

Summary of Consolidated Financial Results
for the Second Quarter of Fiscal Year Ending March 31, 2021
(Six Months Ended September 30, 2020)

[Japanese GAAP]

Company name: Japan System Techniques Co., Ltd. Listing: Tokyo Stock Exchange, First Section
 Stock code: 4323 URL: <https://www.jast.jp>
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 Scheduled date of filing of Quarterly Report: November 11, 2020
 Scheduled date of payment of dividend: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for analysts)

Note: The original disclosure in Japanese was released on November 10, 2020 at 16:00 (GMT +9).

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter Ended September 30, 2020

(April 1, 2020 – September 30, 2020)

(1) Consolidated results of operations

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended Sep. 30, 2020	8,042	(6.6)	23	(87.9)	58	(70.9)	(309)	-
Six months ended Sep. 30, 2019	8,610	7.3	190	(27.7)	202	(27.6)	(552)	-

Note: Comprehensive income (million yen) Six months ended Sep. 30, 2020: (258) (-%)

Six months ended Sep. 30, 2019: (583) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Sep. 30, 2020	(57.71)	-
Six months ended Sep. 30, 2019	(104.18)	-

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of Sep. 30, 2020	12,250	5,808	47.1	1,076.85
As of Mar. 31, 2020	12,988	6,218	47.7	1,154.07

Reference: Shareholders' equity (million yen) As of Sep. 30, 2020: 5,773 As of Mar. 31, 2020: 6,189

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Mar. 31, 2020	-	0.00	-	28.00	28.00
Fiscal year ending Mar. 31, 2021	-	0.00	-	28.00	28.00
Fiscal year ending Mar. 31, 2021 (forecasts)	-	-	-	28.00	28.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecasts for the Fiscal Year Ending March 31, 2021 (April 1, 2020 – March 31, 2021)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	18,500	2.7	980	0.1	1,025	0.0	300	-	55.95

Note: Revisions to the most recently announced consolidated earnings forecasts: Yes

*** Notes**

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): None

Newly added: -

Excluded: -

(2) Application of special accounting methods for presenting quarterly consolidated financial statements: None

(3) Changes in accounting policies and accounting-based estimates, and restatements

1) Changes in accounting policies due to revisions in accounting standards, others: None

2) Changes in accounting policies other than 1) above: None

3) Changes in accounting-based estimates: None

4) Restatements: None

(4) Number of outstanding shares (common shares)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Sep. 30, 2020:	5,612,230 shares	As of Mar. 31, 2020:	5,612,230 shares
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2) Number of treasury shares at the end of the period

As of Sep. 30, 2020:	250,323 shares	As of Mar. 31, 2020:	248,984 shares
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3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2020:	5,362,306 shares	Six months ended Sep. 30, 2019:	5,307,255 shares
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Note 1: The current quarterly summary report is not subject to quarterly review by certified public accountants or auditing firms.

Note 2: Cautionary statement with respect to forward-looking statements

Forecasts of future performance in these materials are based on assumption judged to be valid and information available to the Company's management at the time the materials were prepared, but are not promises by the Company regarding future performance. Actual results may differ materially from the forecasts. Please refer to "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Forecasts and Other Forward-looking Statements" on page 3 for forecast assumptions and notes of caution for usage.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

In the first half of the current fiscal year, COVID-19 had a severe impact on consumer spending, corporate activities and many other categories of the economy. The resulting downturns in jobs and personal income had an enormous effect on the Japanese economy. Although the state of emergency ended near the end of May, there are still no signs of an end to this crisis and the outlook remains challenging.

In the IT industry in Japan, according to the latest statistics in the “Survey of Selected Service Industries” by the Ministry of Economy, Trade and Industry (the final August figures), net sales continued to climb, rising 4.0% year on year in Fiscal 2019 compared with 1.5% annual growth in fiscal 2018. However, due in part to COVID-19, net sales in Japan’s IT industry were down 3.5% in August 2020 from in the same period of the previous fiscal year and the outlook for the industry is extremely uncertain.

Although COVID-19 affected the business activities of the Japan System Techniques Group (Japan System Techniques Co., Ltd. (JAST) and its consolidated subsidiaries), there were the consistent receipt of new orders as sales activities were shifted to the internet and the use of teleworking to hold capacity utilization steady. First half net sales were 8,042 million yen (down 6.6% year on year), operating income was 23 million yen (down 87.9% year on year), ordinary income was 58 million yen (down 70.9% year on year), and there was a loss attributable to owners of parent of 309 million yen (vs. loss of 552 million yen in the same period of the previous fiscal year) due to an impairment loss of 313 million yen. Business segment performance was as follows.

