

Consolidated Financial Results for the Fiscal Year Ended December 31, 2021 (Japan GAAP)

Name of listed company:	Information Services International-Dentsu, Ltd.
Listed exchange:	Tokyo
Code number:	4812
URL:	https://www.isid.co.jp/english/index.html
Representative:	Ryoichi Nawa, President, CEO and COO
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Date of the general meeting of the shareholders:	March 23, 2022
Date of scheduled payment of dividends:	March 24, 2022
Date of scheduled filing of securities report:	March 23, 2022
Supplementary explanatory documents:	Yes
Presentation:	Yes

(Amounts less than one million yen are rounded down.)

1. Consolidated Business Performance for the FY2021 (from January 1, 2021 to December 31, 2021)

(1) Consolidated Operating Results

(% of change from previous year)

	Net sales		Operating profit (loss)		Ordinary profit (loss)		Net profit (loss) *	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
FY2021	112,085	3.1	13,736	12.7	13,224	15.0	8,944	21.5
FY2020	108,679	7.9	12,189	21.0	11,502	19.2	7,362	18.2

* Profit (loss) attributable to owners of parent

Note: Comprehensive income: FY2021: 9,174 million yen (up 22.7%); FY2020: 7,479 million yen (up 20.4%)

	EPS	Diluted EPS	ROE	ROA	Ratio of operating profit to net sales
	(yen)	(yen)	(%)	(%)	(%)
FY2021	137.26	–	14.3	12.9	12.3
FY2020	112.99	–	12.9	12.5	11.2

Reference: Equity in earnings of affiliated companies: FY2021: (392) million yen; FY2020: (758) million yen

Note: Effective January 1, 2021, we conducted a 2-for-1 stock split of common stock. "Net profit (loss) per share" is calculated as if the stock split had taken place at the beginning of the previous consolidated fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	BPS
	(million yen)	(million yen)	(%)	(yen)
FY2021	108,188	65,471	60.5	1,004.41
FY2020	97,147	59,587	61.3	914.08

Reference: Total shareholders' equity: FY2021: 65,452 million yen; FY2020: 59,565 million yen

Note: Effective January 1, 2021, we conducted a 2-for-1 stock split of common stock. "BPS" is calculated as if the stock split had taken place at the beginning of the previous consolidated fiscal year.

(3) Consolidated Cash Flows

	From operating activities	From investing activities	From financing activities	Cash and cash equivalents at end of period
	(million yen)	(million yen)	(million yen)	(million yen)
FY2021	16,981	(2,815)	(4,461)	49,748
FY2020	9,987	(3,230)	(3,942)	39,773

2. Dividends

	Dividends per share					Total dividends paid (Annual)	Payout ratio (Consolidated)	Dividend on equity ratio (Consolidated)
	First quarter	Second quarter	Third quarter	Fourth quarter	Total			
FY2020	(yen)	(yen)	(yen)	(yen)	(yen)	(million yen)	(%)	(%)
	–	43.00	–	49.00	92.00	2,997	40.7	5.2
FY2021	–	26.00	–	30.00	56.00	3,649	40.8	5.8
FY2022 (forecast)	–	33.00	–	33.00	66.00		41.0	

Note: Effective January 1, 2021, we conducted a 2-for-1 stock split of common stock. "Cash dividends" prior to the year ended December 31, 2020 are the actual amount of dividends prior to the stock split.

3. Consolidated Forecasts for FY2022 January 1, 2022 to December 31, 2022

Percentages indicate year-on-year increase/(decrease)

	Net sales		Operating profit (loss)		Ordinary profit (loss)		Profit (loss) attributable to owners of parent		EPS
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(yen)
First half	59,000	8.7	7,100	8.8	7,100	10.2	5,000	13.8	76.73
Full year	120,000	7.1	15,000	9.2	15,000	13.4	10,500	17.4	161.13

4. Other Items

- Changes in the scope of consolidation for significant subsidiaries (Changes in specified subsidiaries resulting in change in the scope of consolidation): None
- Changes in accounting policies, changes in accounting estimates and restatements:
 - Changes in accounting policies in accordance with revision of accounting standards: None
 - Changes in accounting policies other than 1) above: None
 - Changes in accounting estimate: None
 - Restatements: None

3. Issued and outstanding common stock

- Number of shares issued and outstanding at end of period, including treasury stock:

FY2021	65,182,480 shares	FY2020	65,182,480 shares
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- Number of treasury stock at end of period:

FY2021	17,984 shares	FY2020	17,818 shares
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- Average number of shares outstanding for each period:

FY2021	65,164,570 shares	FY2020	65,164,705 shares
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Note: Effective January 1, 2021, we conducted a 2-for-1 stock split of common stock. "Number of shares issued and outstanding at end of period", "Number of treasury stock at end of period", and "Average number of shares outstanding for each period" have been calculated as if the stock split had taken place at the beginning of the previous consolidated fiscal year.

