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Summary of Non-consolidated Financial Results for the Third Quarter of the Fiscal Year 2021

February 4, 2022

Company name: Quest Co., Ltd.
 Stock exchanges: TSE JASDAQ(Standard)
 Stock code: 2332 URL <https://www.quest.co.jp/>
 Representative: Representative Director Akio Oka
 President and Chief Executive Officer
 Inquiries: Director, Senior Executive Officer Yutaka Koizumi TEL +81-3-3453-1181
 Scheduled date of filing of Quarterly Business Report: February 10, 2022
 Preparation of supplementary on quarterly financial results: None
 Holding of quarterly financial results meeting: None

(Amounts less than one million yen are rounded down)

1. Non-consolidated financial results for the Q3 of FY2021 (April 1, 2021 – December 31, 2021)

(1) Non-consolidated operating results (Percentage figures are changes from the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Net profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2021 Q3	8,751	7.4	755	10.1	789	10.6	548	10.6
FY2020 Q3	8,145	8.2	685	18.7	713	18.8	495	18.8

	Earnings per share		Earnings per share (Diluted)	
	Yen	Yen	Yen	Yen
FY2021 Q3	105.65	-	-	-
FY2020 Q3	95.68	-	-	-

(2) Non-consolidated financial position

	Total assets		Net assets		Equity ratio		Book value per share	
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	%	Yen	Yen	
FY2021 Q3	7,143	5,491	5,491	5,198	76.9	1,058.03	1,002.66	
FY2020	7,233	5,198	5,198	5,198	71.9	1,002.66	1,002.66	

(Reference) Shareholder's equity: FY2021 Q3: 5,491 Million yen, FY2020: 5,198 Million yen

2. Dividends

	Annual dividends per share				
	Q1	Q2	Q3	Q4	Total
FY2020	Yen -	Yen 0.00	Yen -	Yen 40.00	Yen 40.00
FY2021	Yen -	Yen 0.00	Yen -	Yen 0.00	Yen 0.00
FY2021(Forecast)	Yen -	Yen 0.00	Yen -	Yen 40.00	Yen 40.00

(Notes) Changes from the previous forecast of dividends : None

3. Forecast of non-consolidated financial results for the FY2021 (April 1, 2021 – March 31, 2022)

(Percentage figures are changes from the corresponding period of the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Net profit		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	yen
Full year	11,860	6.1	888	1.0	932	1.6	646	1.5	124.55

(Notes) Changes from the previous forecast of financial results : None

4. Notes

(1)Application of special accounting method for preparing quarterly non-consolidated financial statements. None

(2)Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations:	Yes
Changes in accounting policies due to other reasons:	None
Changes in accounting estimates	None
Restatement of prior period financial statements after error corrections:	None

(3)Number of issued shares (Common shares)

Total number of issued shares(including treasury shares)

FY2021 Q3	5,487,768 shares	FY2020	5,487,768 shares
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Number of treasury shares

FY2021 Q3	297,936 shares	FY2020	303,388 shares
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Average number of shares

FY2021 Q3	5,187,620 shares	FY2020 Q3	5,181,586 shares
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* This document is not within the scope of the auditing process by the external auditor.

* Cautionary statement concerning appropriate use of financial forecasts and other explanatory notes

- The financial forecasts contained in this document are based on the information currently available and certain assumptions deemed reasonable. Actual results may vary from these forecasts for various reasons.

Qualitative information of this quarterly financial statements

(1) Explanation of business results

During the third quarter of the current fiscal year (April 1, 2021 to December 31, 2021), the Japanese economy showed signs of recovery due to the gradual resumption of economic activities following the expansion of vaccinations for the new coronavirus infection. However, there are still concerns about the spread of a new highly infectious variant, growing of the global inflation, the impact of the U.S. interest rate hike on the global economy, the problems between the United States and China and the impact of the semiconductor supply-demand imbalance in some industries, including the automobile industry and the situation still remained uncertain.