In the software business (individualized contracted software development), there was an increase in orders from the finance/insurance/brokerage industry but orders from the service/retail, manufacturing and telecommunications industries decreased. As a result, net sales in this business totaled 5,543 million yen (down 4.2% year on year) and the operating loss was 192 million yen (vs. an operating loss of 89 million yen in the same period of the previous fiscal year).

In the GAKUEN business (development, sale and related services of operational reform packages for schools), there was an increase in sales of program products (PP) to universities but IT equipment sales and implementation support service sales decreased. Net sales in this business totaled 1,266 million yen (down 5.3% year on year) and the operating income was 174 million yen (down 8.1% year on year).

In the system sales business (IT equipment sales and IT/telecom infrastructure construction), sales in the university and public sector categories decreased. Net sales in this business totaled 698 million yen (down 29.8% year on year) and the operating income was 68 million yen (down 37.5% year on year).

In the medical big data business (inspections, analysis and related services for medical information data), sales were much higher mainly because of an increase in support services for health insurance organizations. However, R&D and other expenses increased. Net sales in this business totaled 534 million yen (up 8.4% year on year) and the operating loss totaled 36 million yen (vs. an operating loss of 23 million yen in the same period of the previous fiscal year).

Characteristics of quarterly performance

Most customer inspections and other confirmation activities for accepting the delivery of JAST Group products take place in March and September, which are the last month of the fiscal year and the last month of the first half of the fiscal year, respectively, of most companies in Japan. Consequently, first and third quarter earnings are usually much smaller than earnings in the second and fourth quarters.

(2) Explanation of Financial Position

1) Balance sheet

Current assets at the end of the second quarter were 9,207 million yen, down 395 million yen from the end of the previous fiscal year. This was mainly due to a decrease in accounts receivable-trade and an increase in work in process. Non-current assets were 3,043 million yen, down 342 million yen from the end of the previous fiscal year.

Current liabilities at the end of the second quarter were 4,858 million yen, down 309 million yen from the end of the previous fiscal year. This was mainly due to an increase in advances received and decreases in short-term borrowings, accrued consumption taxes, which is included in other, and income taxes payable. Non-current liabilities were 1,583 million yen, up 18 million yen from the end of the previous fiscal year.

Net assets totaled 5,808 million yen at the end of the second quarter, down 410 million yen from the end of the previous fiscal year.

2) Cash flows

Cash and cash equivalents increased 617 million yen from 3,908 million yen at the beginning of the current fiscal year to 4,526 million yen at the end of the first half of the current fiscal year (vs. 4,108 million yen at the end of the same period of the previous fiscal year). Cash flows by category were as follows.

Net cash provided by operating activities totaled 1,271 million yen, an increase of 982 million yen from 289 million yen provided in the same period of the previous fiscal year. This increase was mainly due to a decrease in payments of other payables, primarily accounts payable, and increases in proceeds from advances received and proceeds from the collection of trade receivables.

Net cash used in investing activities totaled 66 million yen, an increase of 391 million yen from 457 million yen used in the same period of the previous fiscal year. This was due to a decrease in payment for the purchase of shares of subsidiaries.

Net cash used in financing activities totaled 552 million yen, compared with 86 million yen provided in the same period of the previous fiscal year. The decrease in cash flows of 638 million yen was mainly due to a decrease in short-term borrowings.

(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements

We have revised the consolidated earnings forecast for the fiscal year ending March 31, 2021 which was announced on August 24, 2020. For more details, please refer to the “Notice of Recognition of Extra Ordinary Loss and Revision to Earnings Forecast” that was announced today (November 10, 2020).