(Reference) Summary of Non-consolidated Business Performance

1. Non-consolidated Business Performance for the FY2021 (from January 1, 2021 to December 31, 2021)

(1) Non-consolidated Operating Results

Percentages indicate year-on-year increase/(decrease)

	Net sales		Operating profit (loss)		Ordinary profit (loss)		Net Profit (loss)	
	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)	(million yen)	(%)
FY2021	96,535	4.7	10,802	18.5	12,735	20.8	8,565	32.7
FY2020	92,234	7.1	9,117	23.3	10,541	22.1	6,457	8.3

	EPS	Diluted EPS
	(yen)	(yen)
FY2021	131.44	—
FY2020	99.09	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	BPS
	(million yen)	(million yen)	(%)	(yen)
FY2021	99,820	57,874	58.0	888.14
FY2020	88,944	52,640	59.2	807.80

Reference: Shareholders' equity: FY 2021: 57,874 million yen; FY 2020: 52,640 million yen

Note: Effective January 1, 2021, we conducted a 2-for-1 stock split of common stock. "BPS" are calculated as if the stock split had taken place at the beginning of the previous fiscal year.

Consolidated financial report is outside the scope of audit procedures by certified public accountants or an audit corporation.

Explanation regarding the appropriate use of forecasts of business results

Forecast figures are projections based on information available at the time of release, and are not intended as a guarantee that the Company will achieve these targets. Actual results may differ significantly from the above forecasts as a result of changes in the business environment and other factors.

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Note: Dentsu Inc. changed its name to Dentsu Group Inc. on January 1, 2020.

In this report, "Dentsu Group" refers, in principle, to the entire corporate group.

I. Overview of Business Results

1. Analysis of Business Results

(1) Results for FY2021 (Ended December 31, 2021)

(Millions of yen)

Business segment	FY2020 (cumulative)	FY2021 (cumulative)	YoY	
			Variance	% change
Net sales	108,679	112,085	3,406	3.1%
Operating profit	12,189	13,736	1,547	12.7%
Operating margin	11.2%	12.3%	1.1p	—
Ordinary profit	11,502	13,224	1,722	15.0%
Profit attributable to owners of parent	7,362	8,944	1,582	21.5%

During the current consolidated fiscal year under review (from January 1, 2021 to December 31, 2021), the Japanese economy showed signs of picking up against the backdrop of the effects of various government measures and improvement in overseas economies, despite the long period of exposure to the risk of a re-expansion of the Coronavirus Disease 2019 (COVID-19). Also, the business environment surrounding the ISID Group remained firm amid the acceleration of society and corporate expectations for DX (Digital Transformation), which utilizes digital technology for business process and business innovation.

Amid these circumstances, as the final year of “ISID X (Cross) Innovation 2021”, our three-year medium-term management plan starting in FY 2019, we have worked to expand our business through strengthening existing businesses and collaborative group of new value that transcends the boundaries of technology, industries, and companies under the three basic policies of “core business evolution”, “new business creation” and “business foundation innovations”.

As a result of these efforts, for the current consolidated fiscal year, net sales were ¥112,085 million (up 3.1% year on year), operating profit was ¥13,736 million (up 12.7% year on year), ordinary profit ¥13,224 million (up 15.0% year on year) and profit attributable to owners of parent was ¥8,944 million (up 21.5% year on year). Both sales and stage profits reached record highs for the fourth consecutive year, and ROE reached 14.3%, achieving the quantitative targets set in the medium-term management plan for the fiscal year ending December 2021 (consolidated sales of ¥110,000 million, consolidated operating profit of ¥11,000 million, consolidated operating profit margin of 10%, and consolidated operating profit margin of ROE12.5%).

Net sales increased, mainly due to growth in DX support projects targeting the manufacturing and marketing areas, despite the peak-out of several large-scale projects. Profits also increased at each stage of the fiscal year, reflecting the effects of higher sales and an improvement in the gross profit margin, while personnel expenses increased significantly in line with an increase in the number of employees and an increase in performance-linked bonuses.