In the IT services market, demand increased more than expected due to the accelerating pace of DX, which led to increased productivity among client companies, investment in labor-saving and automation using AI and RPA (*1), and IT investment in response to human resource shortages and work style reforms. From the Ministry of Economy, Trade and Industry's "Current Survey of Selected Service Industries, November 2021", in the section on the information service industry, sales by business category from April 2021 to November 2021 (cumulative total), which is the sum of "made-to-order software" and "outsourced system operations and maintenance", to which the Company mainly belongs, increased by 9.0% compared to the same period of the last fiscal year. Although the Company's sales growth rate for this period, which is 7.4% compared to the same period of the previous year, is lower than this, this was due to the fact that the growth rate in the previous period was much higher than the industry average.

In those situations, the Company is preparing to create sustainable growth and new strengths based on the basic policies of "Change of Business structure", "Change of Industrial portfolio" and "Change of Business constitution", set forth in the "Medium-term management plan for fiscal years 2021-2023" as the first phase of the medium- to long term vision "Quest Vision 2030", formulated in the previous fiscal year. As a result, the Company's operating results for the third quarter of the current fiscal year (cumulative total) are as follows. Net sales increased by 7.4% year on year to 8,751 million yen. As for profits, operating income increased by 10.1% year on year to 755 million yen, ordinary income increased by 10.6% year on year to 789 million yen, and net income increased by 10.6% year on year to 548 million yen. We have been expanding investments for the future since the current fiscal year, and have invested in education to acquire new technologies in growth fields, in internal DX and in the conversion of part of the head office to a free address to create an environment for a new way of working with After Corona in mind, on a larger scale than the previous year. In addition, in line with the Quest Vision 2030, we implemented brand improvement measures to enhance our corporate value, through the production of a promotional video, renewal and enhancement of our website, and renewal of our logo, which we have used for many years. However, operating income, ordinary income, and net income all increased due to the significant increase in customer demand from the previous year.

Operating results by business segment are as follows.

In the systems development business, sales to the customers in semiconductor (40.0% of the total), financial (17.2%) and entertainment (5.9%), in descending order of growth, increased due to an increase in development projects, as well as an expansion of solutions such as cloud ERP and digital workplace. As a result, net sales increased by 10.5% year on year to 4,875 million yen. Segment income increased by 12.5% year on year to 895 million yen, due to increased sales and business improvement activities.

In the infrastructure services business, sales to the semiconductor (12.4% of the total) the public and social (8.5%) and the healthcare and medical (1.2%), in descending order of growth, increased due to the expansion of network services and remote monitoring. As a result, net sales increased by 4.1% year on year to 3,858 million yen. Segment income increased 2.2% year on year to 663 million yen due to increased sales.

Note: Inter-segment transactions have been offset and eliminated.

Segment income is stated before allocation of corporate expenses, etc.

*1. RPA: Robotic Process Automation

(2) Explanation of Financial Position

< Assets >

The balance of assets at the end of the third quarter of the current fiscal year was 7,143 million yen, a decrease of 89 million yen compared to the end of the previous fiscal year.

This was mainly due to a decrease of 506 million yen in cash and deposits, and an increase of 236 million yen in notes and accounts receivable-trade and contract assets.

< Liabilities >

The balance of liabilities at the end of the third quarter of the current fiscal year was 1,652 million yen, a decrease of 382 million yen compared to the end of the previous fiscal year. This was mainly due to a decrease of 330 million yen in provision for bonuses and a decrease of 197 million yen in income taxes payable.

< Net assets >

The balance of net assets at the end of the third quarter of the current fiscal year was 5,491 million yen, an increase of 292 million yen compared to the end of the previous fiscal year. This was mainly due to an increase of 340 million yen in retained earnings brought forward.

(3) Explanation for the forecast of financial results and other future information

No revision has been made to the forecast of financial results announced on October 29, 2021.

