

Summary of Consolidated Financial Results for the First Quarter of the Year Ending March 31, 2019

Company name:	SRA Holdings, Inc. (URL: http://www.sra-hd.co.jp/)
Stock listing:	Tokyo Stock Exchange
Code number:	3817
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Scheduled date of submission of quarterly securities report:	August 10, 2018
Scheduled commencement of dividend payment:	—
Quarterly Results Supplemental Materials	Yes
Quarterly Results Presentation Meeting	No

1. Consolidated results for the first quarter of the fiscal year ending March 2019 (from April 1, 2018 to June 30, 2018)

(1) Consolidated Operating Results (cumulative total)

(All amounts rounded down, % change YoY)

	Net Sales		Operating Income		Ordinary Profit		Profit attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First quarter of fiscal 2019	9,766	3.7	738	10.9	993	56.9	499	16.2
First quarter of fiscal 2018	9,415	1.0	665	(17.0)	632	19.0	429	30.8

Note : Comprehensive Income

First quarter of fiscal 2017 ¥ 202 million ((81.6)%)

First quarter of fiscal 2016 ¥1,101 million (-%)

	Net Income	Net Income
	per Share	per Share after Dilution
	Yen	Yen
First quarter of fiscal 2019	40.57	-
First quarter of fiscal 2018	35.17	35.00

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
First quarter of fiscal 2019	37,147	20,783	55.9
Fiscal 2018	37,756	21,438	56.6

Reference: Shareholders' equity

First quarter of fiscal 2019: ¥20,783 million

Fiscal 2018 : ¥21,379 million

2. Dividends

	Dividend per Share				
	End of First Quarter	End of Second Quarter	End of Third Quarter	Year-end	For the Year
	Yen	Yen	Yen	Yen	Yen
Fiscal 2018	—	40.00	—	70.00	110.00
Fiscal 2019	—				
Fiscal 2019(forecast)		40.00	—	65.00	105.00

Note: Revision of dividend forecast in this quarter: No

70 yen of year-end dividend for FY 2018 includes 10 yen of memorial dividend for the 50th anniversary of business establishment, and 65 yen of year-end dividend for FY 2019.

3. Consolidated Earnings Forecast for Fiscal 2019 (from April 1, 2018 to March 31, 2019)

(% of change from FY2018 First Half or FY2018)

	Net Sales		Operating Income		Ordinary Profit		Profit attributable to owners of the parent		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
FY2019 First Half (for the six months ending September 30, 2018)	19,000	(5.0)	1,850	4.6	1,850	6.5	1,200	4.0	97.49
FY2019	40,000	1.5	4,400	5.4	4,400	(7.6)	2,800	35.9	227.48

Note: Revision of consolidated results forecast in this quarter: No

4. Others

(1) Changes to significant subsidiaries during the current period : No

(2) Application of simplified accounting and application of special accounting : No

(3) Changes in accounting principles and procedures, presentation, etc.

1. Changes caused by revision of accounting standards, etc. : No

2. Changes other than 1. above: No

(4) Number of shares outstanding (common stock)

1. Number of shares outstanding (including treasury stock)

First quarter of fiscal 2019: 15,240,000 shares

Fiscal 2018: 15,240,000 shares

2. Number of treasury stock

First quarter of fiscal 2019: 2,903,155 shares

Fiscal 2018: 2,935,755 shares

3. Average number of shares over period (consolidated total for quarter)

First quarter of fiscal 2019: 12,308,753 shares

First quarter of fiscal 2018: 12,215,544 shares

*Indication of quarterly review procedure implementation status

This earnings release is not subject to the quarterly review process as required by the Financial Instruments and Exchange Act of Japan.

*Explanation relating to the appropriate use of results forecasts, and other noteworthy items

Forward-looking statements in this earnings release, such as forecasts of results of operations, are based on the information currently available and the certain assumptions that we regard as reasonable and therefore actual results may differ materially from those contained in or suggested by any forward-looking statements.

1) Qualitative Information Concerning First-Quarter Consolidated Business Results

(1) Explanation Concerning Business Results

During the first quarter of the fiscal year (April 1, 2018 to June 30, 2018), the Japanese economy continued a moderate recovery due to a gradual increase in capital investment and an improvement in corporate earnings.

In the information services industry, despite a moderate increase in IT investments, the environment for securing orders remained severe due to intensifying competition.

Within this business environment, the SRA Holdings Group formulated a Medium-Term Management Strategy. Under this medium-term strategy, we will seek to enhance corporate and shareholder value, promote earnings structure reform and establish a high-income model, while working to further enhance shareholder returns.

