initiatives for joint development of new solutions and collaborative order-winning activities in the public, financial and general industry sectors. The alliance between the two groups has been further strengthened after MRI acquired additional ownership interest in INES Corporation (the “Company”) in October 2019.

Net sales for the first half of the fiscal year under review are presented below as consolidated net sales by sector. Net sales posted a significant increase of 12.3% year on year, to ¥19,822 million. This was attributable to demand for system modifications associated with revisions of different types of laws, increased orders from new customers consisting of local governments and for new tasks in the public sector as well as a greater number of new customers in the general industry sector.

On the profit front, operating profit stood at ¥1,495 million (up 150.3% year on year), mainly due to increased sales in the public and general industry sectors and the elimination of the negative effects of projects that had been performing poorly in the same period of the previous year. Ordinary profit came to ¥1,520 million yen (up 140.8% year on year). As a result, net sales, operating profit and ordinary profit achieved record-high levels.

However, loss attributable to owners of parent amounted to ¥784 million (compared to profit attributable to owners of parent of ¥359 million yen in the same period of the previous year), as announced in the “Notice of Establishment of Trust for Non-current Assets, Transfer of Trust Beneficiary Rights and Posting of Extraordinary Loss” dated August 27, 2019, due to the posting of an extraordinary loss of ¥2,458 million because of the sale of Yokohama Office to improve asset efficiency and reduce ownership costs.

As described in (2) Information on consolidated results forecasts, said net loss is expected to be resolved on a full-year basis, and profit attributable to owners of parent is estimated to post a strong gain of 24.0% year on year, to ¥1,850 million.

Consolidated net sales by sector

(Million yen)

Category/ Term	Six months ended September 30, 2018		Six months ended September 30, 2019		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
Public	6,123	34.7	7,926	40.0	29.5
Financial	6,429	36.4	6,104	30.8	(5.0)
General industry	3,128	17.7	3,633	18.3	16.2
Other	1,975	11.2	2,157	10.9	9.2
Total	17,655	100.0	19,822	100.0	12.3

Note) Starting from the first quarter of the fiscal year ending March 31, 2020, 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	Six months ended September 30, 2018		Six months ended September 30, 2019		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	7,281	41.2	8,779	44.3	20.6
System operation	4,978	28.2	6,036	30.5	21.2
System maintenance	2,339	13.3	2,425	12.2	3.7
Sales of information equipment	907	5.1	958	4.8	5.6
Other	2,148	12.2	1,623	8.2	(24.5)
Total	17,655	100.0	19,822	100.0	12.3

(2) Information on consolidated results forecasts

The Company has been examining the potential relocation to a new office to enhance the efficiency of facilities and production as well as the disposal of real properties owned for further improvements in asset efficiency and reductions in ownership costs. Non-recurring costs associated with these measures were disclosed in the “Notice of Revision of Results Forecasts” announced on July 30, 2019. Excluding the extraordinary loss of ¥2,458 million incurred from the sale of Yokohama Office and posted in the first half of the fiscal year under review, said costs are scheduled to be posted in the third and fourth quarters, and the net extraordinary gains and losses are expected to be offset on a full-year basis.

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
Impairment loss on disposal of Yokohama Office and loss from disposal of non-current assets, etc. (extraordinary loss)	(3.6)

The Company has also reviewed its future outlook and decided to revise the forecasts for full year consolidated financial results as follows, based on factors such as recent high levels of orders and net sales in the public sector exceeding initial expectations.

[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)	40,000	1,600	1,650	1,550
After the revision (B)	42,000	2,000	2,050	1,850
Change (B-A)	2,000	400	400	300
Change (%)	5.0	25.0	24.2	19.4
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 September 30 and March 31, 2019

(Million yen)

	FY2018 (As of March 31, 2019)	2Q of FY2019 (As of September 30, 2019)
ASSETS		
Current assets:		
Cash and deposits	9,940	12,215
Notes and accounts receivable - trade	9,326	7,415
Work in process	1,163	1,450
Raw materials and supplies	117	115
Prepaid expenses	209	412
Other	91	230
Allowance for doubtful accounts	(9)	(7)
Total current assets	20,839	21,833
Non-current assets		
Property, plant and equipment		
Buildings and structures	16,456	14,690
Accumulated depreciation	(8,501)	(8,767)
Buildings and structures, net	7,955	5,922
Tools, furniture and fixtures	4,354	4,480
Accumulated depreciation	(2,948)	(2,994)
Tools, furniture and fixtures, net	1,406	1,485
Land	12,709	12,280
Total property, plant and equipment	22,071	19,689
Intangible assets		
Software	3,649	3,696
Other	23	25
Total intangible assets	3,673	3,721
Investments and other assets		
Investment securities	1,589	1,730
Long-term prepaid expenses	413	498
Deferred tax assets	4,512	4,839
Long-term time deposits	300	300
Other	1,043	1,068
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	7,859	8,436
Total non-current assets	33,604	31,847
Total assets	54,443	53,680

Quarterly consolidated balance sheet

As of September 30 and March 31, 2019

(Million yen)

