

Summary of Consolidated Financial Results for the Second Quarter of the Year Ending March 31, 2020

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:	November 8, 2019
Scheduled commencement of dividend payment:	November 29, 2019
Quarterly Results Supplemental Materials	Yes
Quarterly Results Presentation Meeting	Yes (for institutional investors)

1. Consolidated results for the Second quarter of the fiscal year ending March 2020 (from April 1, 2019 to September 30, 2019)

(1) Consolidated Operating Results (cumulative total)

(All amounts rounded down, % change YoY)

	Net Sales		Operating Profit		Ordinary Profit		Profit (loss) attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Second quarter of fiscal 2020	20,402	2.2	2,069	19.8	1,957	(8.5)	(1,131)	-
Second quarter of fiscal 2019	19,959	(0.2)	1,727	(2.3)	2,139	23.2	851	(26.2)

Note : Comprehensive Income

Second quarter of fiscal 2020 ¥(716)million (-%)

Second quarter of fiscal 2019 ¥525million ((71.2)%)

	Net Profit per Share	Net Profit per Share after Dilution
	Yen	Yen
Second quarter of fiscal 2020	(91.69)	-
Second quarter of fiscal 2019	69.09	-

(2) Consolidated Financial Position

	Total Assets	Net Assets	Shareholders' Equity Ratio
	Millions of yen	Millions of yen	%
Second quarter of fiscal 2020	33,950	19,772	58.2
Fiscal 2019	36,852	21,375	57.9

Reference: Shareholders' equity

Second quarter of fiscal 2020 : ¥19,770million

Fiscal 2019 : ¥21,349million

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 2019	—	40.00	—	70.00	110.00
Fiscal 2020	—	40.00			
Fiscal 2020(forecast)			—	70.00	110.00

Note: Revision of dividend forecast in this quarter: No

3. Consolidated Earnings Forecast for Fiscal 2020 (from April 1, 2019 to March 31, 2020)

(% of change from FY 2019)

	Net Sales		Operating Profit		Ordinary Profit		Profit (loss) attributable to owners of parent		Net Profit per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
FY2020	41,700	2.2	4,500	10.3	4,600	2.9	2,500	23.5	202.65

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)

Second quarter of fiscal 2020: 15,240,000 shares

Fiscal 2019: 15,240,000 shares

2. Number of treasury stock

Second quarter of fiscal 2020: 2,903,279 shares

Fiscal 2019: 2,903,279 shares

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

Second quarter of fiscal 2020: 12,336,721 shares

Second quarter of fiscal 2019: 12,322,872 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 Second-Quarter Consolidated Business Results

(1) Explanation Concerning Business Results

Our consolidated business results for the second quarter of the fiscal year were as follows.

Although sales of the Systems Development business decreased, sales of the System Operations and Infrastructure Development and the Products Sales businesses increased. Therefore, consolidated net sales amounted to ¥20,402 million, a 2.2% increase from the same period of the previous fiscal year.

At the profit level, we achieved an increase in gross profit while the gross profit margin also improved as a result of measures to improve the profit margin. Despite recording selling, general and administrative expenses of an overseas subsidiary that came into the scope of consolidation from the third quarter of the previous fiscal year, we made efforts to enhance efficiency that also included the selling expenses of Cavin Systems, Inc. As a result, selling, general and administrative expenses decreased year on year and operating profit increased 19.8% from the same period of the previous year to ¥2,069 million. Ordinary profit decreased 8.5% year on year to ¥1,957 million due to the recording of non-operating expenses (foreign exchange losses) and loss attributable to owners of parent amounted to ¥1,131 million (profit attributable to owners of parent of ¥851 million in the same period of the previous fiscal year) due to the recording of extraordinary losses (loss on valuation of investment securities).

A summary of consolidated business results for the second quarter by segment net sales is shown below.

1) Systems Development

The Systems Development business recorded an increase in sales to service industries but posted a decrease in sales to some manufacturing industries and the financial industry. As a result, net sales decreased 4.9% year on year to ¥10,131 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 10.7% from the same period in the previous fiscal year to ¥2,608 million.

