

* 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)	Second quarter, fiscal 2020	47,664,000 shares	Fiscal 2019	47,664,000 shares
2) Total treasury shares as of the end of the period	Second 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)	Second quarter, fiscal 2020	44,543,772 shares	Second quarter, fiscal 2019	44,705,497 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 six months came to 22,135 million yen, down 0.4% from a year ago; operating income was 3,239 million yen, down 2.9% year on year; and quarterly profit attributable to owners of parent increased to 2,366 million yen, up 11.1% from a year ago.

In the first half of the fiscal year under review, the business environment remained uncertain, reflecting concerns over an economic downturn caused by the spread of the novel coronavirus, the deteriorating business performance of companies and other factors. However, the impact of this risk on the group's business activities was relatively slight.

During the first six-month period, both the 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 of the above, consolidated net sales and operating income declined 0.4% and 2.9%, respectively, from the same period of the previous fiscal year. In addition, quarterly profit attributable to owners of parent increased 11.1% 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) saw an increase in sales from financial institutions that continued to work on improving business efficiency, as well as in orders for core system enhancements and DX promotion projects in consideration of 2025 Digital Cliff. However, net sales declined due to the postponement of the start of new projects. Operating income also declined due to an increase in costs resulting from the addition of incremental staff to some challenging existing projects.

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

Both net sales and operating income of FutureOne, Inc. decreased from the results of a year ago due to a partial delay in delivery in the large-scale SI project, which made it difficult to focus on winning new orders.

YDC Corporation's net sales and operating income both increased from a year earlier mainly due to greater sales of its original software, "YDC SONAR," which integrates and analyzes quality information in the manufacturing industry.

Regarding dit Co., Ltd., both net sales and operating income increased significantly year on year thanks to the strong performance of security services such as vulnerability diagnosis.

As a result, net sales of the segment amounted to 18,030 million yen, down 2.8% from a year earlier, and operating income came to 3,061 million yen, down 7.5% from a year ago.

2) Business Innovation Business

Regarding eSPORTS Co., Ltd., both net sales and operating income increased from the same period of the previous fiscal year, due to factors such as growth of private brand products resulting from increased demand for staying home and indoor training associated with the spread of the novel coronavirus, the recognition of outdoor product brands, and the effect of campaigns at mall stores.

CodeCamp, Inc. saw a significant increase in both sales and operating income compared with the results of a year earlier. This was due to an increase in the number of individuals taking online courses during the period when people were asked to refrain from going out due to the spread of the novel coronavirus as well as a move by companies that are reviewing working styles to switch from group training to online courses.

Regarding Tokyo Calendar Inc., net sales increased from a year earlier as its online services, such as "Tokyo Calendar Date," performed well and covered the decrease in advertising revenues caused by the spread of the novel coronavirus. 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 both increased from a year earlier as a result of steady progress in consulting services and cloud services for several professional baseball teams.

As a result, Business Innovation Business managed to be in the black as a segment, with net sales rising 11.4% year on year to 4,139 million yen and operating income coming to 209 million yen (in contrast to an operating loss of 89 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 July 31, 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 April 28, 2020 announcement of the financial results for the first 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 second quarter under review (June 30, 2020)
Assets		
Current assets		
Cash and deposits	14,929,901	15,571,374
Notes and accounts receivable - trade	7,087,190	6,568,973
Merchandise and finished goods	995,544	987,986
Work in process	351,639	1,008,055
Other	1,363,881	1,463,868
Allowance for doubtful accounts	(3,007)	(3,000)
Total current assets	24,725,149	25,597,258
Non-current assets		
Property, plant and equipment		
Buildings and structures	1,710,429	1,732,489
Accumulated depreciation	(965,749)	(1,004,431)
Buildings and structures, net	744,679	728,057
Land	855	855
Other	2,888,097	2,741,880
Accumulated depreciation	(2,247,982)	(2,123,150)
Other, net	640,115	618,730
Total property, plant and equipment	1,385,650	1,347,644
Intangible assets		
Goodwill	178,023	158,200
Software	1,673,554	1,663,642
Customer-related assets	624,000	520,000
Other	5,608	5,885
Total intangible assets	2,481,186	2,347,729
Investments and other assets		
Investment securities	8,779,498	12,038,691
Lease and guarantee deposits	1,433,233	1,447,282
Deferred tax assets	16,680	12,776
Other	237,322	205,085
Allowance for doubtful accounts	(19,502)	(11,751)
Total investments and other assets	10,447,232	13,692,083
Total non-current assets	14,314,070	17,387,457
Total assets	39,039,219	42,984,716