1) Improving profitability in existing operations

ÉFurther raise the gross profit margin

We are working to raise profitability by enhancing and strengthening project management, continuously reduce production overhead costs, carry out SRA's proprietary IP product business and promote the appropriate level of production staff.

ÉImprove SG&A expenses-to-sales ratio

We will strive to raise operation efficiency by introducing an account manager system while working to reduce operational costs of Head Office staff departments and SRA Professional Service, Co., Ltd., which handles a shared service.

ÉExpand orders and sales

Priority measures will be to increase customer share of wallet by deeply cultivating existing customers as well as to focus on securing new customers in growth fields, and in doing so, we will work to expand orders and sales.

2) Transforming the SRA business model

ÉWe will work to promote a convergence between SRA's proprietary IP product business and higher added value in existing operations.ö At the same time, we will strive to provide SRA's proprietary IP products and new services in such growth sectors as the Internet of Things (IoT), mobile computing, security, cloud computing, Big Data and social technology fields.

3) Strengthening linkages between SRA's proprietary IP product business and overseas operations

ÉWe intend to expand and upgrade the line of SRA's proprietary IP products for growth fields as well as promote business that targets overseas markets, which are growth markets.

Due to the above initiatives, our consolidated business results for the first quarter of the fiscal year were as follows.

Sales of the Systems Development business and the Products Sales business increased. Therefore, consolidated net sales amounted to ¥9,766 million, a 3.7% increase from the same period of the previous fiscal year.

At the profit level, operating income increased 10.9% from the same period of the previous fiscal year to ¥738 million due to an increase in gross profit resulting from measures to improve the profit margin. Ordinary profit increased 56.9% from the same period of the previous fiscal year to ¥993 million and profit attributable to owners of the parent amounted to ¥499 million, a 16.2% increase from the same period of the previous fiscal year.

A summary of consolidated business results for the first quarter by business segment is shown below.

1) Systems Development

The Systems Development business recorded increases in sales to some manufacturing industries. As a result, net sales increased 2.8% from the previous fiscal year to ¥4,919 million.

2) System Operations and Infrastructure Development

Orders from companies and university-related orders were virtually flat. As a result, net sales of the System Operations and Infrastructure Development business decreased 1.1% from the previous fiscal year to ¥1,130 million.

3) Product Sales

Advanced Integration Technology, Inc. recorded an increase in device sales. As a result, net sales of the Product Sales business increased 6.6% from the same period in the previous fiscal year to ¥3,716 million.

(2) Explanation Concerning Financial Condition

Total assets at the end of the first quarter amounted to ¥37,147 million, a decrease of 1.6% from the end of the previous fiscal year. Total liabilities increased 0.3% from the end of the previous fiscal year to ¥16,363 million and net assets decreased 3.1% to ¥20,783 million from the end of the previous fiscal year. Details of the principal increases and decreases from the end of the previous fiscal year are as follows.

(Total Assets)

Short-term loans receivable increased ¥2,149 million to ¥2,566 million. On the other hand, other declined ¥1,079 million to ¥843 million and notes and accounts receivable trade decreased ¥885 million to ¥6,047 million due to the collection of trade receivables.

(Total Liabilities)

Accounts payable^o trade increased ¥976 million to ¥3,847 million due to an increase in trade payables and advances received increased ¥674 million to ¥3,583 million. On the other hand, income taxes payable decreased ¥521 million to ¥213 million due to the payment of income taxes and provision for loss on construction contracts decreased ¥407 million to ¥373 million

(Total Net Assets)

Retained earnings decreased ¥361 million to ¥17,002 million. Foreign currency translation adjustments declined ¥239 million to ¥206 million.

(3) Explanation Concerning Consolidated Results Forecast and Other Future Projections

No revision has been made to forecasts in Summary of Consolidated Financial Results for the Year Ending March 31, 2019 released on May 10, 2018.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of Yen)

