

October 30, 2020

Consolidated Financial Statements for the First Half of the Fiscal Year Ending March 31, 2021



INES Corporation

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1. Consolidated Financial Results for the First Half of the Fiscal Year Ending March 31, 2021 (April 1, 2020 to September 30, 2020)

(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, 2020	19,716	(0.5)	1,363	(8.8)	1,391	(8.5)	310	—
Six months ended Sep. 30, 2019	19,822	12.3	1,495	150.3	1,520	140.8	(784)	—

(Note) Comprehensive income Six months ended September 30, 2020: ¥380 million (—%)
 Six months ended September 30, 2019: -¥757 million (—%)

	Profit per share (Yen)	Fully diluted profit per share (Yen)
Six months ended Sep. 30, 2020	13.05	—
Six months ended Sep. 30, 2019	(32.97)	—

(2) Consolidated Financial Position

(Million yen)

	Total assets	Net assets	Equity ratio (%)
As of September 30, 2020	50,283	37,674	74.9
As of March 31, 2020	52,677	37,868	71.9

(Reference) Shareholders' equity As of September 30, 2020: ¥37,674 million
 As of March 31, 2020: ¥37,868 million

2. Dividends

	Dividends per share (Yen)				
	End of Q1	End of Q2	End of Q3	Fiscal year end	Annual
Year ended March 31, 2020	—	15.00	—	25.00	40.00
Year ending March 31, 2021	—	15.00			
Year ending March 31, 2021 (Forecast)			—	25.00	40.00

(Note) Revisions to dividend forecasts published most recently: No
 Of the year-end dividend of 25.00 yen for the fiscal year ending March 31, 2020, 10.00 yen is a special dividend.

3. Forecasts for Consolidated Financial Results for the Fiscal Year Ending March 31, 2021 (April 1, 2020 to March 31, 2021)

(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	(0.7)	2,800	(3.6)	2,850	(3.6)	1,900	(7.9)	79.81	

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

*** 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)
FY2021/3 H1: 23,900,000 shares
FY2020/3: 23,900,000 shares
2. Number of treasury shares at the term end
FY2021/3 H1: 94,067 shares
FY2020/3: 96,438 shares
3. Average number of shares outstanding
FY2021/3 H1: 23,801,872 shares
FY2020/3 H1: 23,782,326 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, 2021, (2) Explanation on future forecast information such as 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 30, 2020 (Friday). The materials used 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, 2021

(1) Details of operating results

During the first half under review, the Japanese economy experienced extremely adverse conditions caused primarily by the novel coronavirus infection disease (“COVID-19”) pandemic and the impact of the state of emergency declared and then lifted by the government.

Since the state of emergency was lifted, some indicators such as consumer spending have shown signs of recovery; however, efforts to gradually raise the level of economic activity while taking measures to prevent the spread of infection have continued.

When COVID-19 began spreading in Japan, INES Corporation (“the Company”) established a scheme to protect its customers, partners, and employees from the risk of infection, for instance, by reducing face-to-face sales activities. It has also focused on developing a system corresponding to the new normal, including employees’ teleworking, staggered working hours, teleconferencing, and social-distancing at workplace.

In addition, the Company progressed efforts to improve asset efficiency, which has been implemented for some time, and completed a series of sales of owned real estate in October.

Net sales for the first half under review are presented in the consolidated net sales by sector below. Sales fell in the financial services sector and industrial sector where COVID-19 caused suspension and delay in system development projects and slowdown in sales activities. However, as in the same period a year ago, sales in the public sector remained at a high level mainly due to projects related to changes in welfare-related laws such as childrearing support and, with growth in the sales of the Company’s affiliates (“the INES Group”) (posted under “Other”) also contributing, total consolidated net sales amounted to ¥19,716 million (down 0.5% year on year), mostly unchanged year on year. Since June, customers have gradually established systems to avoid the risk of infection; however, the infection continues to spread both in Japan and abroad and the situation remains unpredictable.

