

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

Company name:	SRA Holdings, Inc. (URL: https://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:	February 8, 2019
Scheduled commencement of dividend payment:	-
Quarterly Results Supplemental Materials	Yes
Quarterly Results Presentation Meeting	No

1. Consolidated results for the Third quarter of the fiscal year ending March 2019 (from April 1, 2018 to December 31, 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	%
Third quarter of fiscal 2019	29,831	2.0	2,739	(0.7)	3,074	10.9	1,505	115.7
Third quarter of fiscal 2018	29,241	3.4	2,759	(2.2)	2,772	(10.6)	697	(64.6)

Note : Comprehensive Income

Third quarter of fiscal 2019 ¥882million((34.2)%)

Third quarter of fiscal 2018 ¥1,340million(66.3%)

	Net Income per Share	Net Income per Share after Dilution
	Yen	Yen
Third quarter of fiscal 2019	122.09	-
Third quarter of fiscal 2018	56.96	56.65

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
Third quarter of fiscal 2019	35,561	20,988	59.0
Fiscal 2018	37,756	21,438	56.6

Reference: Shareholders' equity

Third quarter of fiscal 2019 : ¥20,972million

Fiscal 2018 : ¥21,379million

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	—	40.00			
Fiscal 2019(forecast)			—	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.

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

(% of change from FY 2018)

	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	40,000	1.5	4,400	5.4	4,400	(7.6)	2,800	35.9	227.13

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)

Third quarter of fiscal 2019:	15,240,000 shares
Fiscal 2018:	15,240,000 shares
2. Number of treasury stock

Third quarter of fiscal 2019:	2,903,218 shares
Fiscal 2018:	2,935,755 shares
3. Average number of shares over period (consolidated total for quarter)

Third quarter of fiscal 2019:	12,327,534 shares
Third quarter of fiscal 2018:	12,247,095 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. As of the date when this earning release was issued, the review process on quarterly financial statements as required by the Financial Instruments and Exchange Act had been finished.

*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 Third-Quarter Consolidated Business Results

(1) Explanation Concerning Business Results

During the third quarter of the fiscal year (April 1, 2018 to December 31, 2018), the Japanese economy continued a moderate recovery amid a gradual increase in capital investment and an improvement in corporate earnings.

In the information services industry, despite an increase in IT investments, mainly by large and medium-sized companies, the environment for securing orders remained severe due to intensifying competition.

Within this business environment, based on our Medium-Term Management Strategy, we will implement the following key measures 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

- Further 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.

- Improve 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.

- Expand 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

- We will work to promote a convergence between "SRA's proprietary IP product business and higher added value in existing operations." 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 networking technology fields.

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

- We 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 third quarter of the fiscal year were as follows.

Sales of the Systems Development business, System Operations and Infrastructure Development business and Product Sales business all increased. Therefore, consolidated net sales amounted to ¥29,831 million, a 2.0% increase from the same period of the previous fiscal year.

At the profit level, gross profit increased as a result of a focus on measures to improve the profit margin. However, operating income decreased 0.7% from the same period of the previous fiscal year to ¥2,739 million owing to an increase in selling, general and administrative expenses due in part to the impact of selling expenses of an overseas subsidiary that was newly incorporated into business results as a consolidated subsidiary from the third quarter of the fiscal year. Ordinary profit increased 10.9% to ¥3,074 million and profit attributable to owners of the parent amounted to ¥1,505 million, a 115.7% increase from the same period of the previous fiscal year, as both these profit categories posted increases.

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

1) Systems Development

The Systems Development business recorded increases in sales to manufacturing industries and the financial industry. As a result, net sales increased 2.4% from the previous fiscal year to ¥15,880 million.

2) System Operations and Infrastructure Development

Orders from companies and university-related orders increased. As a result, net sales of the System Operations and Infrastructure Development business increased 3.8% from the previous fiscal year to ¥3,569 million.

3) Product Sales

SRA recorded a decrease in device sales but Advanced Integration Technology, Inc. posted an increase in device sales. As a result, net sales of the Product Sales business increased 0.8% from the same period in the previous fiscal year to ¥10,380 million.