	As of March 31, 2018	As of June 30, 2018
ASSETS		
Current assets:		
Cash and deposits	7,629	7,110
Notes and accounts receivable— trade	6,932	6,047
Securities	108	101
Merchandise and finished goods	647	806
Work in process	1,566	1,530
Short-term loans receivable	416	2,566
Accounts receivable— other	2,874	3,114
Other	1,922	843
Allowance for doubtful accounts	(37)	(7)
Total current assets	22,061	22,113
Non-current assets:		
Property, plant and equipment		
Buildings	376	376
Accumulated depreciation	(268)	(272)
Buildings, net	107	104
Machinery, equipment and vehicles	530	539
Accumulated depreciation	(491)	(497)
Machinery, equipment and vehicles, net	39	41
Other	136	138
Accumulated depreciation	(91)	(93)
Other, net	45	45
Total property, plant and equipment	192	191
Intangible assets		
Other	1,310	1,276
Total intangible assets	1,310	1,276
Investments and other assets		
Investment securities	9,353	9,207
Long-term loans receivable	3,179	2,912
Deferred tax assets	2,211	2,049
Guarantee deposits	384	384
Net defined benefit asset	46	46
Other	555	564
Allowance for doubtful accounts	(1,519)	(1,580)

Allowance for investment loss	(19)	(18)
Total investments and other assets	14,191	13,565
Total non-current assets	15,695	15,033
Total assets	37,756	37,147

(Millions of Yen)

	As of March 31, 2018	As of June 30, 2018
LIABILITIES		
Current liabilities:		
Accounts payable-trade	2,871	3,847
Short-term loans payable	1,179	1,179
Accrued expenses	859	795
Income taxes payable	735	213
Accrued consumption taxes	506	278
Advances received	2,908	3,583
Provision for bonuses	565	958
Provision for directors' bonuses	49	43
Provision for loss on construction contracts	780	373
Provision for loss on litigation	1,198	-
Other	294	724
Total current liabilities	11,949	11,998
Non-current liabilities:		
Deferred tax liabilities	68	66
Net defined benefit liability	4,134	4,137
Provision for directors' retirement benefits	165	161
Total non-current liabilities	4,368	4,365
Total liabilities	16,317	16,363
NET ASSETS		
Shareholders' equity		
Capital stock	1,000	1,000
Capital surplus	4,671	4,699
Retained earnings	17,364	17,002
Treasury stock	(2,437)	(2,402)
Total shareholders' equity	20,598	20,299
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	654	597
Foreign currency translation adjustment	445	206
Remeasurements of defined benefit plans	(319)	(320)
Total accumulated other comprehensive income	780	484
Share acquisition rights	59	-
Total net assets	21,438	20,783
Total liabilities and net assets	37,756	37,147

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
 (Quarterly Consolidated Statements of Income)
 (Consolidated Cumulative Total for First Quarter)

(Millions of Yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Net sales	9,415	9,766
Cost of sales	7,583	7,763
Gross profit	1,832	2,002
Selling, general and administrative expenses	1,166	1,263
Operating Profit	665	738
Non-operating income		
Interest income	16	24
Dividend income	25	30
Foreign exchange gains	10	189
Other	16	23
Total non-operating income	70	267
Non-operating expenses		
Interest expenses	9	10
Stock transfer agency service fee	3	2
Provision of allowance for doubtful accounts	33	0
Equity in losses of affiliates	56	-
Other	0	0
Total non-operating expenses	103	13
Ordinary profit	632	993
Extraordinary income		
Gain on sales of investment securities	117	-
Gain on reversal of share acquisition rights	1	54
Other	-	0
Total extraordinary income	119	54
Extraordinary losses		
Loss on retirement of non-current assets	0	-
Loss on litigation	6	5
Total extraordinary losses	0	5
Profit before income taxes	751	1,041
Income taxes-current	416	359
Income taxes-deferred	(93)	182

Total income taxes	322	542
Net Profit	429	499
Profit attributable to owners of parent	429	499

(Quarterly Consolidated Statements of Comprehensive Income)

(Consolidated Cumulative Total for First Quarter)

(Millions of Yen)

	Three months ended June 30, 2017	Three months ended June 30, 2018
Profit	429	499
Other comprehensive income		
Valuation difference on available-for-sale securities	750	(57)
Foreign currency translation adjustments	(80)	(238)
Remeasurements of defined benefit plans, net of tax	2	(0)
Share of other comprehensive income of entities accounted for using equity method	-	(0)
Total other comprehensive income	671	(296)
Comprehensive income	1,101	202
(breakdown)		
Comprehensive income attributable to owners of the parent	1,101	202
Comprehensive income attributable to non-controlling interests	—	-

(3) Notes Concerning Consolidated Financial Statements for the First Quarter

(Notes Concerning Premise of Going Concern)

None

(Notes on Significant Changes in Shareholders' Equity)

None

(Additional information)

Adoption of the Partial Amendments to Accounting Standard for Tax Effect Accounting

The Company has adopted the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018) from the beginning of the first quarter of the current fiscal year. As a result, deferred tax assets are presented in investments and other assets and deferred tax liabilities are presented in noncurrent liabilities.

