Non-consolidated Financial Results for the Six Months Ended September 30, 2013 [Japanese GAAP]

October 29, 2013

Company name: CONEXIO Corporation
Stock exchange listing:Tokyo Stock Exchange
Stock code: 9422
URL: http://www.conexio.co.jp/index.html
Representative: (Title) President (Name) Hiroo Inoue
Contact: (Title) General Manager, Corporate Planning (Name) Noriaki Kanno Phone: +81-3-5739-3702
Scheduled date for filing of quarterly report: November 8, 2013
Scheduled date of commencement of dividend payment: December 6, 2013
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of briefing session on quarterly financial results: Scheduled

(Figures are rounded down to the nearest million yen.)

1. Financial Results Six Months Ended September 30, 2013 (from April 1, 2013 to September 30, 2013)

(1) Non-consolidated Operating Results (Cumulative) (% indicates rate of change from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
2Q FY2013	130,360	88.1	2,121	10.0	2,185	10.7	1,086	12.5
2Q FY2012	69,293	11.0	1,928	(18.8)	1,974	(18.0)	965	(18.3)

	Earnings per share (EPS)	Diluted EPS
	yen	yen
2Q FY2013	20.62	—
2Q FY2012	21.59	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
2Q FY2013	74,568	19,437	26.1
FY2012	87,297	28,262	32.4

(Reference) Equity: 2Q FY2013: 19,437 million yen FY2012: 28,262 million yen

2. Dividends

	Annual dividends				
	1Q end	2Q end	3Q end	Year end	Total
	yen	yen	yen	yen	yen
FY2012	—	13.25	—	13.25	26.50
FY2013	—	15.75			
FY2013(Forecast)			—	15.75	31.50

(Note) Revision of recently-announced dividend forecast: None

3. Financial Forecast for Fiscal Year Ending March 31, 2014 (from April 1, 2013 to March 31, 2014)

(% indicates rate of change from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income		EPS
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	300,000	43.3	7,800	32.1	7,800	29.3	4,350	40.7	77.79

(Note) Revision of recently-announced financial forecast: 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 restatements

(i) Changes in accounting policies due to revision of accounting standards, etc.: None

(ii) Changes in accounting policies other than (i) above: None

(iii) Changes in accounting estimates: None

(iv) Restatements: None

(3) Number of shares issued (common stock)

(i) Number of shares issued as of the end of period (including treasury stock)

(ii) Number of shares of treasury stock as of the end of period

(iii) Average number of shares during the period (cumulative)

2Q FY2013	55,923,000 shares	FY2012	55,923,000 shares
2Q FY2013	11,184,854 shares	FY2012	254 shares
2Q FY2013	52,683,491 shares	2Q FY2012	44,738,146 shares

*** Indication of implementation status of quarterly review procedures**

- These quarterly non-consolidated financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosing this report, quarterly review procedures are being conducted with respect to the quarterly non-consolidated financial statements.

*** Explanation of appropriate use of financial forecasts and other special notes**

- Financial forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the time of preparing this report. The Company does not guarantee that any forecasts would be met. Actual results may vary significantly from the forecasts due to a wide range of factors. For information on assumptions of the financial forecasts and matters to be heeded upon using the financial forecasts, please refer to “Analysis of Financial Forecasts and Other Forward-Looking Information” on page 3 of the Appendix.

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1. Qualitative Information on Quarterly Non-consolidated Financial Results

(1) Analysis of Operating Results

During the first half of the current fiscal year, the Japanese economy witnessed a depreciation of the yen and a recovery in share prices, as well as improvements in both business and consumer confidence, on the back of the economic policy of the government and monetary easing by the Bank of Japan. However, the economic outlook remained uncertain due to the downside risk in overseas economies coupled with the concern over the potential effect of the increase in the consumption tax rate on consumer confidence.
In the mobile phone market in which the Company conducts business activities, telecom carriers actively competed against each other to win over customers, stimulating demand to replace feature phones with smartphones. However, the existence of consumers holding back purchases in anticipation of new market launches of popular models as well as supply shortages resulted in a flat, sluggish number of units sold.
In such a business climate, the Company, following the merger conducted in the previous year, determined a corporate philosophy suitable for the new company as well as a company name and logo epitomizing such philosophy, and established a framework that would allow the two companies to truly fuse and aim for further growth. Despite the lackluster sales battle in summer followed by consumers' reluctance to buy and supply shortage of popular products in September, the expansion following the merger in the Company's size among other factors, led to an increase in the number of units sold by 58.5% year-on-year to 1,410,000 units.
As a result, the Company's financial results for the first half of the current fiscal year were 130,360 million yen in net sales (up 88.1% year-on-year), 2,121 million yen in operating income (up 10.0%), 2,185 million yen in ordinary income (up 10.7%) and 1,086 million yen in net income (up 12.5%).