(2) Explanation Concerning Financial Condition

Total assets at the end of the third quarter amounted to ¥35,561 million, a decrease of 5.8% from the end of the previous fiscal year. Total liabilities decreased 10.7% from the end of the previous fiscal year to ¥14,573 million and net assets decreased 2.1% to ¥20,988 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 ¥2,264 million to ¥2,680 million and investment securities increased ¥1,610 million to ¥10,964 million due to such factors as the purchase of shares of an affiliated company. On the other hand, long-term loans receivable decreased ¥1,878 million to ¥1,301 million.

(Total Liabilities)

Advances received increased ¥623 million to ¥3,532 million. Conversely, provision for loss on litigation decreased ¥1,198 million, short-term loans payable decreased ¥609 million to ¥570 million due to the repayment of bank loans, and income taxes payable decreased ¥490 million to ¥245 million owing to the payment of corporate income taxes.

(Total Net Assets)

Retained earnings increased ¥150 million to ¥17,515 million. On the other hand, valuation difference on available-for-sale securities decreased ¥457 million to ¥196 million due to changes in the market prices of marketable and investment securities and foreign currency translation adjustment decreased ¥163 million to ¥282 million due to fluctuations in exchange rates.

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

No revision has been made to the consolidated financial results forecast in Summary of Consolidated Financial Results for the Year Ended March 31, 2018 released on May 10, 2018.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of Yen)

	As of March 31, 2018	As of December 31, 2018
ASSETS		
Current assets:		
Cash and deposits	7,629	4,100
Notes and accounts receivable—trade	6,932	6,178
Securities	108	45
Merchandise and finished goods	647	881
Work in process	1,566	1,540
Short-term loans receivable	416	2,680
Accounts receivable—other	2,874	2,785
Other	1,922	848
Allowance for doubtful accounts	(37)	(19)
Total current assets	22,061	19,042
Non-current assets:		
Property, plant and equipment		
Buildings	376	391
Accumulated depreciation	(268)	(284)
Buildings, net	107	106
Machinery, equipment and vehicles	530	547
Accumulated depreciation	(491)	(505)
Machinery, equipment and vehicles,	39	41
Other	136	162
Accumulated depreciation	(91)	(103)
Other, net	45	58
Total property, plant and equipment	192	207
Intangible assets		
Other	1,310	1,603
Total intangible assets	1,310	1,603
Investments and other assets		
Investment securities	9,353	10,964
Long-term loans receivable	3,179	1,301
Deferred tax assets	2,211	1,812
Guarantee deposits	384	385
Net defined benefit asset	46	49
Other	555	222
Allowance for doubtful accounts	(1,519)	(9)

Allowance for investment loss	(19)	(17)
Total investments and other assets	14,191	14,708
Total non-current assets	15,695	16,519
Total assets	37,756	35,561

(Millions of Yen)

	As of March 31, 2018	As of December 31, 2018
LIABILITIES		
Current liabilities:		
Accounts payable-trade	2,871	3,219
Short-term loans payable	1,179	570
Accrued expenses	859	713
Income taxes payable	735	245
Accrued consumption taxes	506	423
Advances received	2,908	3,532
Provision for bonuses	565	542
Provision for directors' bonuses	49	134
Provision for loss on construction contracts	780	334
Provision for loss on litigation	1,198	—
Other	294	417
Total current liabilities	11,949	10,132
Non-current liabilities:		
Deferred tax liabilities	68	79
Net defined benefit liability	4,134	4,171
Provision for directors' retirement benefits	165	174
Other	—	15
Total non-current liabilities	4,368	4,441
Total liabilities	16,317	14,573
NET ASSETS		
Shareholders' equity		
Capital stock	1,000	1,000
Capital surplus	4,671	4,701
Retained earnings	17,364	17,515
Treasury stock	(2,437)	(2,402)
Total shareholders' equity	20,598	20,814
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	654	196
Foreign currency translation adjustment	445	282
Remeasurements of defined benefit plans	(319)	(321)
Total accumulated other comprehensive income	780	158

Share acquisition rights	59	15
Total net assets	21,438	20,988
Total liabilities and net assets	37,756	35,561