3) Product Sales

SRA, Advanced Integration Technology, Inc. and overseas subsidiaries posted increases in device sales. As a result, net sales of the Product Sales business increased 10.2% from the same period in the previous fiscal year to ¥7,662 million.

Based on the Medium-Term Management Strategy (year ending March 31, 2020 to year ending March 31, 2022), the SRA Group aims to improve corporate value and enhance shareholder returns and will strive to strengthen the foundation of its existing businesses while also vigorously promoting new businesses toward 1) achieving sustainable growth, 2) improving profitability and 3) further enhancing shareholder returns.

We have positioned fiscal 2020 (year ending March 31, 2020) as a “year for building a foundation” to promote

our growth strategies (Transforming the SRA business model, Expanding our global business and Responding to digital transformation (DX)) and the SRA Group will work in unison as we focus on attaining the targets for the final fiscal year of this strategy.

(2) Explanation Concerning Financial Condition

Total assets at the end of the second quarter amounted to ¥33,950 million, a decrease of 7.9% from the end of the previous fiscal year. Total liabilities decreased 8.4% from the end of the previous fiscal year to ¥14,178 million and net assets decreased 7.5% to ¥19,772 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)

Work in process increased ¥351 million to ¥1,308 million. On the other hand, investment securities decreased ¥1,789 million to ¥8,856 million due to such factors as changes in market prices, notes and accounts receivable – trade decreased ¥888 million to ¥6,066 million due to the collection of trade receivables and merchandise and finished goods decreased ¥328 million to ¥775 million.

(Total Liabilities)

Short-term borrowings increased ¥498 million to ¥696 million. On the other hand, income taxes payable decreased ¥739 million to ¥390 million owing to the payment of income taxes, accrued expenses decreased ¥519 million to ¥600 million and accounts payable – trade decreased ¥320 million to ¥3,300 million due to a decrease in trade payables.

(Total Net Assets)

Valuation difference on available-for-sale securities increased ¥385 million to ¥462 million due to changes in the market prices of securities and investment securities. On the other hand, retained earnings decreased ¥1,994 million to ¥16,039 million.

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

Please refer to “Notice Concerning Differences between Forecast of Consolidated Financial Results and Actual Results for the Second Quarter (Cumulative) of the Year Ending March 31, 2020” released on October 31, 2019 regarding the forecast of financial results for the second quarter.

No revision has been made to the full-year consolidated financial results forecast released on May 9, 2019. In the future, we will quickly disclose relevant information if there is a need to revise the forecast of financial results.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of Yen)

	As of March 31, 2019	As of September 30, 2019
ASSETS		
Current assets:		
Cash and deposits	5,121	4,197
Notes and accounts receivable – trade	6,955	6,066
Securities	95	83
Merchandise and finished goods	1,103	775
Work in process	957	1,308
Short-term loans receivable	2,935	3,139
Accounts receivable – other	2,814	3,116
Other	622	578
Allowance for doubtful accounts	(16)	(15)
Total current assets	20,589	19,249
Non-current assets:		
Property, plant and equipment		
Buildings	432	434
Accumulated depreciation	(289)	(296)
Buildings, net	142	137
Machinery, equipment and vehicles	547	549
Accumulated depreciation	(505)	(511)
Machinery, equipment and vehicles, net	41	38
Other	164	190
Accumulated depreciation	(101)	(119)
Other, net	63	70
Total property, plant and equipment	247	246
Intangible assets		
Other	1,543	1,534
Total intangible assets	1,543	1,534
Investments and other assets		
Investment securities	10,645	8,856
Long-term loans receivable	1,144	870
Deferred tax assets	2,059	2,568
Guarantee deposits	383	386
Retirement benefit asset	47	48
Other	218	215
Allowance for doubtful accounts	(9)	(8)

Allowance for investment loss	(17)	(17)
Total investments and other assets	14,471	12,919
Total non-current assets	16,263	14,701
Total assets	36,852	33,950

(Millions of Yen)