Net sales, operating profit and status of business operations by reportable segment are as follows:

From the current consolidated fiscal year, the Enterprise IT division, which is engaged in the development and implementation of mission-critical systems, was transferred from the Business Solutions segment to the Communication IT segment, establishing a structure that provides integrated support from the marketing domain to mission-critical operations. The figures for the previous consolidated fiscal year and the current consolidated fiscal year have not been reclassified because it is not practicable to prepare the reportable segments for the same period as the respective comparative periods.

Net sales and operating profit (loss) by reportable segment

(Millions of yen)

Reportable segment	FY2020 (cumulative)			FY2021 (cumulative)			YoY	
	Net sales	Operating profit	Operating margin	Net sales	Operating profit	Operating margin	Net sales	Operating profit
Financial Solutions	23,888	1,411	5.9%	25,176	1,494	5.9%	1,288	83
Business Solutions	22,100	2,760	12.5%	14,958	2,655	17.7%	(7,142)	(105)
Manufacturing Solutions	30,511	2,357	7.7%	32,031	2,847	8.9%	1,520	490
Communication IT	32,179	5,659	17.6%	39,919	6,738	16.9%	7,740	1,079
Total	108,679	12,189	11.2%	112,085	13,736	12.3%	3,406	1,547

Status of business operations by reportable segment

Financial Solutions

The main business of this segment is providing IT solutions that support various financial operations of financial institutions and other companies.

Net sales and operating profit increased due to the expansion of DX support projects by financial institutions, in addition to BANK·R, a next-generation loan solution, and Lamp, a lease and finance operation management package.

Business Solutions

The main business of this segment is providing IT solutions for business management operations, centered on accounting and human resources.

Net sales and operating profit declined due to a decrease in the net sales in the Enterprise IT division as a result of the transfer of this division to the Communication IT segment. However, the business performed well, centered on the Ci*X, an accounting solution, and CCH Tagetik, a business management solution.

Manufacturing Solutions

The main business of this segment is providing IT solutions for the entire product lifecycle, from product development and production, to sales and maintenance in the manufacturing industry.

Net sales and operating profit increased due to the expansion of DX support projects that comprehensively provide consulting services, contract system development, and in-house and third-party software for the automotive industry and the electric and precision equipment industry, which aim to innovate their entire value chains.

Communication IT

The main business of this segment is providing IT solutions that support companies optimize their value chains and business processes, from marketing to core business areas.

Net sales and operating profit increased due to an increase in DX support projects mainly in the marketing area, and the transfer and integration of the Enterprise IT division from the Business Solutions segment, despite the peak-out of several large-scale projects.

(2) Forecasts for FY2022(Ending December 31, 2022)

Although the economic outlook remains uncertain due to COVID-19, social and corporate efforts toward DX remain firm, and further increases in IT investment demand are expected. Also, the next fiscal year is the first year of our new medium-term management plan for the Group. Since we will be a presence that realizes social and corporate transformation, we believe that it will be time to strengthen our management foundation and move toward a new stage of growth by aggressively implementing necessary reforms, including business, organization, and systems.

Based on these conditions, the forecast of consolidated financial results for the next fiscal year is as follows.

Consolidated Earnings Forecasts for FY 2022 (January 1, 2022 to December 31, 2022)

(Millions of yen)

	Amount	YoY % change
Net sales	120,000	7.1%
Operating profit	15,000	9.2%
Ordinary profit	15,000	13.4%
Profit attributable to owners of parent	10,500	17.4%

Note: Forecast figures are projections based on information available at the time of release, are not intended as a guarantee that we will achieve these targets. Actual results may differ significantly from the above forecasts as a result of changes in the business environment and other factors.

2. Analysis of Financial Position

(1) Status of Assets, Liabilities and Net Assets

Assets

Total assets at the end of the current consolidated fiscal year under review increased ¥11,041 million from the end of the previous consolidated fiscal year to ¥108,188 million. Current assets increased by ¥11,138 million from the end of the previous consolidated fiscal year to ¥89,933 million, mainly due to an increase in advances paid, mainly for prepaid rental fees associated with the expansion of subscription-type services. Non-current assets decreased by ¥96 million from the end of the previous fiscal year to ¥18,255 million mainly due to a decrease in leased assets as a result of progress in depreciation, despite an increase in software as a result of new acquisitions.