These projections are based on information available at the time of release of this report. Actual results may differ from projections due to a variety of factors.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

	(Thousands of yen)	
	FY3/20 (As of Mar. 31, 2020)	Second quarter of FY3/21 (As of Sep. 30, 2020)
Assets		
Current assets		
Cash and deposits	3,909,343	4,527,130
Notes and accounts receivable-trade	4,502,676	3,050,163
Securities	200,644	200,158
Merchandise and finished goods	71,634	186,247
Work in process	698,017	1,089,106
Raw materials and supplies	1,516	2,221
Other	238,579	165,494
Allowance for doubtful accounts	(19,471)	(13,421)
Total current assets	9,602,941	9,207,100
Non-current assets		
Property, plant and equipment		
Buildings and structures	763,597	777,366
Accumulated depreciation	(462,594)	(479,457)
Buildings and structures, net	301,002	297,909
Land	142,361	142,361
Other	487,040	499,550
Accumulated depreciation	(358,559)	(374,122)
Other, net	128,480	125,428
Total property, plant and equipment	571,845	565,699
Intangible assets		
Goodwill	437,343	187,728
Customer-related assets	181,063	113,618
Trademark right	37,348	7,979
Technology assets	66,303	14,165
Software	64,545	65,109
Other	7,626	7,626
Total intangible assets	794,230	396,229
Investments and other assets		
Investment securities	558,208	689,862
Retirement benefit asset	465,943	466,445
Deferred tax assets	436,814	379,395
Guarantee deposits	443,489	442,023
Other	162,906	150,619
Allowance for doubtful accounts	(48,036)	(47,120)
Total investments and other assets	2,019,325	2,081,225
Total non-current assets	3,385,400	3,043,153
Total assets	12,988,341	12,250,254

	(Thousands of yen)	
	FY3/20 (As of Mar. 31, 2020)	Second quarter of FY3/21 (As of Sep. 30, 2020)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	990,491	974,376
Short-term borrowings	1,500,000	1,107,732
Current portion of long-term borrowings	8,400	7,000
Income taxes payable	307,068	67,976
Advances received	823,126	1,300,886
Provision for bonuses	774,631	722,867
Provision for bonuses for directors (and other officers)	30,676	15,810
Provision for loss on construction contracts	-	16,769
Other	733,742	644,837
Total current liabilities	5,168,137	4,858,256
Non-current liabilities		
Long-term borrowings	2,800	-
Provision for share-based remuneration for directors (and other officers)	47,643	65,090
Provision for retirement benefits for directors (and other officers)	1,845	3,053
Retirement benefit liability	992,271	999,750
Deferred tax liabilities	61,062	31,434
Other	496,364	484,492
Total non-current liabilities	1,601,987	1,583,822
Total liabilities	6,770,124	6,442,078
Net assets		
Shareholders' equity		
Share capital	1,076,669	1,076,669
Capital surplus	1,113,912	1,113,912
Retained earnings	4,178,503	3,717,514
Treasury shares	(233,240)	(233,303)
Total shareholders' equity	6,135,844	5,674,792
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	113,396	211,706
Foreign currency translation adjustment	(30,713)	(86,550)
Remeasurements of defined benefit plans	(28,978)	(25,994)
Total accumulated other comprehensive income	53,704	99,161
Non-controlling interests	28,668	34,222
Total net assets	6,218,217	5,808,175
Total liabilities and net assets	12,988,341	12,250,254

(2) Quarterly Consolidated Statements of Income and Comprehensive Income**Quarterly Consolidated Statement of Income
(For the Six-month Period)**

(Thousands of yen)

	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)
Net sales	8,610,978	8,042,391
Cost of sales	6,696,965	6,267,039
Gross profit	1,914,012	1,775,352
Selling, general and administrative expenses	1,723,888	1,752,342
Operating income	190,123	23,010
Non-operating income		
Interest income	5,469	8,611
Dividend income	3,320	3,875
Rental income	2,637	1,568
Foreign exchange gains	-	3,581
Subsidy income	11,593	16,129
Other	5,573	4,356
Total non-operating income	28,594	38,122
Non-operating expenses		
Interest expenses	1,686	1,621
Foreign exchange losses	13,448	-
Rental expenses	132	130
Other	652	432
Total non-operating expenses	15,920	2,184
Ordinary income	202,797	58,948
Extraordinary losses		
Impairment loss	722,286	313,171
Loss on valuation of investment securities	-	29,535
Total extraordinary losses	722,286	342,707
Loss before income taxes	(519,489)	(283,758)
Income taxes	37,769	19,116
Loss	(557,259)	(302,874)
Profit (loss) attributable to non-controlling interests	(4,365)	6,605
Loss attributable to owners of parent	(552,893)	(309,480)

Quarterly Consolidated Statement of Comprehensive Income
(For the Six-month Period)