The financial results of each business segment were as follows.
(Consumer Business)
Under adverse market conditions, the Company secured a growth in the number of units sold by enhancing its network of carrier-certified shops following the merger and subsequently relocating and renovating them to install more customer service counters. Aiming at creating synergy effect, the Company also made aggressive efforts to secure revenue from the sales of mobile phone-related products such as accessories.
As a result, net sales increased 97.3% year-on-year to 122,309 million yen and operating income increased 48.2% to 3,092 million yen.
(Corporate Business)
Leveraging the increased customer base following the merger amid increasing competition among telecom carriers, the Company pushed ahead with the sales of handsets and the cross-selling of various services for corporate customers as well as the reinforcement of its consulting sales. These efforts resulted in capturing new accounts for "Managed Services," a service which supports companies in raising their business efficiency, as well as cloud services. A strong increase in sales of pre-paid cards ("POSA Cards") also contributed to the increase in revenues.
Consequently, net sales increased 10.1% year-on-year to 8,050 million yen and operating income increased 8.6% to 913 million yen.

(2) Analysis of Financial Position

(i) Status of Assets, Liabilities and Net Assets
(Assets)
Current assets decreased by 12,183 million yen from the end of the previous fiscal year to 50,956 million yen. This was due to the increase in cash and deposits by 706 million yen, the decrease in accounts receivable-trade by 10,816 million yen, the increase in merchandise and finished goods by 1,323 million yen, the decrease in accounts receivable-other by 2,897 million yen, etc.
Noncurrent assets decreased by 544 million yen from the end of the previous fiscal year to 23,611 million yen. This was attributable to the increase in property, plant and equipment by 89 million yen, the amortization of the right of career shop management of 343 million yen, the amortization of goodwill of 248 million yen, the decrease in investments and other assets by 15 million yen etc.
As a result, total assets decreased by 12,728 million yen from the end of the previous fiscal year to 74,568 million yen.
(Liabilities)
Current liabilities decreased by 7,620 million yen from the end of the previous fiscal year to 46,329 million yen. This was due to the increase in accounts payable-trade by 1,221 million yen, the decrease in short-term loans payable by 2,900 million, the decrease in accrued agency commission by 2,235 million yen, the decrease in accounts payable-other by 3,443 million yen, the increase in income taxes payable by 654 million yen, etc.
Noncurrent liabilities increased by 3,716 million yen from the end of the previous fiscal year to 8,801 million yen. This was attributable to the increase in long-term loans payable by 3,000 million yen, the increase in provision for retirement benefits by 287 million yen, etc.
As a consequence, total liabilities decreased by 3,904 million yen from the end of the previous fiscal year to 55,130 million yen.

(Net assets)
Net assets decreased by 8,824 million yen from the end of the previous fiscal year to 19,437 million yen. This was due to the decrease by 9,193 million yen resulting from the purchase of treasury stock, the recognition of net income of 1,086 million yen, dividend payments of 740 million yen, etc.
As a result, the Company's equity ratio was 26.1%.

(ii) Status of Cash Flows
Cash and cash equivalents (hereinafter "cash") at the end of the second quarter of the current fiscal year increased by 556 million yen from the end of the previous fiscal year to 2,416 million yen.
(Cash flow from operating activities)
Cash flows from operating activities resulted in a net inflow of 11,182 million yen (up 10,449 million yen year-on-year). This was attributable to the net effect of the total cash inflow due to the recognition of income before income taxes of 2,109 million yen, the decrease in accounts receivable-trade by 10,859 million yen, the decrease in accounts receivable-other by 2,896 million yen, etc., and the total cash outflow due to the increase in inventories by 1,310 million yen, the decrease in accounts payable-trade by 1,013 million yen, the decrease in accounts payable-other by 3,336 million yen etc., where the former was greater than the latter.

(Cash flow from investing activities)
Cash flows from investing activities resulted in a net outflow of 786 million yen (up 185 million yen year-on-year). This was attributable to purchase of property, plant and equipment (653 million yen), purchase of intangible assets (93 million yen), payments for lease and guarantee deposits (96 million yen), etc.