Liabilities

Total liabilities at the end of the current consolidated fiscal year increased by ¥5,157 million from the end of the previous consolidated fiscal year to ¥42,716 million. Current liabilities increased by ¥6,013 million from the end of the previous consolidated fiscal year to ¥40,476 million, mainly due to an increase in notes and accounts payable-trade, an increase in advances received due to an increase in advances received and maintenance fees received, and an increase in accrued bonuses associated with the expansion of performance-linked bonuses. Non-current liabilities decreased by ¥856 million from the end of the previous consolidated fiscal year to ¥2,240 million, mainly due to a decrease in long-term lease obligations.

Net assets

Net assets at the end of the fiscal year under review increased by ¥5,884 million from the end of the previous consolidated fiscal year to ¥65,471 million, mainly as a result of an increase in retained earnings due to the recording of profit attributable to owners of parent, despite the payment of dividends from retained earnings.

(2) Status of Cash Flows

Cash and cash equivalents (hereinafter referred to as "funds") on a consolidated basis at the end of the fiscal year under review increased by ¥9,975 million from the end of the previous consolidated fiscal year to ¥49,748 million.

Cash flows from operating activities

Profit before income taxes and depreciation and amortization outweighed the decrease in funds due to income taxes paid, etc., resulting in ¥16,981 million increase in funds. Compared with the same period of the previous consolidated fiscal year, revenue increased by ¥6,994 million due to an increase in income before income taxes and minority interests and a decrease in notes and accounts receivable-trade.

Cash flows from investing activities

Funds decreased by ¥2,815 million due to the acquisition of software and other fixed assets. Compared with the same period of the previous consolidated fiscal year, net cash used in investing activities decreased by ¥415 million, mainly due to a decrease in payments for purchase of shares of subsidiaries and associates.

Cash flows from financing activities

Net cash used in financing activities decreased by ¥4,461 million due to the payment of dividends and the repayment of lease obligations. Compared with the same period of the previous consolidated fiscal year, cash outflow increased by ¥519 million due to an increase in dividend payments.

Major indicators are as follows.

	FY2019	FY2020	FY2021
Shareholders' equity ratio (%)	62.8	61.3	60.5
Equity ratio based on market value (%)	161.6	209.6	233.4
Interest-bearing debt to cash flow ratio (years)	0.3	0.3	0.1
Interest coverage ratio (times)	330.2	250.3	489.9

3. Basic Policy Regarding Earnings Distribution, and Dividends for FY2021 and FY2022

We recognize that returning profits to shareholders is an important management issue, and we have established a basic policy for continually providing an appropriate and stable dividend, while retaining earnings to realize sustainable growth. Also, we set a target consolidated dividend payout ratio of 40% or more.

Based on the above policy, as announced on January 21, 2022, we plan to pay year-end dividend of ¥30 per share, an increase of ¥4 from the ¥26 per share it had planned at the beginning of the fiscal year. Together with the already paid second quarter-end dividend, we plan to pay an annual dividend of ¥56 per share, for a consolidated dividend payout ratio of 40.8%.

The dividend forecast for the next fiscal year (ending December 31, 2022) is ¥66 per share (¥33 at the end of the first half and ¥33 at year-end) in accordance with the basic policy. Compared to the previous fiscal year, the dividend is expected to increase by ¥10 per share on a post-split stock basis, resulting in a consolidated dividend payout ratio of 41.0%.

II. Management Policies, the Business Environment, and Issues to be Addressed

The forward-looking statements in the text are based on judgments made by the Group as of the end of the fiscal year under review.

1. Basic Policy on Company Management

ISID Group's basic management policy is to promote business activities toward the realization of our corporate philosophy (mission), which we define as “**Acting with sincerity, we contribute to progress and harmony among our customers, consumers, and society by exploring the unlimited potential of technology.**” The corporate philosophy, along with the direction that we should take as its vision, and the values that we should value each as a code of conduct. To ensure that the day-to-day conduct of employees leads to the realization of the entire corporate philosophy, we incorporate goals and strategies into our management plan and actively implement activities to instill them in our employees.

ISID Group's Corporate Philosophy

Mission

**Acting with sincerity, we contribute to progress and harmony
among our customers, consumers, and society
by exploring the unlimited potential of technology.**

Vision

HUMANOLOGY for the future

Bringing people and technology together to shape the future.

**Understanding human trends, anticipating society's evolution and
exploring the full potential of technology, ISID Group is creating a better tomorrow
through harmony between people and technology.**

Action Principles

AHEAD

Be a pioneer.

Agile

Try it first.

Humor

Win through personality.

Explore

Venture into the unknown.