(Thousands of yen)

	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)
Loss	(557,259)	(302,874)
Other comprehensive income		
Valuation difference on available-for-sale securities	7,159	98,309
Foreign currency translation adjustment	(27,619)	(56,881)
Remeasurements of defined benefit plans, net of tax	(6,196)	2,984
Total other comprehensive income	(26,656)	44,413
Comprehensive income	(583,916)	(258,461)
Comprehensive income attributable to:		
Comprehensive income attributable to owners of parent	(580,044)	(264,023)
Comprehensive income attributable to non-controlling interests	(3,871)	5,562

(3) Quarterly Consolidated Statement of Cash Flows

(Thousands of yen)

	First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)	First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)
Cash flows from operating activities		
Loss before income taxes	(519,489)	(283,758)
Depreciation	35,196	54,211
Amortization of software	13,490	7,954
Amortization of goodwill	42,278	28,712
Amortization of customer-related assets	30,525	13,319
Amortization of trademark	-	1,875
Amortization of technology assets	-	3,328
Impairment loss	722,286	313,171
Increase (decrease) in provision for bonuses	(68,952)	(51,620)
Increase (decrease) in retirement benefit liability	10,733	8,641
Decrease (increase) in retirement benefit asset	(10,407)	(501)
Interest and dividend income	(8,789)	(12,487)
Interest expenses	1,686	1,621
Decrease (increase) in trade receivables	977,241	1,431,972
Increase (decrease) in advances received	333,387	479,248
Decrease (increase) in inventories	(176,602)	(506,936)
Increase (decrease) in trade payables	(184,858)	(13,265)
Other, net	(740,071)	44,108
Subtotal	457,656	1,519,597
Interest and dividends received	9,275	12,972
Interest paid	(1,499)	(1,638)
Income taxes paid	(176,207)	(259,458)
Net cash provided by (used in) operating activities	289,225	1,271,473
Cash flows from investing activities		
Decrease (increase) in time deposits	17,550	-
Purchase of property, plant and equipment	(35,574)	(35,541)
Purchase of software	(14,996)	(10,830)
Purchase of investment securities	(1,391)	(19,498)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(416,822)	-
Payments of guarantee deposits	(5,015)	(1,101)
Proceeds from refund of guarantee deposits	372	2,038
Other, net	(1,615)	(1,248)
Net cash provided by (used in) investing activities	(457,494)	(66,180)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	256,994	(392,268)
Repayments of lease obligations	(11,976)	(4,208)
Repayments of long-term borrowings	(4,900)	(4,200)
Purchase of treasury shares	(80)	(62)
Dividends paid	(149,982)	(151,509)
Repayments to non-controlling shareholders	(3,759)	-
Net cash provided by (used in) financing activities	86,295	(552,248)
Effect of exchange rate change on cash and cash equivalents	(14,661)	(35,214)
Net increase (decrease) in cash and cash equivalents	(96,634)	617,828
Cash and cash equivalents at beginning of period	4,204,722	3,908,254
Cash and cash equivalents at end of period	4,108,088	4,526,083

(4) Notes to Quarterly Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Additional Information

Effect of COVID-19 on accounting estimates

There are no significant changes to the assumptions used for accounting estimates, including the assumptions concerning the further spread of COVID-19, the end of this crisis and other related items that are explained in "Section 5 1. (1) Notes to the Consolidated Financial Statements (Supplementary Information)" of the Securities Report for the fiscal year that ended in March 2020.

Board Benefit Trust (BBT)

Based on the resolution of the 46th Annual General Meeting of Shareholders, JAST on June 26, 2018 terminated the directors' retirement benefit system and established a Board Benefit Trust (BBT) for the purpose of increasing motivation for contributing to the medium to long-term growth of sales and earnings and an increase in corporate value. The BBT plan clearly links the compensation of directors with the JAST stock price. Furthermore, directors share with shareholders the benefits of a higher stock price as well as the risk of a lower stock price.

1) Overview

This is a stock compensation plan in which directors receive stock compensation through a BBT. The BBT acquires JAST stock using cash contributions from JAST as the source of funds. Directors (excluding external directors; same afterward unless indicated otherwise) receive stock compensation or a monetary amount equivalent to the market value of the stock in lieu of stock compensation in accordance with the rules on the stock compensation plan for directors. In principle, a director becomes eligible for stock compensation only after the individual is no longer a JAST director.

