

* Notes

(1) Changes in significant subsidiaries during the consolidated period under review (changes in specified subsidiaries that involved changes in the scope of consolidation): None

(2) Application of accounting treatment peculiar to quarterly consolidated financial statement preparation: None

(3) Change in accounting policies or estimates and retrospective restatements

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|---|------|
| 1) Change in accounting policies in accordance with revision of accounting standards: | None |
| 2) Change in accounting policies other than item 1) above: | None |
| 3) Change in accounting estimates: | None |
| 4) Retrospective restatements: | None |

(4) Number of outstanding shares (common stock)

1) Total outstanding shares as of the end of the period (including treasury shares)	Third quarter, fiscal 2020	47,664,000 shares	Fiscal 2019	47,664,000 shares
2) Total treasury shares as of the end of the period	Third quarter, fiscal 2020	3,422,611 shares	Fiscal 2019	2,946,587 shares
3) Average number of outstanding shares during the period under review (cumulative total)	Third quarter, fiscal 2020	44,442,242 shares	Third quarter, fiscal 2019	44,708,613 shares

* Quarterly financial results reports are outside the scope of auditing by Certified Public Accountants or audit firms.

* Points to note about the proper use of projections, and other noteworthy events

Any forward-looking statement, including earnings forecasts, contained in this document is based on information currently held by the Company and assumptions the Company considers as reasonable, and the Company does not promise to achieve any of them. Actual results may differ significantly from forecasts due to various uncertain factors.

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1. Qualitative Information Regarding Quarterly Financial Results

(1) Explanation on business performance

The group's consolidated net sales for the first nine months were 32,410 million yen, down 4.3% from a year ago; operating income was 3,934 million yen, down 19.4% year on year; and quarterly profit attributable to owners of parent came to 2,832 million yen, down 11.5% from a year ago.

During the first nine months of the consolidated fiscal year under review, the economic environment remained highly uncertain, due to the unclear impact of the spread of the novel coronavirus. Under these circumstances, in our IT Consulting & Services Business, costs increased due to factors such as the addition of incremental personnel in conjunction with the delay in the delivery of some projects, on top of the reduction and postponement of IT investments by some client companies, which pushed down sales.

As a result of the above, during the first nine-month period, both the net sales and operating income of our IT Consulting & Service Business decreased due mainly to lower sales and earnings of Future Architect, Inc. (including the technology division of Future Corporation) compared to the results of the same period of the previous fiscal year. Meanwhile, in Business Innovation Business, all companies improved their operating income/loss, which resulted in posting operating income as a business segment. As a result, the group's consolidated net sales and operating income declined 4.3% and 19.4%, respectively, from the same period of the previous fiscal year. In addition, quarterly profit attributable to owners of parent decreased 11.5% year on year.

Details of the performance of each segment are as follows.

1) IT Consulting & Service Business

Future Architect, Inc. (including the technology division of Future Corporation) received a steady stream of orders from the financial industry, which is working to improve its operations, and retailers, which are trying to digitize their stores. In addition, orders for core system enhancements, grand designs for the promotion of DX and others increased. However, both net sales and operating income declined due to delays in the start of new projects, delays in the delivery of existing projects, and increased testing costs for some of the more difficult existing projects.

Future Inspace, Inc. posted lower net sales and operating income year on year due to a decrease in new development orders although the maintenance and operation service deals for projects set by Future Architect, Inc. were favorable thanks to the collaboration with the said firm.

At FutureOne, Inc., both net sales and operating income declined significantly from the same period of the previous fiscal year due to the prioritized allocation of personnel in response to the delays in the delivery of certain projects.

At YDC Corporation, while net sales decreased year on year due to the impact of revisions made by some business partners to their investment stance, operating income increased from a year earlier mainly due to the favorable sales of its original software, "YDC SONAR," which integrates and analyzes quality information in the manufacturing industry.