(in thousands of yen)

	Previous consolidated fiscal year (December 31, 2019)	Consolidated second quarter under review (June 30, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	1,305,448	1,042,686
Current portion of long-term loans payable	11,472	6,100
Current portion of bonds	8,000	–
Accounts payable - other	1,326,754	1,227,931
Income taxes payable	854,922	998,193
Provision for bonuses	238,574	246,743
Provision for quality assurance	65,617	65,826
Provision for loss on projects	254,804	660,708
Other	2,487,069	2,507,296
Total current liabilities	6,552,663	6,755,485
Non-current liabilities		
Long-term loans payable	3,320	–
Asset retirement obligations	406,303	407,881
Deferred tax liabilities	1,635,440	2,387,123
Other	145,237	177,503
Total non-current liabilities	2,190,301	2,972,508
Total liabilities	8,742,965	9,727,993
Net assets		
Shareholders' equity		
Capital stock	1,421,815	4,000,000
Capital surplus	2,525,165	21,333
Retained earnings	23,232,499	24,607,402
Treasury shares	(1,493,579)	(2,235,662)
Total shareholders' equity	25,685,901	26,393,073
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,598,333	6,826,174
Deferred gains or losses on hedges	586	398
Foreign currency translation adjustment	11,432	11,950
Total accumulated other comprehensive income	4,610,352	6,838,522
Non-controlling interests	–	25,125
Total net assets	30,296,254	33,256,722
Total liabilities and net assets	39,039,219	42,984,716

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

(in thousands of yen)

	First six months of the previous consolidated fiscal year (from January 1, 2019 to June 30, 2019)	First six months of the consolidated fiscal year under review (from January 1, 2020 to June 30, 2020)
Net sales	22,215,342	22,135,781
Cost of sales	12,941,930	12,739,861
Gross profit	9,273,412	9,395,920
Selling, general and administrative expenses		
Directors' compensation	238,179	257,746
Salaries and bonuses	2,341,322	2,354,403
Training expenses	184,477	275,274
Research and development expenses	223,477	278,484
Depreciation	180,907	192,237
Recruiting expenses	221,695	249,171
Other	2,546,910	2,549,468
Total selling, general and administrative expenses	5,936,969	6,156,785
Operating income	3,336,442	3,239,134
Non-operating income		
Interest income	357	417
Dividend income	74,703	71,697
Share of profit of entities accounted for using equity method	27,350	9,340
Foreign exchange gains	4,270	1,191
Other	2,500	3,530
Total non-operating income	109,182	86,176
Non-operating expenses		
Interest expenses	4,761	198
Total non-operating expenses	4,761	198
Ordinary income	3,440,863	3,325,112
Extraordinary income		
Gain on sales of investment securities	–	93,278
Total extraordinary income	–	93,278
Extraordinary losses		
Loss on realized foreign currency translation adjustment	175,312	–
Total extraordinary losses	175,312	–
Quarterly profit before income taxes	3,265,551	3,418,390
Income taxes	1,117,557	1,026,278
Quarterly profit	2,147,993	2,392,112
(Quarterly profit attributable to)		
Quarterly profit attributable to owners of parent	2,130,896	2,366,987
Quarterly profit attributable to non-controlling interests	17,097	25,125

	First six months of the previous consolidated fiscal year (from January 1, 2019 to June 30, 2019)	First six months of the consolidated fiscal year under review (from January 1, 2020 to June 30, 2020)
Other comprehensive income		
Valuation difference on available-for-sale securities	401,970	2,227,841
Deferred gains or losses on hedges	(236)	(188)
Foreign currency translation adjustment	109,966	187
Share of other comprehensive income of entities accounted for using equity method	(124)	330
Total other comprehensive income	511,575	2,228,170
Quarterly comprehensive income	2,659,569	4,620,282
(Quarterly comprehensive income attributable to)		
Quarterly comprehensive income attributable to owners of parent	2,642,494	4,595,157
Quarterly comprehensive income attributable to non-controlling interests	17,075	25,125

(3) Consolidated quarterly statements of cash flows

(in thousands of yen)