	As of March 31, 2019	As of September 30, 2019
LIABILITIES		
Current liabilities:		
Accounts payable – trade	3,621	3,300
Short-term borrowings	198	696
Accrued expenses	1,119	600
Income taxes payable	1,129	390
Accrued consumption taxes	537	378
Advances received	3,448	3,281
Provision for bonuses	565	741
Provision for bonuses for directors	75	94
Provision for loss on construction contracts	340	330
Other	313	153
Total current liabilities	11,349	9,967
Non-current liabilities:		
Deferred tax liabilities	9	27
Retirement benefit liability	3,926	3,973
Provision for retirement benefits for directors	182	200
Other	10	9
Total non-current liabilities	4,128	4,210
Total liabilities	15,477	14,178
NET ASSETS		
Shareholders' equity		
Share capital	1,000	1,000
Capital surplus	4,704	4,704
Retained earnings	18,033	16,039
Treasury shares	(2,402)	(2,402)
Total shareholders' equity	21,335	19,340
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	76	462
Foreign currency translation adjustment	219	217
Remeasurements of defined benefit plans	(282)	(250)
Total accumulated other comprehensive income	14	429
Share acquisition rights	25	2
Total net assets	21,375	19,772
Total liabilities and net assets	36,852	33,950

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

(Millions of Yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net sales	19,959	20,402
Cost of sales	15,664	15,918
Gross profit	4,294	4,483
Selling, general and administrative expenses	2,567	2,414
Operating profit	1,727	2,069
Non-operating income		
Interest income	58	90
Dividend income	28	46
Foreign exchange gains	356	—
Other	25	17
Total non-operating income	468	154
Non-operating expenses		
Interest expenses	22	23
Foreign exchange losses	—	225
Stock transfer agency service fee	8	8
Share of loss of entities accounted for using equity method	20	—
Other	4	8
Total non-operating expenses	56	266
Ordinary profit	2,139	1,957
Extraordinary income		
Gain on sales of investment securities	3	14
Gain on reversal of share acquisition rights	54	25
Other	1	—
Total extraordinary income	58	39
Extraordinary losses		
Loss on valuation of investment securities	—	3,344
Provision of allowance for doubtful accounts	260	—
Other	18	0
Total extraordinary losses	278	3,345
Profit (loss) before income taxes	1,919	(1,348)
Income taxes – current	560	455

Income taxes – deferred	507	(671)
Total income taxes	1,068	(216)
Profit (loss)	851	(1,131)
Profit (loss) attributable to owners of parent	851	(1,131)

(Quarterly Consolidated Statements of Comprehensive Income)

(Consolidated Cumulative Total for Second Quarter)

(Millions of Yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit (loss)	851	(1,131)
Other comprehensive income		
Valuation difference on available-for-sale securities	(70)	385
Foreign currency translation adjustment	(254)	(2)
Remeasurements of defined benefit plans, net of tax	(0)	32
Share of other comprehensive income of entities accounted for using equity method	(0)	—
Total other comprehensive income	(326)	415
Comprehensive income (loss)	525	(716)
(breakdown)		
Comprehensive income (loss) attributable to owners of parent	525	(716)
Comprehensive income (loss) attributable to non- controlling interests	—	—

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of Yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Profit (loss) before income taxes	1,919	(1,348)
Depreciation	233	293
Increase (decrease) in retirement benefit liability	26	46
Increase (decrease) in provision for retirement benefits for directors	2	17
Increase (decrease) in provision for bonuses	177	176
Increase (decrease) in provision for bonuses for directors	39	18
Increase (decrease) in allowance for doubtful accounts	(32)	(1)
Increase (decrease) in allowance for investment loss	(1)	0
Increase (decrease) in provision for loss on construction contracts	(401)	(9)
Increase (decrease) in provision for loss on litigation	(1,198)	—
Interest and dividend income	(86)	(136)
Interest expenses	22	23
Commission expenses	0	7
Foreign exchange losses (gains)	(356)	225
Share of loss (profit) of entities accounted for using equity method	20	(7)
Loss (gain) on valuation of investment securities	—	3,344
Loss (gain) on sales of investment securities	(3)	(14)
Loss on retirement of non-current assets	0	0
Decrease (increase) in trade receivables	525	868
Decrease (increase) in inventories	(111)	(22)
Increase (decrease) in trade payables	591	(305)
Decrease (increase) in other current assets	1,316	43
Increase (decrease) in other liabilities	284	(865)
Increase (decrease) in accrued consumption taxes	(138)	(158)
Other, net	222	(11)
Subtotal	3,053	2,184
Interest and dividends received	58	150
Interest paid	(21)	(23)
Income taxes paid	(829)	(1,462)
Net cash provided by operating activities	2,260	849
Cash flows from investing activities		

