

Financial Summary for the First Nine Months of the Fiscal Year Ending March 31, 2019

1. Qualitative Information Concerning the Financial Results in the First Nine Months of Fiscal 2019

(1) Explanation of the operating results

In the first nine months of the fiscal year under review, the Japanese economy maintained a moderate recovery, with steady improvements in corporate earnings and in employment conditions. Nonetheless, the economic outlook remains unclear given the political and economic uncertainty overseas, such as the prolongation of trade friction in the global economy.

In the environment surrounding the TOPPAN FORMS GROUP (the Group), the Group has remained in a difficult situation because of companies' comprehensive efforts regarding cost reductions and lower prices due to intensified competition, decreasing demand for paper media with the advance of the IT revolution/networking and higher personnel costs. Amidst the increased threat of cyber-attacks, including targeted attacks, information security measures took on greater importance.

In this business environment, to achieve stable growth, the Group remains focused on the efforts of "DigitalHybrid," which provides new value by combining a conventional solution with the latest digital technology, aiming to grow as a unique enterprise with highly distinct technological advantages.

To accelerate these efforts, the Group redefined "DigitalHybrid" as a new business domain for the entire group, effective in the first quarter of fiscal year 2019. The Group also reorganized the existing "DigitalHybrid" business into the "Data & Document" business, clarifying the business definitions and optimizing the allocation of management resources.

In addition, the Group worked to create and develop new businesses through a range of initiatives such as the conversion of mtes Neural Networks Co., Ltd., an IoT technology developer, into an equity method affiliate by means of an additional investment and the launch of a business that fully supports every stage of RPA (robotic process automation) from introduction to operation.

As a result, the Group attracted demand, particularly from financial institutions for its data print service (DPS) and increased its activities in growth areas such as IT innovation business. Factors such as lower sales of business forms (BF) in Japan, a reduction in the scale of large projects at some of the Group's major clients, and a reactionary fall from the increase of businesses for customer-order equipment for the logistics industry and ID cards in Thailand, however, significantly affected the Group's financial performance, and net sales declined 5.1% year on year to ¥167.2 billion. Meanwhile, operating income was down 11.6% to ¥4.2 billion, ordinary income decreased 10.0% to ¥4.5 billion, and profit attributable to owners of parent fell 2.9% to ¥2.6 billion.

Million yen (rounded off)

Consolidated operating results	Nine Months Ended December 31, 2018	Nine Months Ended December 31, 2017	Change	Rate of change
Net sales	167,289	176,278	(8,988)	(5.1%)
Operating income	4,214	4,765	(551)	(11.6%)
Ordinary income	4,595	5,107	(512)	(10.0%)
Profit attributable to owners of parent	2,670	2,751	(80)	(2.9%)

(2) Operating results by segment

(i) Data & Document Business

While data print services (DPS) in the Data & Document Business were affected by a reduced sales volume for some clients and price falls, contracts for transactional communication mainly from financial institutions increased steadily and contributed to revenue growth.

In digital solutions, we saw a significant increase in sales from the previous year due to strong demand for e-mail communication services of a variety of business documents such as invoices, as well as the regulations publication/management system for financial institutions.

In business process outsourcing (BPO), sales declined significantly from the previous year because of reduced business for temporary benefit-related and large-scale projects, partially offset by further demand resulting from legislative revisions.

In business forms (BF), sales fell from the previous year primarily because of declining unit prices associated with simplified product specifications and the progress of digitization, creating less demand for paper-based forms.

Consequently, in the overall Data & Document Business, sales declined from the previous year.

Operating income profitability remained at the year-ago level, partially due to an increase in highly lucrative deals in DPS, the contribution in sales from digital solutions services and reduced production costs including those related to IT, despite unfavorable factors such as a decline in sales from BPO and BF.

(ii) IT Innovation Business

In IT Innovation, the Company significantly increased sales by expanding the range of services delivered and successful efforts to attract new project deals, resulting in increased revenue from the system operation management service. Expansion in the payment service centered on the e-money payment platform “Thinccloud” also contributed, along with the sales expansion of card-related equipment and RFID tags.

Operating income profitability improved significantly due to a rise in the number of terminals connected to the Thinccloud and an increase in revenue from the system operation management service and card-related equipment.

(iii) Business Product Business

In Business Products, sales decreased from the previous year because of reduced sales from high-functionality labels for product management and a reactionary drop in demand for custom-order equipment from the logistics industry.

Profitability in terms of operating income fell significantly mainly due to the reactionary plunge in demand for custom-order equipment.

(iv) Global Business

In Global Business, sales decreased mainly due to a reactionary decline in the increase of a large-scale business for ID cards in Thailand, decreased sales of PCs and servers in Hong Kong, and weaker demand for DPS arising from the progress of digitalization in Singapore, offsetting the growth in orders received for card-related equipment for the Chinese market and high value-added cards in Hong Kong.

Operating income profitability declined sharply, primarily because of decreased sales from ID cards in Thailand.

Million yen (rounded off)

Segment information	Nine Months Ended December 31, 2018		Nine Months Ended December 31, 2017		Change	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Data & Document Business	113,545	6,221	121,193	6,274	(7,647)	(53)
IT Innovation Business	20,821	2,106	19,242	1,740	1,579	366
Business Product Business	21,616	18	23,535	516	(1,918)	(498)
Global Business	11,306	78	12,308	575	(1,001)	(497)

(3) Explanation of the financial position

(Assets, liabilities, and net assets)

Compared to the end of the previous fiscal year, the financial position at the end of the third quarter of fiscal year 2019 is as follows: total assets fell ¥3.7 billion to ¥218.7 billion, total liabilities decreased ¥2.7 billion to ¥47.8 billion, and total net assets amounted to ¥170.8 billion, down ¥1.0 billion. As a result, the equity ratio reached 76.9%.

(4) Explanation concerning future information, including consolidated financial forecasts

There is no change to the consolidated financial forecasts for the fiscal year ending March 2019 announced on April 27, 2018.