	FY2018 (As of March 31, 2019)	2Q of FY2019 (As of September 30, 2019)
LIABILITIES		
Current liabilities:		
Accounts payable - trade	1,961	1,958
Accrued expenses	899	1,255
Income taxes payable	981	263
Accrued consumption taxes	389	83
Advances received	124	309
Provision for bonuses	1,119	1,134
Provision for bonuses for directors (and other officers)	48	23
Provision for losses on orders received	584	536
Other	1,941	2,931
Total current liabilities	8,050	8,495
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	150	130
Net defined benefit liability	9,453	9,390
Asset retirement obligations	162	114
Other	88	79
Total non-current liabilities	9,854	9,715
Total liabilities	17,904	18,210
NET ASSETS		
Shareholders' equity		
Capital stock	15,000	15,000
Capital surplus	14,582	14,579
Retained earnings	7,895	6,755
Treasury shares	(166)	(118)
Total shareholders' equity	37,311	36,216
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	150	97
Remeasurements of defined benefit plans	(923)	(843)
Total accumulated other comprehensive income	(773)	(746)
Total net assets	36,538	35,470
Total net assets and liabilities	54,443	53,680

Quarterly consolidated statement of income

For the six months ended September 30, 2018 and 2019

(Million yen)

	1H of FY2018 (April 1, 2018 to September 30, 2018)	1H of FY2019 (April 1, 2019 to September 30, 2019)
Net sales	17,655	19,822
Cost of sales	14,283	15,289
Gross profit	3,372	4,532
Selling, general and administrative expenses	2,775	3,037
Operating profit	597	1,495
Non-operating income:		
Interest income	3	4
Dividends income	4	10
Real estate rent	32	32
Others	32	10
Total non-operating income	72	58
Non-operating expenses:		
Interest expenses	0	0
Rent expenses on real estate	28	29
Commission for purchase of treasury shares	6	-
Others	3	3
Total non-operating expenses	38	33
Ordinary profit	631	1,520
Extraordinary income:		
Gain on bargain purchase	-	49
Total extraordinary income	-	49
Extraordinary losses:		
Loss on retirement of non-current assets	1	85
Impairment loss	-	2,458
Total extraordinary losses	1	2,543
Profit (loss) before income taxes	630	(973)
Income taxes	270	(189)
Profit (loss)	359	(784)
Profit (loss) attributable to owners of parent	359	(784)

Quarterly consolidated statement of comprehensive income

For the six months ended September 30, 2018 and 2019

(Million yen)

	1H of FY2018 (April 1, 2018 to September 30, 2018)	1H of FY2019 (April 1, 2019 to September 30, 2019)
Profit (loss)	359	(784)
Other comprehensive income:		
Valuation difference on available-for-sale securities	49	(53)
Remeasurements of defined benefit plans, net of tax	78	80
Total other comprehensive income	128	26
Comprehensive income	487	(757)
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	487	(757)

Quarterly consolidated statement of cash flow

For the six months ended September 30, 2018 and 2019

(Million yen)

	1H of FY2018 (April 1, 2018 to September 30, 2018)	1H of FY2019 (April 1, 2019 to September 30, 2019)
I. Cash flows from operating activities:		
Profit (loss) before income taxes	630	(973)
Depreciation	1,095	1,139
Impairment loss	–	2,458
Increase (decrease) in provision for bonuses	10	(23)
Increase (decrease) in provision for bonuses for directors (and other officers)	(23)	(25)
Increase (decrease) in provision for losses on orders received	380	(48)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(8)	(20)
Increase (decrease) in net defined benefit liability	206	(2)
Loss on retirement of non-current assets	1	85
Gain on bargain purchase	–	(49)
Decrease (increase) in trade receivables	3,011	2,145
Decrease (increase) in inventories	(388)	(285)
Decrease (increase) in other assets	(61)	(164)
Increase (decrease) in trade payables	(739)	(45)
Increase (decrease) in other liabilities	(88)	(23)
Other, net	(9)	(7)
(Subtotal)	4,015	4,159
Income taxes refund	214	12
Income taxes paid	(118)	(894)
Net cash provided by (used in) operating activities:	4,112	3,277
II. Cash flows from investing activities		
Net decrease (increase) in time deposits	(0)	199
Purchase of property, plant and equipment	(273)	(456)
Proceeds from sales of property, plant and equipment	–	590
Purchase of intangible assets	(1,192)	(545)
Purchase of long-term prepaid expenses	(163)	(81)
Purchase of investment securities	(100)	(229)
Payments for lease and guarantee deposits	(41)	(62)
Proceeds from refund of leasehold and guarantee deposits	37	46
Payments for asset retirement obligations	(4)	–
Proceeds from merger	–	87
Other	26	16
Net cash provided by (used in) investing activities:	(1,712)	(435)

III. Cash flows from financing activities:		
Repayments of lease obligations	(10)	(10)
Decrease (increase) in deposits for purchase of treasury shares	(421)	–
Purchase of treasury shares	(1,572)	(1)
Proceeds from disposal of treasury shares	2,945	–
Cash dividends paid	(260)	(356)
Net cash provided by (used in) financing activities	679	(368)
IV. Net increase (decrease) in cash and cash equivalents	3,079	2,474
V. Beginning cash and cash equivalent balance	10,026	8,706
VI. Ending cash and cash equivalent balance	13,106	11,180