(Segment Information and others)

[Segment Information]

I. Consolidated cumulative total for first quarter of the previous fiscal year (April 1, 2017 to June 30, 2017)

1. Information concerning net sales and income or losses for each reporting segment

(Millions of Yen)

	Systems Development	System Operations and Infrastructure Development	Product Sales	Total	Adjustment amount ^{*1}	Amount recorded on the quarterly consolidated statements of income ^{*2}
Sales						
(1) Sales to Customers	4,786	1,142	3,486	9,415	—	9,415
(2) Intersegment sales or transfers	2	53	96	152	(152)	—
Total sales	4,789	1,196	3,583	9,568	(152)	9,415
Segment income	637	297	188	1,123	(457)	665

Notes:

- The segment income adjustment of minus ¥457 million is a company-wide expense not apportioned to any reporting segment. Company-wide expenses are general and administrative expenses and R&D expenses not attributed to any reporting segment.
- Segment income is adjusted in operating income on the quarterly consolidated statements of income.

2. Information concerning impairment loss on fixed assets or goodwill for each reporting segment

None

II. Consolidated cumulative total for first quarter of the fiscal year under review (April 1, 2018 to June 30, 2018)

1. Information concerning net sales and income or losses for each reporting segment

(Millions of Yen)

	Systems Development	System Operations and Infrastructure Development	Product Sales	Total	Adjustment amount ^{*1}	Amount recorded on the quarterly consolidated statements of income ^{*2}
Sales						
(1) Sales to Customers	4,919	1,130	3,716	9,766	—	9,766
(2) Intersegment sales or transfers	2	51	67	121	(121)	—
Total sales	4,922	1,181	3,783	9,887	(121)	9,766
Segment income	751	276	115	1,143	(404)	738

Notes:

1. The segment income adjustment of minus ¥404 million is a company-wide expense not apportioned to any reporting segment. Company-wide expenses are general and administrative expenses and R&D expenses not attributed to any reporting segment.
2. Segment income is adjusted in operating income on the quarterly consolidated statements of income.

2. Information concerning impairment loss on fixed assets or goodwill for each reporting segment

None

(Significant subsequent events)

Not applicable

3. Other Information

1. Status of Production, Orders and Sales

- Production amounts

Production by segment in the first quarter of the fiscal year under review is as follows.

Segment information by type of business	Three months ended June 30, 2018	% change YoY
Systems Development (Millions of Yen)	5,343	101.0
System Operations and Infrastructure Development (Millions of Yen)	1,163	98.7
Total (Millions of Yen)	6,507	100.5

Notes:

1. Amounts are based on sales price.
2. The amounts above do not include consumption tax.
3. Intersegment transactions are offset.

- Purchase amounts

Purchases by segment in the first quarter of the fiscal year under review are as follows.

Segment information by type of business	Three months ended June 30, 2018	% change YoY
Product Sales (Millions of Yen)	2,455	97.1
Total (Millions of Yen)	2,455	97.1

Notes:

1. Amounts are based on purchase price.
2. The amounts above do not include consumption tax.
3. Intersegment transactions are offset.

● Status of orders

Status of orders by segment in the first quarter of the fiscal year under review is as follows.

Segment information by type of business	Orders received (Millions of Yen)	% change YoY	Order backlog (Millions of Yen)	% change YoY
Systems Development	5,606	101.7	5,505	103.3
System Operations and Infrastructure Development	718	95.5	1,777	109.6
Product Sales	3,675	88.7	3,549	92.1
Total	10,000	96.1	10,832	100.2

Notes:

1. Amounts are based on sales price.
2. The amounts above do not include consumption tax.
3. Intersegment transactions are offset.
4. The percentages comparing order backlog with the same quarter of the previous fiscal year are comparisons with figures for which the impact of the conclusion of litigation has been excluded from the previous year's figures.

● Sales amounts

Sales by segment in the first quarter of the fiscal year under review are as follows.

Segment information by type of business	Three months ended June 30, 2018	% change YoY
Systems Development (Millions of Yen)	4,919	102.8
System Operations and Infrastructure Development (Millions of Yen)	1,130	98.9
Product Sales (Millions of Yen)	3,716	106.6
Total (Millions of Yen)	9,766	103.7

Notes:

1. Amounts are based on sales price.
2. The amounts above do not include consumption tax.
3. Intersegment transactions are offset.