Purchase of property, plant and equipment	(18)	(62)
Purchase of intangible assets	(148)	(279)
Purchase of investment securities	(2,228)	(1,029)
Proceeds from sales of investment securities	14	29
Purchase of shares of subsidiaries and associates	(92)	—
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(144)	—
Loan advances	(1,788)	(181)
Collection of loans receivable	46	156
Payments into time deposits	(200)	(200)
Payments of guarantee deposits	(0)	(3)
Proceeds from refund of guarantee deposits	0	0
Other, net	(0)	(0)
Net cash used in investing activities	(4,561)	(1,569)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(609)	500
Purchase of treasury shares	(0)	—
Dividends paid	(861)	(863)
Proceeds from exercise of employee share options	58	—
Commissions paid	(3)	(5)
Other, net	—	(1)
Net cash used in financing activities	(1,416)	(370)
Effect of exchange rate change on cash and cash equivalents	(1)	(36)
Net increase (decrease) in cash and cash equivalents	(3,718)	(1,126)
Cash and cash equivalents at beginning of period	7,018	3,997
Cash and cash equivalents at end of period	3,299	2,870

(4) Notes Concerning Consolidated Financial Statements for the Second Quarter

(Notes Concerning Premise of Going Concern)

None

(Notes on Significant Changes in Shareholders' Equity)

None

(Segment Information and others)

[Segment Information]

I. Consolidated cumulative total for second quarter of the previous fiscal year (April 1, 2018 to September 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	10,652	2,356	6,950	19,959	—	19,959
(2) Intersegment sales or transfers	7	106	135	249	(249)	—
Total sales	10,659	2,462	7,086	20,208	(249)	19,959
Segment income	1,780	581	150	2,513	(785)	1,727

Notes:

- The segment income adjustment of minus ¥785 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 second quarter of the fiscal year under review (April 1, 2019 to September 30, 2019)

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	10,131	2,608	7,662	20,402	—	20,402
(2) Intersegment sales or transfers	4	117	87	209	(209)	—
Total sales	10,135	2,725	7,749	20,611	(209)	20,402
Segment income	1,654	663	498	2,815	(746)	2,069

Notes:

- The segment income adjustment of minus ¥746 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

(Significant subsequent events)

Not applicable

3. Other Information

1. Status of Production, Orders and Sales

- Production amounts

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

Segment information by type of business	Six months ended September 30, 2019	% change YoY
Systems Development (Millions of Yen)	10,583	(3.4)
System Operations and Infrastructure Development (Millions of Yen)	2,614	10.1
Total (Millions of Yen)	13,197	(1.0)

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

Segment information by type of business	Six months ended September 30, 2019	% change YoY
Product Sales (Millions of Yen)	3,890	(16.5)
Total (Millions of Yen)	3,890	(16.5)

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 second 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	11,125	2.2	5,014	(0.7)
System Operations and Infrastructure Development	2,247	5.7	1,850	(5.6)
Product Sales	6,893	3.3	3,217	(2.8)
Total	20,265	3.0	10,083	(2.3)

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

Segment information by type of business	Six months ended September 30, 2019	% change YoY
Systems Development (Millions of Yen)	10,131	(4.9)
System Operations and Infrastructure Development (Millions of Yen)	2,608	10.7
Product Sales (Millions of Yen)	7,662	10.2
Total (Millions of Yen)	20,402	2.2

Notes:

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