2) JAST stock held by the BBT

The book value (excluding associated expenses) of JAST stock held by the BBT is shown as treasury shares in the net assets section of the consolidated balance sheet. As of the end of the second quarter, the BBT held 47,800 shares of JAST stock with a book value of 87,713 thousand yen.

Segment and Other Information

Segment information

I. First six months of FY3/20 (Apr. 1, 2019 – Sep. 30, 2019)

1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Software business	GAKUEN business	System sales business	Medical big data business	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales							
1. External sales	5,786,094	1,337,079	994,835	492,968	8,610,978	-	8,610,978
2. Inter-segment sales and transfers	27,867	1,763	25,163	-	54,794	(54,794)	-
Total	5,813,961	1,338,843	1,019,998	492,968	8,665,772	(54,794)	8,610,978
Segment profit (loss)	(89,580)	189,895	109,454	(23,352)	186,417	3,706	190,123

Notes: 1. Segment profit (loss) adjustment is eliminations of inter-segment transactions.

2. Segment profit (loss) is consistent with operating income shown on the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Significant impairment losses related to non-current assets

In the software business, there was an impairment loss for goodwill and customer-related assets.

The amount of this loss in the first six months of FY3/20 was 722,286 thousand yen.

Significant change in goodwill

In the software business, there was an impairment loss for goodwill.

The amount of this loss in the first six months of FY3/20 was 399,358 thousand yen.

In the first quarter of FY3/20, there was a business combination due to the acquisition of the stock of AG NET PTE. LTD. A provisional amount of goodwill in the software business resulting from this acquisition was used initially because the allocation of the acquisition cost had not been completed. The allocation of the acquisition cost was completed at the end of FY3/20, resulting in the finalization of the provisional accounting treatment and a revision in the amount of goodwill. The revised goodwill resulting from this acquisition is 303,284 thousand yen. For more information, please see “Notes, Business Combinations.”

II. First six months of FY3/21 (Apr. 1, 2020 – Sep. 30, 2020)

1. Information related to net sales and profit or loss for each reportable segment (Thousands of yen)

	Software business	GAKUEN business	System sales business	Medical big data business	Total	Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales							
1. External sales	5,543,152	1,266,745	698,260	534,233	8,042,391	-	8,042,391
2. Inter-segment sales and transfers	29,392	7,942	485	-	37,820	(37,820)	-
Total	5,572,544	1,274,687	698,745	534,233	8,080,212	(37,820)	8,042,391
Segment profit (loss)	(192,164)	174,494	68,395	(36,582)	14,143	8,867	23,010

Notes: 1. Segment profit (loss) adjustment is eliminations of inter-segment transactions.

2. Segment profit (loss) is consistent with operating income shown on the quarterly consolidated statement of income.

2. Information related to impairment losses on non-current assets, goodwill, etc. for each reportable segment

Significant impairment losses related to non-current assets

In the software business, there was an impairment loss for goodwill, customer-related assets, trademark rights and technology assets. The amount of this loss in the first six months of FY3/21 was 313,171 thousand yen.

Significant change in goodwill

In the software business, there was an impairment loss for goodwill.

The amount of this loss in the first six months of FY3/21 was 196,790 thousand yen.

Business Combinations

Effect of significant revision of initial allocation of acquisition cost on comparative information

A provisional accounting treatment was used in the first quarter of the previous fiscal year for the JAST Group's acquisition of AG NET PTE. LTD. on May 31, 2019. The accounting treatment was finalized at the end of the previous fiscal year.

Due to the finalization of the provisional accounting treatment, comparative information included in the first half consolidated financial statements reflects a significant revision of the initial acquisition cost allocation. On the acquisition date (June 30, 2019 for accounting purposes), the acquisition cost was allocated as follows: 73,537 thousand yen to customer-related assets, 39,716 thousand yen to trademark rights, 70,507 thousand yen to technology assets, and 31,239 thousand yen to deferred tax liabilities. As a result, provisional goodwill of 455,805 thousand yen was reduced by 152,521 thousand yen to 303,284 thousand yen.

As the purchase of the stock of AG NET is June 30, 2019 for accounting purposes and this assumed acquisition date does not exceed three months from the consolidation closing date of the first half, this acquisition had no effect on the consolidated statement of income for the first half of the fiscal year that ended in March 2020.

This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.