(Cash flow from financing activities)
Cash flows from financing activities resulted in a net outflow of 9,839 million yen (up 9,246 million yen year-on-year).
This was attributable to the net effect of the total cash inflow due to the increase in long-term loans payable by 3,000 million yen and the total cash outflow due to purchase of treasury stock (9,198 million yen), repayment of short-term loans payable (2,900 million yen), and dividend payments (740 million yen), where the latter was greater than the former.

(3) Analysis of Financial Forecasts and Other Forward-Looking Information

On October 15, 2013, the Company announced revisions to the financial forecast for the first half of the current fiscal year, while the Company has not changed the full-year financial forecasts announced on April 30, 2013. The Company will properly disclose any changes made to the forecasts in the future.

2. Summary Information (Notes)

(1) Changes in significant subsidiaries during the period

Not applicable.

(2) Application of special accounting procedures in the preparation of quarterly financial statements

Not applicable.

(3) Changes in accounting policies, changes in accounting estimates and restatements

Not applicable.

3. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Million yen)

	As of March 31,2013	As of September 30,2013
Assets		
Current assets		
Cash and deposits	1,566	2,273
Accounts receivable-trade	37,122	26,306
Merchandise and finished goods	9,284	10,607
Accounts receivable-other	11,366	8,469
Deposits paid	293	143
Other	3,530	3,169
Allowance for doubtful accounts	(23)	(12)
Total current assets	63,140	50,956
Noncurrent assets		
Property, plant and equipment	3,728	3,817
Intangible assets		
Goodwill	2,321	2,073
The right of career shop management	13,409	13,065
Other	597	570
Total intangible assets	16,327	15,708
Investments and other assets	4,099	4,084
Total noncurrent assets	24,156	23,611
Total assets	87,297	74,568
Liabilities		
Current liabilities		
Accounts payable-trade	18,623	19,845
Accrued agency commission	6,197	3,961
Short-term loans payable	9,900	7,000
Accounts payable-other	11,706	8,263
Income taxes payable	22	677
Provision for bonuses	2,585	2,782
Provision for directors' bonuses	24	11
Other	4,889	3,787
Total current liabilities	53,949	46,329
Noncurrent liabilities		
Long-term loans payable	—	3,000
Provision for retirement benefits	3,755	4,042
Provision for directors' retirement benefits	8	—
Asset retirement obligations	376	381
Other	944	1,377
Total noncurrent liabilities	5,085	8,801
Total liabilities	59,034	55,130

(Million yen)

	As of March 31,2013	As of September 30,2013
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	9,779	9,779
Retained earnings	15,467	15,812
Treasury stock	(0)	(9,193)
Total shareholders' equity	28,025	19,177
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	236	260
Total valuation and translation adjustments	236	260
Total net assets	28,262	19,437
Total liabilities and net assets	87,297	74,568

(2) Quarterly Non-Consolidated Statements of Income

(Million yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Net sales	69,293	130,360
Cost of sales	55,765	108,335
Gross profit	13,528	22,024
Selling, general and administrative expenses	11,599	19,902
Operating income	1,928	2,121
Non-operating income		
Interest income	4	0
Dividends income	10	7
Income related to sales contest	7	9
Support money of store move etc income	20	22
Other	10	60
Total non-operating income	52	101
Non-operating expenses		
Interest expenses	—	20
Loss on sales and retirement of noncurrent assets	5	5
Commission for purchase of treasury stock	—	5
Other	0	6
Total non-operating expenses	5	37
Ordinary income	1,974	2,185
Extraordinary income		
Gain on sales of noncurrent assets	—	0
Other	—	0
Total extraordinary income	—	0
Extraordinary loss		
Loss on closing of stores	29	44
Loss on sales and retirement of noncurrent assets	5	9
Loss on valuation of stocks of subsidiaries and affiliates	17	7
Impairment loss	27	13
Other	1	2
Total extraordinary losses	80	76
Income before income taxes	1,894	2,109
Income taxes-current	680	606
Income taxes-deferred	247	417
Total income taxes	928	1,023
Net income	965	1,086

(3) Quarterly Non-Consolidated Cash Flows

(Million yen)

