

INFORMATION DEVELOPMENT CO., LTD.

(4709, TSE 1st Section) September 5, 2017

Turnaround Expected after 38% Decline in 1Q Operating Income

Research Note

Quick Corporation
Toshiaki MaedaKey benchmarks as of
September 4, 2017

| | |
|-----------------------|-------------------|
| Share price | ¥1,230 |
| Shares outstanding | 12,044,302 shares |
| Market capitalization | ¥ 14,814 million |

Previous report date

| | |
|-------|---------------|
| Basic | July 10, 2017 |
|-------|---------------|

| Results | Net sales ¥ million | YoY % | Operating income ¥ million | YoY % | Ordinary income ¥ million | YoY % | Net income ¥ million | YoY % | EPS ¥ |
|--|------------------------|----------|----------------------------------|----------|---------------------------------|----------|-------------------------|----------|----------|
| FY2016 Results | 21,554 | 7.3 | 1,105 | 14.0 | 1,133 | 17.5 | 654 | 19.2 | 60.13 |
| FY2017 Company estimates (Announced April 2017) | 22,650 | 5.1 | 1,470 | 32.9 | 1,450 | 28.0 | 980 | 49.8 | 89.72 |
| FY2017 Analyst estimates | 22,600 | 4.8 | 1,450 | 31.1 | 1,430 | 26.2 | 970 | 48.2 | 88.80 |
| FY2018 Analyst estimates | 23,700 | 4.9 | 1,600 | 10.3 | 1,580 | 10.5 | 1,070 | 10.3 | 97.96 |

Unprofitable project should be resolved in the first half

In the consolidated financial results for the first quarter of FY2017, net sales were ¥5.4 billion (+3% YoY), but operating income fell to ¥120 million (-38% YoY). Revenue increased overall, as the decrease in revenue from the software development segment was offset by increased revenue in the company's core system operation management segment. However, an unprofitable software development project coupled with an increase in advertising and publicity expenses due to the aggressive sales of the security solution Seceon OTM depressed profits. The company recorded the man-hours required for managing the unprofitable project under the provision for loss on orders received in the first quarter. The project is expected to be resolved in the first half of the fiscal year, and profit margin is expected to improve from the second quarter.

Seceon OTM is a cyber security product made by the US company Seceon Inc., and is a cutting-edge security solution that utilizes artificial intelligence (AI) and machine learning. The company entered into an exclusive distribution agreement with Seceon in January 2017. Information Development seeks to improve Seceon's brand recognition and open new sales channels as Seceon's exclusive distributor in Japan. The company invested \$800,000 in Seceon in August, further strengthening its relationship with Seceon.

Expectations unchanged for a double-digit increase in sales revenue through FY2018

QUICK Corporation ("we," "us," or "Quick") leaves our estimate unchanged for FY2017 consolidated financial results: net sales of ¥22.6 billion (+5% YoY) and operating income of ¥1.45 billion (+31% YoY). While a significant decline in sales was unavoidable in the first quarter due to the unprofitable project and other factors, we see the company being able to recover from the second quarter onward due to favorable order volumes. We expect to see increased orders from financial institutions (key customer industry), as well as increasing revenue in the software development and system operation management segments. We also estimate that operating income margin will grow 6.4% (this was +5.1% in the previous fiscal year). The company has adopted a strategy of increasing the rate of outsourced work by using cooperating companies. Outsourcing costs will increase because of this, but we expect that those costs will be absorbed by increasing revenues. Outsourcing unit costs will go up slightly because of the personnel shortfall, but we also see the company increasing unit costs for orders received to compensate, and we expect them to avoid profit deterioration.

We leave unchanged our estimate of net sales reaching ¥23.7 billion (+5% YoY) and operating income reaching ¥1.6 billion (+10% YoY) in FY2018. Corporate investment in software development should continue to gradually increase, and orders should increase as well, mostly from financial institutions. We expect revenue to increase in the software development and system operation management segments.

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