Ambitious

Have a dream.

Dialogue

Communicate ideas thoroughly.

2. Awareness of the Business Environment and Medium-to Long-Term Management Strategies

Although this is an era in which dramatic changes make the future difficult to predict, we recognize the transition to a new normal society accelerated by COVID-19; the awareness and responsibilities necessary for realizing a sustainable society; the labor environment changes in line with Japan's shrinking population; and the further advances that will take place in technology as megatrends.

Amid these changes, society and corporations aim to utilize technology more than ever to achieve both sustainability and growth potential. Thus, we see this area as a major growth opportunity for the ISID Group. We anticipate that society and corporations will have even higher expectations in terms of our ability to collaborate with various stakeholders, and appropriately utilize a diverse range of technologies that are constantly evolving and diverging.

The ISID Group has formulated and promoted medium-term management plans every three years. However, in order to realize sustainable growth in an era of dramatic change, while recognizing the need to share a long-term perspective throughout the Group, we have decided to formulate a long-term vision.

Long-term Management Vision, Vision 2030

(1) Basic Policies

The ISID Group will transform itself with the aim of becoming an “X Innovator” realizing social and corporate transformation.

(2) Positioning in 2030

The ideal positioning for the ISID Group in 2030 is to meet the expectations of society, corporations, and consumers as a high value-added Company that embodies its corporate philosophy. To this end, we recognize the need to break out of the system integrator framework, advocated in 1985, and transform ourselves into an entity that realizes social and corporate transformation with diversity, in terms of both people and technologies.

The ISID Group defines its ideal positioning as “**An X Innovator—an entity that realizes social and corporate transformation through the practical implementation of X Innovation.**”

In further enhancing our growth potential—through self-transformation from system integrator to X Innovator, as a Group possessing diverse human resources, an abundance of technologies, and the various solutions necessary for realizing societal and corporate transformation in 2030—we aim to become a Group with net sales in the ¥300 billion range.

(3) Business Policies Focused on 2030

To realize our ideal positioning, we will promote the following four self-transformations.

Business domain expansion (HIRAKU)	Expand business domain from the resolution of individual corporate business issues to support for the resolution of all issues faced by the entire company and social transformation.
New capability acquisition (TSUKURU)	Further enhance strengths in technology implementation while acquiring the capabilities necessary to guide social and corporate transformation as new strengths.
Earnings model innovation (KASEGU)	In addition to expanding and strengthening solutions, strive to diversify profit model and improve profitability through the establishment of new delivery models.
Management foundation innovation (SASAERU)	Update management foundation to accelerate the speed of self-transformation and acquire the ability to flexibly adapt to future changes in the environment.

(4) Steps to 2030

ISID intends to formulate and promote three medium-term management plans spanning the nine years from 2022 to 2030, divided into three-year periods. The basic positioning of each period is as follows.

i. FY2022–2024	Build a new foundation for the ISID Group as a stepping stone for the future while accelerating growth.
ii. FY2025–2027	In 2025, the ISID Group will celebrate its 50th anniversary. As a new ISID Group, we will take on more proactive challenges than before, both organically and in-organically, aiming for even higher growth.
iii. FY2028–2030	Continue taking on positive challenges toward the realization of our ideal positioning and consider a new long-term management vision for 2030 and beyond.

3. Issues to be addressed

Based on the long-term management vision Vision 2030, this medium-term management plan is the first of three medium-term management plans. In the mid-term management plan "ISID X Innovation 2024", the issues to be addressed and the measures to be taken are summarised in the basic policies and key measures. The details are as follows.

Medium-term Management Plan, "ISID X Innovation 2024"

(1) Basic Policy

While accelerating growth by deepening X Innovation, we will look ahead to 2030 and build a new foundation for the ISID Group.

(2) Priority Measures

ISID will realize the four self-transformations defined in Vision 2030 through efforts comprising a total of 10 priority measures.

A. Business domain expansion (*HIRAKU*)

The ISID Group views corporate business activities from two perspectives: activities that create value such as goods and services (value creation) and activities that promote and provide value through branding and marketing (value provision). We aim to expand business by establishing competitive advantages unique to the ISID Group in each domain.