	Six months ended September 30, 2012	Six months ended September 30, 2013
Net cash provided by (used in) operating activities		
Income before income taxes	1,894	2,109
Depreciation and amortization	353	926
Amortization of goodwill	376	248
Impairment loss	27	13
Increase (decrease) in allowance for doubtful accounts	4	(12)
Increase (decrease) in provision for bonuses	(129)	197
Increase (decrease) in provision for directors' bonuses	(18)	(13)
Increase (decrease) in provision for retirement benefits	152	287
Interest and dividends income	(14)	(7)
Interest expenses	—	20
Decrease (increase) in notes and accounts receivable-trade	4,559	10,859
Decrease (increase) in accounts receivable-other	1,304	2,896
Decrease (increase) in inventories	208	(1,310)
Increase (decrease) in notes and accounts payable-trade	(5,188)	(1,013)
Increase (decrease) in accounts payable-other	(937)	(3,336)
Other, net	(451)	(1,249)
Subtotal	2,141	10,614
Interest and dividends income received	14	7
Interest expenses paid	—	(18)
Income taxes (paid) refund	(1,414)	578
Other proceeds	38	71
Other payments	(45)	(72)
Net cash provided by (used in) operating activities	733	11,182
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(333)	(653)
Purchase of intangible assets	(130)	(93)
Purchase of stocks of subsidiaries and affiliates	(10)	(16)
Proceeds from liquidation of subsidiaries and affiliates	—	10
Payments for lease and guarantee deposits	(115)	(96)
Proceeds from collection of lease and guarantee deposits	7	75
Other, net	(18)	(13)
Net cash provided by (used in) investing activities	(601)	(786)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	—	(2,900)
Proceeds from long-term loans payable	—	3,000
Purchase of treasury stock	—	(9,198)
Cash dividends paid	(592)	(740)
Net cash provided by (used in) financing activities	(592)	(9,839)
Net increase (decrease) in cash and cash equivalents	(460)	556
Cash and cash equivalents at beginning of period	9,461	1,860
Cash and cash equivalents at end of period	9,000	2,416

(4) Notes on Going Concern Assumption

First half of the current fiscal year under review (from April 1, 2013 to September 30, 2013)

Not applicable.

(5) Material Changes in Shareholders' Equity

First half of the current fiscal year (from April 1, 2013 to September 30, 2013)

Pursuant to the resolution passed at the meeting of the Board of Directors held on August 8, 2013, the Company purchased treasury stock. As a result, treasury stock increased by 9,193 million yen during the first half of the current fiscal year to 9,193 million yen.

(6) Segment Information

1. Overview of reporting segments

Reporting segments of the Company are constituent units of the Company for which separate financial statements are available and subject to periodic examination by the Board of Directors for the purpose of determining the allocation of management resources and evaluating business performance.

The Company's core business is to serve as a sales agency for mobile phones, which involves acting as an intermediary for concluding contracts of mobile phone and other communication services, providing after-sale services to subscribers, and selling handsets, etc.

Therefore, the reporting segments of the Company are "Consumer Business" and "Corporate Business", based on the attributes of customers to whom merchandise is sold and services are provided.

In "Corporate Business", the Company mainly acts as an intermediary for concluding contracts of mobile phones and other communication services, provides after-sales services and sells mobile phone handsets, etc. targeted at corporate customers, while also offering marketing solutions using mobile phones, providing prepaid services to convenience stores, providing Internet connection services and offering M2M solutions .

2. Information on amount of net sales, income or loss of each reporting segment

Second quarter under review (from April 1, 2013 to September 30, 2013)

(Unit: million yen)

	Reporting segment			Adjustments (Note 1)	Amount recorded in quarterly non-consolidated statement of income (Note 2)
	Consumer Business	Corporate Business	Total		
Net sales	122,309	8,050	130,360	—	130,360
Segment income	3,092	913	4,006	(1,884)	2,121

(Notes)

1. Adjustments to segment income in the amount of -1,884 million yen correspond to Company-wide expenses that have not been allocated to each reporting segment. Company-wide expenses are primarily general and administrative expenses that are not attributable to the reporting segments.
2. Segment income had been adjusted with respect to operating income in the quarterly non-consolidated statement of income.

4. Supplementary Information

Status of Sales

(Unit: million yen, %)

		Six months ended September 30, 2012	Six months ended September 30, 2013	Rate of change
Consumer Business	Net sales	61,982	122,309	97.3
	Operating income	2,086	3,092	48.2
Corporate Business	Net sales	7,310	8,050	10.1
	Operating income	841	913	8.6
Adjustments	Company-wide expenses	999	1,884	88.6
Amount recorded in quarterly non-consolidated statement of income	Net sales	69,293	130,360	88.1
	Operating income	1,928	2,121	10.0