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

(Millions of Yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net sales	29,241	29,831
Cost of sales	23,070	23,261
Gross profit	6,171	6,569
Selling, general and administrative expenses	3,411	3,830
Operating profit	2,759	2,739
Non-operating income		
Interest income	61	105
Dividend income	63	45
Foreign exchange gains	86	194
Other	40	49
Total non-operating income	252	394
Non-operating expenses		
Interest expenses	30	31
Stock transfer agency service fee	14	13
Equity in losses of affiliates	185	—
Other	9	14
Total non-operating expenses	239	58
Ordinary profit	2,772	3,074
Extraordinary income		
Gain on sales of investment securities	245	13
Gain on reversal of share acquisition rights	1	54
Other	2	16
Total extraordinary income	248	84
Extraordinary losses		
Loss on retirement of non-current assets	0	2
Provision of allowance for doubtful accounts	—	254
Loss on litigation	1,612	17
Other	18	6
Total extraordinary losses	1,631	280
Profit before income taxes	1,389	2,878
Income taxes-current	1,044	762

Income taxes-deferred	(353)	610
Total income taxes	691	1,373
Net Profit	697	1,505
Loss attributable to non-controlling interests	(0)	—
Profit attributable to owners of parent	697	1,505

(Quarterly Consolidated Statements of Comprehensive Income)

(Consolidated Cumulative Total for Third Quarter)

(Millions of Yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Profit	697	1,505
Other comprehensive income		
Valuation difference on available-for-sale securities	621	(457)
Foreign currency translation adjustments	(33)	(165)
Remeasurements of defined benefit plans, net of tax	7	(1)
Share of other comprehensive income of entities accounted for using equity method	48	2
Total other comprehensive income	642	(622)
Comprehensive income	1,340	882
(breakdown)		
Comprehensive income attributable to owners of the parent	1,340	882
Comprehensive income attributable to non-controlling interests	(0)	—

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

(Notes Concerning Premise of Going Concern)

None

(Notes on Significant Changes in Shareholders' Equity)

None

(Changes to significant subsidiaries during the current period)

None

There were no changes to specified subsidiaries. However, in the second quarter, Proxim Wireless Corporation, which became a subsidiary due to the acquisition of an additional equity interest, is included in the scope of consolidation.

(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 third quarter of the previous fiscal year (April 1, 2017 to December 31, 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	15,502	3,440	10,298	29,241	—	29,241
(2) Intersegment sales or transfers	17	151	285	454	(454)	—
Total sales	15,520	3,591	10,583	29,696	(454)	29,241
Segment income	2,406	860	668	3,934	(1,175)	2,759

Notes:

1. The segment income adjustment of minus ¥1,175 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

II. Consolidated cumulative total for third quarter of the fiscal year under review (April 1, 2018 to December 31, 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	15,880	3,569	10,380	29,831	—	29,831
(2) Intersegment sales or transfers	9	162	193	365	(365)	—
Total sales	15,890	3,732	10,573	30,196	(365)	29,831
Segment income	2,709	894	299	3,903	(1,164)	2,739

Notes:

1. The segment income adjustment of minus ¥1,164 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 third quarter of the fiscal year under review is as follows.

Segment information by type of business	Nine months ended December 31, 2018	% change YoY
Systems Development (Millions of Yen)	15,888	97.8
System Operations and Infrastructure Development (Millions of Yen)	3,641	104.7
Total (Millions of Yen)	19,530	99.0

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 third quarter of the fiscal year under review are as follows.

Segment information by type of business	Nine months ended December 31, 2018	% change YoY
Product Sales (Millions of Yen)	6,096	103.5
Total (Millions of Yen)	6,096	103.5

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 third 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	15,922	98.8	4,860	93.2
System Operations and Infrastructure Development	2,803	103.7	1,423	111.5
Product Sales	10,180	101.7	3,388	116.6
Total	28,905	100.3	9,672	102.9

Notes:

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

- Sales amounts

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

Segment information by type of business	Nine months ended December 31, 2018	% change YoY
Systems Development (Millions of Yen)	15,880	102.4
System Operations and Infrastructure Development (Millions of Yen)	3,569	103.8
Product Sales (Millions of Yen)	10,380	100.8
Total (Millions of Yen)	29,831	102.0

Notes:

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