Quarterly Non-consolidated Financial Statements

Quarterly Non-consolidated Balance Sheets

(Thousand yen)

	As of March 31,2021	As of December 31,2021
Assets		
Current assets		
Cash and deposits	2,853,917	2,347,078
Notes and accounts receivable - trade	2,452,636	-
Notes and accounts receivable - trade, and contract assets	-	2,688,703
Money held in trust	200,000	400,000
Work in process	69,150	61,837
Prepaid expenses	69,544	88,298
Income taxes receivable	-	53,597
Other	4,229	4,251
Total current assets	5,649,477	5,643,768
Non-current assets		
Property, plant and equipment		
Buildings, net	19,693	18,391
Vehicles, net	2,323	1,449
Tools, furniture and fixtures, net	19,931	18,419
Land	376	376
Leased assets, net	9,600	7,200
Total property, plant and equipment	51,925	45,837
Intangible assets		
Software	12,051	8,981
Other	5,643	5,643
Total intangible assets	17,695	14,625
Investments and other assets		
Investment securities	1,087,730	1,009,401
Shares of subsidiaries and associates	76,399	76,399
Long-term loans receivable	4,800	3,000
Long-term prepaid expenses	19,318	13,218
Prepaid pension costs	67,992	209,347
Deferred tax assets	130,037	-
Other	128,340	128,314
Total investments and other assets	1,514,618	1,439,682
Total non-current assets	1,584,239	1,500,144
Total assets	7,233,717	7,143,912

(Thousand yen)

	As of March 31,2021	As of December 31,2021
Liabilities		
Current liabilities		
Accounts payable - trade	366,371	359,965
Lease obligations	3,480	3,596
Accounts payable - other	113,496	231,351
Accrued expenses	182,102	127,171
Income taxes payable	212,346	14,608
Accrued consumption taxes	196,126	133,570
Advances received	39,669	33,365
Deposits received	28,402	163,562
Provision for bonuses	635,578	305,390
Provision for product warranties	-	384
Provision for loss on projects	575	1,269
Other	742	403
Total current liabilities	1,778,892	1,374,638
Non-current liabilities		
Lease obligations	7,432	4,720
Deferred tax liabilities	-	11,973
Provision for retirement benefits	245,931	258,282
Provision for retirement benefits for directors (and other officers)	3,275	3,275
Total non-current liabilities	256,639	278,252
Total liabilities	2,035,531	1,652,890
Net assets		
Shareholders' equity		
Share capital	491,031	491,031
Capital surplus		
Legal capital surplus	492,898	492,898
Other capital surplus	6,173	10,531
Total capital surplus	499,072	503,430
Retained earnings		
Legal retained earnings	29,890	29,890
Other retained earnings		
General reserve	830,000	830,000
Retained earnings brought forward	3,165,785	3,506,479
Total retained earnings	4,025,675	4,366,369
Treasury shares	(212,170)	(208,816)
Total shareholders' equity	4,803,609	5,152,013
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	394,576	339,008
Total valuation and translation adjustments	394,576	339,008
Total net assets	5,198,185	5,491,022
Total liabilities and net assets	7,233,717	7,143,912

Quarterly Non-consolidated Statements of Income

Quarterly Non-consolidated Statements of Income (For the nine months)

(Thousand yen)

	For the nine months ended December 31,2020	For the nine months ended December 31,2021
Net sales	8,145,206	8,751,153
Cost of sales	6,693,297	7,187,626
Gross profit	1,451,909	1,563,526
Selling, general and administrative expenses		
Salaries and bonuses	285,355	300,716
Remuneration for directors (and other officers)	122,332	120,730
Provision for bonuses	18,183	23,540
Retirement benefit expenses	8,490	8,155
Depreciation	10,167	9,044
Rent expenses	63,576	64,008
Other	258,029	281,957
Total selling, general and administrative expenses	766,135	808,152
Operating profit	685,773	755,373
Non-operating income		
Interest income	13	13
Dividend income	26,660	29,453
Gain on investments in investment partnerships	-	1,763
Other	2,368	3,498
Total non-operating income	29,042	34,728
Non-operating expenses		
Interest expenses	429	319
Loss on investments in investment partnerships	391	-
Other	0	83
Total non-operating expenses	821	402
Ordinary profit	713,994	789,699
Profit before income taxes	713,994	789,699
Income taxes - current	72,169	75,095
Income taxes - deferred	146,063	166,535
Total income taxes	218,233	241,631
Profit	495,761	548,068