	First six months of the previous consolidated fiscal year (from January 1, 2019 to June 30, 2019)	First six months of the consolidated fiscal year under review (from January 1, 2020 to June 30, 2020)
Cash flows from operating activities		
Quarterly profit before income taxes	3,265,551	3,418,390
Depreciation	455,897	523,366
Increase (decrease) in allowance for doubtful accounts	(1,477)	(1,636)
Increase (decrease) in provision for bonuses	7,607	8,169
Increase (decrease) in provision for quality assurance	32,731	209
Increase (decrease) in provision for loss on projects	(12,058)	405,903
Interest and dividend income	(75,061)	(72,114)
Interest expenses	4,761	198
Share of (profit) loss of entities accounted for using equity method	(27,350)	(9,340)
(Gain) loss on sales of investment securities	–	(93,278)
Loss on realized foreign currency translation adjustment	175,312	–
Decrease (increase) in notes and accounts receivable - trade	(413,038)	518,216
Decrease (increase) in inventories	3,155	(648,858)
Increase (decrease) in notes and accounts payable - trade	2,196	(262,761)
Other	286,515	(138,485)
Subtotal	3,704,740	3,647,979
Interest and dividend income received	75,077	72,114
Interest expenses paid	(4,761)	(283)
Income taxes paid	(1,527,639)	(998,421)
Cash flows from operating activities	2,247,417	2,721,389
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	75,231	–
Purchase of property, plant and equipment	(425,988)	(111,383)
Purchase of intangible assets	(272,238)	(252,631)
Payments for asset retirement obligations	(6,050)	–
Purchase of investment securities	–	(50,000)
Proceeds from sales of investment securities	–	99,900
Payments for lease and guarantee deposits	(6,464)	(15,874)
Proceeds from collection of lease and guarantee deposits	20,908	601
Other	1,559	1,767
Cash flows from investing activities	(613,043)	(327,620)
Cash flows from financing activities		
Repayments of long-term loans payable	(368,335)	(8,692)
Repayments of finance lease obligations	(13,936)	(40,710)
Redemption of bonds	(128,000)	(8,000)
Purchase of treasury shares	(157)	(758,502)
Cash dividends paid	(756,216)	(938,056)
Cash flows from financing activities	(1,266,646)	(1,753,961)
Effect of exchange rate changes on cash and cash equivalents	(7,036)	1,665
Net increase (decrease) in cash and cash equivalents	360,690	641,473
Cash and cash equivalents at the beginning of the period	13,908,840	14,929,901
Cash and cash equivalents at end of the quarterly period	14,269,530	15,571,374

(4) 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 six months of the previous consolidated fiscal year (from January 1, 2019 to June 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	18,516,077	3,699,264	22,215,342	–	22,215,342	–	22,215,342
(2) Inter-segment sales or transfer	28,178	15,144	43,322	–	43,322	(43,322)	–
Total	18,544,255	3,714,409	22,258,664	–	22,258,664	(43,322)	22,215,342
Segment income (loss)	3,308,511	(89,293)	3,219,218	1,180	3,220,398	116,043	3,336,442

(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 six months of the consolidated fiscal year under review (from January 1, 2020 to June 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	18,016,416	4,119,345	22,135,761	20	22,135,781	–	22,135,781
(2) Inter-segment sales or transfer	14,241	19,757	33,999	–	33,999	(33,999)	–
Total	18,030,657	4,139,103	22,169,761	20	22,169,781	(33,999)	22,135,781
Segment income (loss)	3,061,727	209,178	3,270,906	(10,620)	3,260,285	(21,151)	3,239,134

(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 six months of the previous consolidated fiscal year (from January 1, 2019 to June 30, 2019)		First six months of the consolidated fiscal year under review (from January 1, 2020 to June 30, 2020)	
	Orders received	Order backlog	Orders received	Order backlog
IT Consulting & Service Business	17,983,704	11,378,484	15,921,402	10,428,710
Business Innovation Business	815,919	317,498	1,039,501	335,636
Total	18,799,623	11,695,983	16,960,904	10,764,347

Segment	First quarter of the consolidated fiscal year under review (from January 1, 2020 to March 31, 2020)		Second quarter of the consolidated fiscal year under review (from April 1, 2020 to June 30, 2020)	
	Orders received	Order backlog	Orders received	Order backlog
IT Consulting & Service Business	7,956,502	11,392,066	7,964,900	10,428,710
Business Innovation Business	589,320	408,086	450,180	335,636
Total	8,545,823	11,800,153	8,415,081	10,764,347