At dit Co., Ltd., both net sales and operating income significantly increased year on year thanks to the strong performance of security-related services as well as the rise in orders related to the development of a network environment for GIGA School.

As a result, net sales of the segment amounted to 25,982 million yen, down 7.4% from a year earlier, and operating income came to 3,659 million yen, down 21.4% from a year ago.

2) Business Innovation Business

At eSPORTS Co., Ltd., both net sales and operating income increased from the same period of the previous fiscal year, due to factors such as the growth of private brand products resulting from increased demand for indoor training associated with the spread of the novel coronavirus and the steady sales of private brand products also in the outdoor products field, among others, thanks to the effect of campaigns that had been implemented from before to raise brand awareness.

CodeCamp, Inc. saw a significant increase in both net sales and operating income compared with the results of a year earlier. This was due to a growing need among individuals to take online courses, which promoted a continuous rise in people taking courses, as well as to capturing the demand for online training among companies that are reviewing working styles by installing an online training support desk and taking other steps.

Tokyo Calendar Inc. posted higher net sales year on year as a result of focusing on capturing the needs of new lifestyles through the deployment of monthly magazines and online services via web-based media on top of maintaining the stable performance of its online services, such as “Tokyo Calendar Date.” As a result, the firm posted operating income in contrast to the operating loss recorded in the same period of the previous fiscal year.

LaiBlitz, Inc.’s net sales and operating income increased from a year earlier due primarily to the launch of services for amateur sports in addition to the steady provision of existing services for professional baseball teams, among others.

As a result, Business Innovation Business managed to be in the black as a segment, with net sales rising 10.2% year on year to 6,477 million yen and operating income coming to 349 million yen (in contrast to an operating loss of 53 million yen in the same period of the previous fiscal year).

(Note) Segment result figures mentioned above are before adjustment for intersegmental sales and transfers.

(2) Explanation on qualitative information about consolidated earnings forecast

At the meeting of the Board of Directors held on October 28, 2020, the Company decided, in light of recent business performance trends and other factors, to revise its consolidated earnings forecasts for the full year ending December 2020 (January 1, 2020 to December 31, 2020), which were disclosed at the time of the July 31, 2020 announcement of the financial results for the second quarter of the fiscal year ending December 2020. For details, please refer to the “Notice Regarding Revision to the Full-Year Earnings Forecast” released today.

2. Consolidated Quarterly Financial Statements and Key Remarks

(1) Consolidated quarterly balance sheets

(in thousands of yen)

	Previous consolidated fiscal year (December 31, 2019)	Consolidated third quarter under review (September 30, 2020)
Assets		
Current assets		
Cash and deposits	14,929,901	15,113,438
Notes and accounts receivable - trade	7,087,190	6,105,387
Merchandise and finished goods	–	200,000
Securities	995,544	1,125,434
Work in process	351,639	1,358,589
Other	1,363,881	1,346,959
Allowance for doubtful accounts	(3,007)	(3,000)
Total current assets	24,725,149	25,246,810
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,710,429	1,732,780
Accumulated depreciation	(965,749)	(1,026,585)
Buildings and structures, net	744,679	706,194
Land	855	855
Other	2,888,097	2,786,872
Accumulated depreciation	(2,247,982)	(2,203,745)
Other, net	640,115	583,126
Total property, plant and equipment	1,385,650	1,290,177
Intangible assets		
Goodwill	178,023	148,289
Software	1,673,554	1,644,790
Customer-related assets	624,000	468,000
Other	5,608	5,623
Total intangible assets	2,481,186	2,266,703
Investments and other assets		
Investment securities	8,779,498	17,940,824
Lease and guarantee deposits	1,433,233	1,447,630
Deferred tax assets	16,680	9,727
Other	237,322	192,034
Allowance for doubtful accounts	(19,502)	(11,001)
Total investments and other assets	10,447,232	19,579,216
Total non-current assets	14,314,070	23,136,096
Total assets	39,039,219	48,382,907