- 1) Value creation is the core business domain where the ISID Group has traditionally had strengths. Through strategic staffing and collaboration among the existing four business segments, we will aim for continuous growth following the previous medium-term management plan.
- 2) Value provision is a business domain that has expanded by leveraging the strengths of the Dentsu Group. In this domain, we will consolidate human resources involved in marketing-related businesses in each division, create a Company-wide promotion system set up as a customer contact reform business, and aim for even greater growth.
- 3) Combining the strengths of the ISID Group and Dentsu Group in both the value creation and value provision domains, we will establish the Corporate Transformation Support Business, to support new transformation and business growth of entire companies, as well as the Social Transformation Support Business, to support social transformation. Both businesses will be promoted Company-wide as core businesses of the future.

B. New capability acquisition (*TSUKURU*)

- 4) To resolve the urgent issue of personnel shortages, we will revise hiring methods, accelerate the pace at which personnel numbers are increased, and promote a variety of external procurement efforts.
- 5) We will strengthen existing, and acquire new, consulting capabilities, this will be done to enhance the conceptual, design, and business production capabilities of businesses and services, in order that businesses supporting corporate transformation may be established.
- 6) We will amass more cutting-edge technology personnel and further enhance our competitive advantage in technology implementation across the entire Group.

C. Earnings model innovation (*KASEGU*)

- 7) We will expand our lineup of in-house and third-party software, and promote functional enhancements.
- 8) We will strengthen subscription-based services, SaaS, revenue sharing businesses, and BPO businesses, while expanding partner co-creation models to promote the diversification of our business model.

D. Management foundation innovation (*SASAERU*)

- 9) Under our sustainability policy, we will promote management that contributes to the realization of a sustainable society.
- 10) We will implement innovations in business management infrastructure, personnel and training systems, Group and organizational structures, and branding efforts.

(3) Quantitative Targets

ISID group emphasizes the maximization of added value provided to society and customers and the enhancement of corporate value. In the medium-term management plan, we have set four performance indicators: net sales, operating profit, operating profit margin, and ROE. At the same time, growth investment and shareholder returns are key management indicators.

Performance Indicators

Item	Target for FY2024	FY2021 Result	CAGR
Net sales	¥150 billion	¥112 billion	10.2%
Operating profit	¥18 billion	¥13.7 billion	9.5%
Operating margin	12%	12.3%	—
ROE	15%	14.3%	—

Growth Investments

Item	Target	Policy
Human resources	Increase number of consolidated employees to over 4,200 people by the end of 2024	We aim to increase employee numbers by approximately 1,000 people from the end of December 2021 in order to meet vigorous market needs. In addition to recruitment and educational reforms, we will strive to create new work styles.
Technology	Cumulative investment over three years amounting to ¥17 billion	We will invest approximately twice as much as in the previous medium-term management plan to improve cutting-edge technology implementation capabilities, advance development technologies, and develop new products and services.
M&A	Cumulative investment over three years amounting to ¥10 billion or more	We will actively promote M&A to realize high growth targets.

Shareholder Returns

The Group has continued to increase dividends through business growth since the fiscal year ended December 31, 2013, maintaining a consolidated dividend payout ratio of 40% or higher since the fiscal year ended December 31, 2019. Going forward, we will continue with our basic policy of maintaining an appropriate level of steady dividends while retaining sufficient internal reserves to ensure sustained growth, with a consolidated payout of 40% or higher as a guideline for the dividend payout ratio in an effort to enhance shareholder returns.

III. Consolidated Financial Statements

1. Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	3,665	3,882
Notes and accounts receivable - trade	24,486	23,219
Investments in leases	41	20
Merchandise and finished goods	131	30
Work in process	1,757	1,303
Raw materials and supplies	25	32
Advance payments to suppliers	11,219	14,063
Deposits paid	36,373	46,272
Other	1,097	1,113
Allowance for doubtful accounts	(2)	(3)
Total current assets	78,795	89,933
Non-current assets		
Property, plant and equipment		
Buildings, net	1,283	1,302
Tools, furniture and fixtures, net	376	337
Land	524	524
Leased assets, net	1,900	1,211
Construction in progress	—	10
Total property, plant and equipment	4,083	3,386
Intangible assets		
Software	3,364	4,081
Leased assets	923	701
Other	450	329
Total intangible assets	4,738	5,112
Investments and other assets		
Investment securities	3,506	3,040
Long-term loans receivable from subsidiaries and associates	199	325
Deferred tax assets	1,941	2,709
Leasehold and guarantee deposits	3,880	3,835
Other	202	173
Allowance for doubtful accounts	(201)	(327)
Total investments and other assets	9,529	9,756
Total non-current assets	18,351	18,255
Total assets	97,147	108,188