On the profit front, operating profit fell 8.8% year on year, to ¥1,363 million and ordinary profit fell 8.5% year on year, to ¥1,391 million, owing largely to a decrease in the work of engineers caused by project suspension and delay. Profit attributable to owners of parent came to ¥310 million (compared with a loss attributable to owners of parent of ¥784 million in the same period of the previous fiscal year) due to the recognition of an impairment loss of ¥765 million associated with the sale of owned real estate.

Consolidated net sales by sector

(Million yen)

Category/ Term	Six months ended September 30, 2019		Six months ended September 30, 2020		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
Public	7,926	40.0	7,806	39.6	(1.5)
Financial	6,104	30.8	5,290	26.8	(13.3)
General industry	3,633	18.3	3,335	16.9	(8.2)
Other	2,157	10.9	3,284	16.7	52.2
Total	19,822	100.0	19,716	100.0	(0.5)

Consolidated net sales by product/service (Million yen)

Category/ Term	Six months ended September 30, 2019		Six months ended September 30, 2020		YoY change (%)
	Amount	Composition ratio (%)	Amount	Composition ratio (%)	
System development	8,779	44.3	7,927	40.3	(9.7)
System operation	6,036	30.5	5,884	29.8	(2.5)
System maintenance	2,425	12.2	2,390	12.1	(1.4)
Sales of information equipment	958	4.8	649	3.3	(32.3)
Other	1,623	8.2	2,864	14.5	76.5
Total	19,822	100.0	19,716	100.0	(0.5)

(2) Explanation on future forecast information such as consolidated results forecasts

There are no changes to the forecasts for consolidated financial results and the dividend forecast announced on July 31, 2020.

(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, 2020

(Million yen)

	FY2019 (As of March 31, 2020)	2Q of FY2020 (As of September 30, 2020)
ASSETS		
Current assets:		
Cash and deposits	22,049	22,890
Notes and accounts receivable - trade	9,716	6,752
Securities	-	300
Work in process	940	1,935
Raw materials and supplies	102	53
Prepaid expenses	399	382
Other	91	130
Allowance for doubtful accounts	(9)	(16)
Total current assets	33,291	32,427
Non-current assets		
Property, plant and equipment		
Buildings and structures	6,785	5,584
Accumulated depreciation	(4,955)	(4,542)
Buildings and structures, net	1,830	1,042
Tools, furniture and fixtures	4,341	4,293
Accumulated depreciation	(2,840)	(2,973)
Tools, furniture and fixtures, net	1,500	1,319
Land	775	383
Total property, plant and equipment	4,106	2,744
Intangible assets		
Software	3,775	3,582
Other	24	24
Total intangible assets	3,800	3,607
Investments and other assets		
Investment securities	4,632	4,605
Long-term prepaid expenses	726	847
Deferred tax assets	5,046	5,017
Other	1,073	1,033
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	11,478	11,503
Total non-current assets	19,385	17,855
Total assets	52,677	50,283

Quarterly consolidated balance sheet

As of September 30 and March 31, 2020

(Million yen)

	FY2019 (As of March 31, 2020)	2Q of FY2020 (As of September 30, 2020)
LIABILITIES		
Current liabilities		
Accounts payable - trade	2,184	1,791
Accrued expenses	997	845
Income taxes payable	1,150	358
Accrued consumption taxes	677	194
Advances received	524	310
Provision for bonuses	1,327	1,137
Provision for bonuses for directors (and other officers)	47	33
Provision for losses on orders received	445	409
Other	590	619
Total current liabilities	7,944	5,699
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	118	122
Net defined benefit liability	6,431	6,492
Asset retirement obligations	249	247
Other	65	46
Total non-current liabilities	6,864	6,908
Total liabilities	14,808	12,608
NET ASSETS		
Shareholders' equity		
Capital stock	15,000	15,000
Capital surplus	14,579	14,582
Retained earnings	9,245	8,960
Treasury shares	(119)	(101)
Total shareholders' equity	38,705	38,441
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(7)	(19)
Remeasurements of defined benefit plans	(829)	(747)
Total accumulated other comprehensive income	(836)	(766)
Total net assets	37,868	37,674
Total net assets and liabilities	52,677	50,283

Quarterly consolidated statement of income

For the six months ended September 30, 2019 and 2020

(Million yen)