(in thousands of yen)

	Previous consolidated fiscal year (December 31, 2019)	Consolidated third quarter under review (September 30, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	1,305,448	1,264,470
Current portion of long-term loans payable	11,472	4,432
Current portion of bonds	8,000	–
Accounts payable - other	1,326,754	861,999
Income taxes payable	854,922	808,367
Provision for bonuses	238,574	929,357
Provision for quality assurance	65,617	69,844
Provision for loss on projects	254,804	805,312
Other	2,487,069	2,211,563
Total current liabilities	6,552,663	6,955,346
Non-current liabilities		
Long-term loans payable	3,320	–
Asset retirement obligations	406,303	407,947
Deferred tax liabilities	1,635,440	3,923,263
Other	145,237	176,828
Total non-current liabilities	2,190,301	4,508,039
Total liabilities	8,742,965	11,463,386
Net assets		
Shareholders' equity		
Capital stock	1,421,815	4,000,000
Capital surplus	2,525,165	21,333
Retained earnings	23,232,499	24,187,759
Treasury shares	(1,493,579)	(2,235,662)
Total shareholders' equity	25,685,901	25,973,430
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,598,333	10,887,018
Deferred gains or losses on hedges	586	(1,069)
Foreign currency translation adjustment	11,432	12,611
Total accumulated other comprehensive income	4,610,352	10,898,560
Non-controlling interests	–	47,529
Total net assets	30,296,254	36,919,520
Total liabilities and net assets	39,039,219	48,382,907

(2) Consolidated quarterly statements of income and comprehensive income
(First nine-month period)

(in thousands of yen)

	First nine months of the previous consolidated fiscal year (from January 1, 2019 to September 30, 2019)	First nine months of the consolidated fiscal year under review (from January 1, 2020 to September 30, 2020)
Net sales	33,879,841	32,410,144
Cost of sales	19,814,349	19,071,018
Gross profit	14,065,492	13,339,126
Selling, general and administrative expenses		
Directors' compensation	356,929	395,411
Salaries and bonuses	3,494,606	3,638,347
Training expenses	280,060	397,494
Research and development expenses	332,579	438,805
Depreciation	284,750	291,457
Recruiting expenses	341,713	340,390
Other	4,091,243	3,902,235
Total selling, general and administrative expenses	9,181,883	9,404,141
Operating income	4,883,609	3,934,984
Non-operating income		
Interest income	1,053	572
Dividend income	74,737	74,855
Share of profit of entities accounted for using equity method	42,951	1,731
Foreign exchange gains	5,975	1,210
Other	2,589	12,205
Total non-operating income	127,308	90,575
Non-operating expenses		
Interest expenses	5,004	230
Total non-operating expenses	5,004	230
Ordinary income	5,005,912	4,025,329
Extraordinary income		
Gain on sales of investment securities	–	93,318
Total extraordinary income	–	93,318
Extraordinary losses		
Loss on realized foreign currency translation adjustment	175,312	–
Loss on change in equity	1,848	683
Total extraordinary losses	177,160	683
Quarterly profit before income taxes	4,828,752	4,117,964
Income taxes	1,612,811	1,238,263
Quarterly profit	3,215,940	2,879,701
(Quarterly profit attributable to)		
Quarterly profit attributable to owners of parent	3,199,109	2,832,171
Quarterly profit attributable to non-controlling interests	16,831	47,529

(in thousands of yen)

	First nine months of the previous consolidated fiscal year (from January 1, 2019 to September 30, 2019)	First nine months of the consolidated fiscal year under review (from January 1, 2020 to September 30, 2020)
Other comprehensive income		
Valuation difference on available-for-sale securities	(458,894)	6,288,685
Deferred gains or losses on hedges	2,110	(1,655)
Foreign currency translation adjustment	109,963	243
Share of other comprehensive income of entities accounted for using equity method	(264)	934
Total other comprehensive income	(347,084)	6,288,207
Quarterly comprehensive income	2,868,855	9,167,909
(Quarterly comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of parent	2,851,988	9,120,379
Quarterly comprehensive income attributable to non-controlling interests	16,867	47,529

(3) Notes to consolidated quarterly financial statements

(Note on premise of a going concern)

Not applicable.