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	7,778	9,606
Lease obligations	1,092	894
Accrued expenses	4,278	6,024
Income taxes payable	2,595	3,506
Advances received	12,605	13,632
Provision for loss on order received	305	364
Asset retirement obligations	—	71
Other	5,806	6,376
Total current liabilities	34,463	40,476
Non-current liabilities		
Lease obligations	1,792	1,062
Retirement benefit liability	52	54
Asset retirement obligations	1,010	953
Other	240	170
Total non-current liabilities	3,096	2,240
Total liabilities	37,559	42,716
Net assets		
Shareholders' equity		
Share capital	8,180	8,180
Capital surplus	15,285	15,285
Retained earnings	35,832	41,489
Treasury shares	(30)	(31)
Total shareholders' equity	59,268	64,925
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	194	155
Foreign currency translation adjustment	102	371
Total accumulated other comprehensive income	297	527
Non-controlling interests	22	19
Total net assets	59,587	65,471
Total liabilities and net assets	97,147	108,188

2. Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

[Consolidated Statements of Income]

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net sales	108,679	112,085
Cost of sales	71,207	72,068
Gross profit	37,472	40,016
Selling, general and administrative expenses	25,282	26,280
Operating profit	12,189	13,736
Non-operating income		
Interest and dividend income	40	42
Dividend income of insurance	59	20
Subsidy income	68	39
Gain on investments in investment partnerships	16	86
Reversal of provision for loss on business liquidation	25	—
Miscellaneous income	30	42
Total non-operating income	241	230
Non-operating expenses		
Interest expenses	39	34
Share of loss of entities accounted for using equity method	758	392
Foreign exchange losses	54	75
Provision of allowance for doubtful accounts	18	199
Miscellaneous losses	58	40
Total non-operating expenses	928	742
Ordinary profit	11,502	13,224
Extraordinary income		
Gain on sales of investments in capital	38	—
Total extraordinary income	38	—
Extraordinary losses		
Loss on valuation of investment securities	589	53
Total extraordinary losses	589	53
Profit before income taxes	10,950	13,171
Income taxes - current	3,630	4,963
Income taxes - deferred	(46)	(737)
Total income taxes	3,584	4,225
Profit	7,366	8,945
Profit attributable to non-controlling interests	3	0
Profit attributable to owners of parent	7,362	8,944

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Profit	7,366	8,945
Other comprehensive income		
Valuation difference on available-for-sale securities	126	(39)
Foreign currency translation adjustment	(12)	268
Total other comprehensive income	113	229
Comprehensive income	7,479	9,174
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,476	9,174
Comprehensive income attributable to non-controlling interests	3	0

3. Consolidated Statements of Changes in Net Assets

The previous consolidated fiscal year (January 1, 2020, to December 31, 2020)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	8,180	15,285	31,238	(30)	54,675
Changes during period					
Dividends of surplus			(2,769)		(2,769)
Profit attributable to owners of parent			7,362		7,362
Purchase of treasury shares				(0)	(0)
Change in scope of consolidation					—
Net changes in items other than shareholders' equity	—	—	4,593	(0)	4,592
Total changes during period	8,180	15,285	35,832	(30)	59,268

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	68	115	183	23	54,882
Changes during period					
Dividends of surplus					(2,769)
Profit attributable to owners of parent					7,362
Purchase of treasury shares					(0)
Change in scope of consolidation	126	(12)	113	(1)	112
Net changes in items other than shareholders' equity	126	(12)	113	(1)	4,705
Total changes during period	194	102	297	22	59,587

The current consolidated fiscal year ended December 31, 2021 (from January 1, 2021 to December 31, 2021)

(Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	8,180	15,285	35,832	(30)	59,268
Changes during period					
Dividends of surplus			(3,290)		(3,290)
Profit attributable to owners of parent			8,944		8,944
Purchase of treasury shares				(0)	(0)
Change in scope of consolidation			4		4
Net changes in items other than shareholders' equity					
Total changes during period	—	—	5,657	(0)	5,656
Balance at end of period	8,180	15,285	41,489	(31)	64,925

	Accumulated other comprehensive income			Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of period	194	102	297	22	59,587
Changes during period					
Dividends of surplus					(3,290)
Profit attributable to owners of parent					8,944
Purchase of treasury shares					(0)
Change in scope of consolidation					4
Net changes in items other than shareholders' equity	(39)	268	229	(2)	227
Total changes during period	(39)	268	229	(2)	5,884
Balance at end of period	155	371	527	19	65,471

4. Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Cash flows from operating activities		
Profit before income taxes	10,950	13,171
Depreciation	2,865	2,989
Increase (decrease) in allowance for doubtful accounts	9	199
Increase (decrease) in retirement benefit liability	19	(21)
Increase (decrease) in provision for loss on order received	(269)	59
Increase (decrease) in provision for loss on business liquidation	(45)	—
Interest and dividend income	(40)	(42)
Interest expenses	39	34
Share of loss (profit) of entities accounted for using equity method	758	392
Gain on sales of investment in capital	(38)	—
Loss (gain) on valuation of investment securities	589	53
Decrease (increase) in trade receivables	(4,246)	1,377
Decrease (increase) in inventories	597	592
Decrease (increase) in advance payments to suppliers	(2,585)	(2,813)
Increase (decrease) in trade payables	119	1,779
Increase (decrease) in accrued expenses	500	1,687
Increase (decrease) in advances received	2,515	928
Increase (decrease) in accrued consumption taxes	541	725
Other, net	480	(5)
Subtotal	12,763	21,106
Interest and dividends received	50	41
Interest paid	(39)	(37)
Income taxes paid	(2,786)	(4,129)
Net cash provided by (used in) operating activities	9,987	16,981
Cash flows from investing activities		
Payments into time deposits	(79)	(208)
Proceeds from withdrawal of time deposits	—	110
Purchase of property, plant and equipment	(274)	(291)
Purchase of intangible assets	(1,614)	(2,148)
Payments for asset retirement obligations	(27)	(6)
Purchase of investment securities	(124)	(150)
Loan advances to subsidiaries and associates	(23)	(192)
Purchase of shares of subsidiaries and associates	(813)	—
Proceeds from distributions from investment partnerships	316	198
Proceeds from sale of investments in capital	45	—
Payments for acquisition of businesses	(466)	(184)
Payments of leasehold and guarantee deposits	(194)	(33)
Proceeds from refund of leasehold and guarantee deposits	19	83
Other, net	5	6
Net cash provided by (used in) investing activities	(3,230)	(2,815)

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Cash flows from financing activities		
Repayments of lease obligations	(1,168)	(1,166)
Dividends paid	(2,769)	(3,290)
Dividends paid to non-controlling interests	(5)	(3)
Purchase of treasury shares	(0)	(0)
Net cash provided by (used in) financing activities	(3,942)	(4,461)
Effect of exchange rate change on cash and cash equivalents	(21)	242
Net increase (decrease) in cash and cash equivalents	2,792	9,947
Cash and cash equivalents at beginning of period	36,981	39,773
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	28
Cash and cash equivalents at end of period	39,773	49,748

■ Segment Information

I. Information on net sales, profit or loss, assets, liabilities and other items by reportable segment

1. The previous consolidated fiscal year (January 1, 2020, to December 31, 2020)

(Millions of yen)

	Reportable Segment				
	Financial Solutions	Business Solutions	Manufacturing Solutions	Communication IT	Total
Net sales					
Sales to customers	23,888	22,100	30,511	32,179	108,679
Inter-segment sales and transfers	–	–	–	–	–
Total	23,888	22,100	30,511	32,179	108,679
Segment profit	1,411	2,760	2,357	5,659	12,189
Other items					
Depreciation and amortization	296	645	598	1,325	2,865

Notes: Total values for segment income match those for the operating profit on the “Consolidated Statements of Income.”

2. The current consolidated fiscal year (January 1, 2021, to December 31, 2021)

(Millions of yen)

	Reportable Segment				
	Financial Solutions	Business Solutions	Manufacturing Solutions	Communication IT	Total
Net sales					
Sales to customers	25,176	14,958	32,031	39,919	112,085
Inter-segment sales and transfers	–	–	–	–	–
Total	25,176	14,958	32,031	39,919	112,085
Segment profit	1,494	2,655	2,847	6,738	13,736
Other items					
Depreciation and amortization	352	756	648	1,231	2,989

Notes: 1. Total values for segment income match those for the operating profit on the “Consolidated Statements of Income.”

II. Sales and Income (Loss) by Reportable Segment

From the current consolidated fiscal year, the Enterprise IT division, which is engaged in the development and implementation of mission-critical systems, was transferred from the Business Solutions segment to the Communication IT segment, establishing a structure that provides integrated support from the marketing domain to mission-critical operations. The figures for the previous consolidated fiscal year and the current consolidated fiscal year have not been reclassified because it is not practicable to prepare the reportable segments for the same period as the respective comparative periods.