	1H of FY2019 (April 1, 2019 to September 30, 2019)	1H of FY2020 (April 1, 2020 to September 30, 2020)
Net sales	19,822	19,716
Cost of sales	15,289	15,441
Gross profit	4,532	4,274
Selling, general and administrative expenses	3,037	2,911
Operating profit	1,495	1,363
Non-operating income		
Interest income	4	10
Dividends income	10	6
Real estate rent	32	20
Others	10	11
Total non-operating income	58	48
Non-operating expenses		
Interest expenses	0	0
Rent expenses on real estate	29	17
Others	3	3
Total non-operating expenses	33	21
Ordinary profit	1,520	1,391
Extraordinary income		
Gain on bargain purchase	49	-
Total extraordinary income	49	-
Extraordinary losses		
Loss on sales of non-current assets	-	1
Loss on retirement of non-current assets	85	2
Impairment loss	2,458	765
Total extraordinary losses	2,543	770
Profit (loss) before income taxes	(973)	620
Income taxes	(189)	310
Profit (loss)	(784)	310
Profit (loss) attributable to owners of parent	(784)	310

Quarterly consolidated statement of comprehensive income

For the six months ended September 30, 2019 and 2020

(Million yen)

	1H of FY2019 (April 1, 2019 to September 30, 2019)	1H of FY2020 (April 1, 2020 to September 30, 2020)
Profit (loss)	(784)	310
Other comprehensive income		
Valuation difference on available-for-sale securities	(53)	(12)
Remeasurements of defined benefit plans, net of tax	80	82
Total other comprehensive income	26	70
Comprehensive income	(757)	380
Comprehensive income attributable		
Comprehensive income attributable to owners of parent	(757)	380

Quarterly consolidated statement of cash flow

For the six months ended September 30, 2019 and 2020

(Million yen)

	1H of FY2019 (April 1, 2019 to September 30, 2019)	1H of FY2020 (April 1, 2020 to September 30, 2020)
I. Cash flows from operating activities		
Profit (loss) before income taxes	(973)	620
Depreciation	1,139	1,159
Impairment loss	2,458	765
Increase (decrease) in provision for bonuses	(23)	(189)
Increase (decrease) in provision for bonuses for directors (and other officers)	(25)	(14)
Increase (decrease) in provision for losses on orders received	(48)	(35)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(20)	3
Increase (decrease) in net defined benefit liability	(2)	179
Loss on sales of non-current assets	–	1
Loss on retirement of non-current assets	85	2
Gain on bargain purchase	(49)	–
Decrease (increase) in trade receivables	2,145	2,749
Decrease (increase) in inventories	(285)	(945)
Decrease (increase) in other assets	(164)	(64)
Increase (decrease) in trade payables	(45)	(374)
Increase (decrease) in other liabilities	(23)	(640)
Other, net	(7)	(8)
(Subtotal)	4,159	3,209
Income taxes refund	12	34
Income taxes paid	(894)	(1,103)
Net cash provided by (used in) operating activities	3,277	2,140
II. Cash flows from investing activities		
Net decrease (increase) in time deposits	199	(0)
Net decrease (increase) in short-term investment securities	–	(300)
Purchase of property, plant and equipment	(456)	(172)
Proceeds from sales of property, plant and equipment	590	531
Purchase of intangible assets	(545)	(476)
Proceeds from sales of intangible assets	–	1
Purchase of long-term prepaid expenses	(81)	(246)
Purchase of investment securities	(229)	(5)
Payments for lease and guarantee deposits	(62)	(67)
Proceeds from refund of leasehold and guarantee deposits	46	78
Payments for asset retirement obligations	–	(74)
Proceeds from merger	87	–
Other	16	35
Net cash provided by (used in) investing activities	(435)	(696)

III. Cash flows from financing activities		
Repayments of lease obligations	(10)	(10)
Purchase of treasury shares	(1)	(0)
Cash dividends paid	(356)	(592)
Net cash provided by (used in) financing activities	(368)	(603)
IV. Net increase (decrease) in cash and cash equivalents	2,474	840
V. Beginning cash and cash equivalent balance	8,706	21,014
VI. Ending cash and cash equivalent balance	11,180	21,855