(Significant changes in shareholders' equity)

Not applicable.

(Segment information)

[Segment information]

I. First nine months of the previous consolidated fiscal year (from January 1, 2019 to September 30, 2019)

1. Information on amounts of net sales and income or loss by reportable segment

(in thousands of yen)

	Reportable segments			Other (Note 1)	Total	Adjustments (Note 2)	Amount stated in financial statements (Note 3)
	IT Consulting & Service Business	Business Innovation Business	Total				
Net sales							
(1) Net sales to outside clients	28,029,361	5,850,480	33,879,841	–	33,879,841	–	33,879,841
(2) Inter-segment sales or transfer	37,975	27,653	65,629	–	65,629	(65,629)	–
Total	28,067,337	5,878,133	33,945,471	–	33,945,471	(65,629)	33,879,841
Segment income (loss)	4,658,595	(53,210)	4,605,385	1,504	4,606,889	276,719	4,883,609

(Note 1) "Other" is a segment not included in the reportable segments and includes securities investment, holding, and management activities.

(Note 2) Adjustments to segment income (loss) represents the amount of inter-segment transactions eliminated and income and expenses of the holding company excluding the technology segment.

(Note 3) Segment income (loss) is adjusted with operating income in the consolidated quarterly financial statements.

II. First nine months of the consolidated fiscal year under review (from January 1, 2020 to September 30, 2020)

1. Information on amounts of net sales and income or loss by reportable segment

(in thousands of yen)

	Reportable segments			Other (Note 1)	Total	Adjustments (Note 2)	Amount stated in financial statements (Note 3)
	IT Consulting & Service Business	Business Innovation Business	Total				
Net sales							
(1) Net sales to outside clients	25,961,616	6,445,183	32,406,800	3,343	32,410,144	–	32,410,144
(2) Inter-segment sales or transfer	21,181	32,716	53,898	27,333	81,231	(81,231)	–
Total	25,982,798	6,477,900	32,460,698	30,676	32,491,375	(81,231)	32,410,144
Segment income (loss)	3,659,649	349,817	4,009,467	(14,028)	3,995,438	(60,454)	3,934,984

(Note 1) "Other" is a segment not included in the reportable segments and includes securities investment, holding, and management activities.

(Note 2) Adjustments to segment income (loss) represents the amount of inter-segment transactions eliminated and income and expenses of the holding company excluding the technology segment.

(Note 3) Segment income (loss) is adjusted with operating income in the consolidated quarterly financial statements.

3. Additional Information

Status of orders received

(in thousands of yen)

Segment	First nine months of the previous consolidated fiscal year (from January 1, 2019 to September 30, 2019)		First nine months of the consolidated fiscal year under review (from January 1, 2020 to September 30, 2020)	
	Orders received	Order backlog	Orders received	Order backlog
IT Consulting & Service Business	27,684,440	11,565,937	22,982,443	9,544,549
Business Innovation Business	1,313,316	362,381	1,617,194	364,669
Total	28,997,757	11,928,319	24,599,637	9,909,218

Segment	Second quarter of the consolidated fiscal year under review (from April 1, 2020 to June 30, 2020)		Third quarter of the consolidated fiscal year under review (from July 1, 2020 to September 30, 2020)	
	Orders received	Order backlog	Orders received	Order backlog
IT Consulting & Service Business	7,964,900	10,428,710	7,061,040	9,544,549
Business Innovation Business	450,180	335,636	577,692	364,669
Total	8,415,081	10,764,347	7,638,732	9,909,218