Non-consolidated Financial Results for the Three Months Ended June 30, 2014 [Japanese GAAP]

July 30, 2014

Company name: CONEXIO Corporation
Stock exchange listing: Tokyo Stock Exchange
Stock code: 9422
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Scheduled date for filing of quarterly report: August 8, 2014
Scheduled date of commencement of dividend payment: —
Availability of supplementary briefing material on quarterly financial results: Available
Schedule of briefing session on quarterly financial results: Not scheduled

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

1. Financial Results for the Three Months Ended June 30, 2014 (from April 1, 2014 to June 30, 2014)

(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	%
1Q FY2014	60,346	(11.1)	1,335	18.9	1,375	19.3	789	55.4
1Q FY2013	67,855	125.1	1,123	246.3	1,152	230.0	508	526.5

	Earnings per share (EPS)	Diluted EPS
	yen	yen
1Q FY2014	17.66	—
1Q FY2013	9.09	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
1Q FY2014	79,910	22,239	27.8
FY2013	98,146	21,443	21.8

(Reference) Equity: 1Q FY2014: 22,239 million yen FY2013: 21,443 million yen

2. Dividends

	Annual dividends				
	1Q end	2Q end	3Q end	Year end	Total
	yen	yen	yen	yen	yen
FY2013	—	15.75	—	15.75	31.50
FY2014	—				
FY2014(Forecast)		18.00	—	18.00	36.00

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

3. Financial Forecast for Fiscal Year Ending March 31, 2015 (from April 1, 2014 to March 31, 2015)

(% 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
First half	140,000	7.4	2,300	8.4	2,350	7.5	1,350	24.3	30.18
Full year	295,000	0.9	6,750	(3.1)	6,800	(3.6)	4,020	0.4	89.86

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

4. Others

(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.:	Yes
(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)	1Q FY2014	55,923,000 shares	FY2013	55,923,000 shares
(ii)	Number of shares of treasury stock as of the end of period	1Q FY2014	11,184,854 shares	FY2013	11,184,854 shares
(iii)	Average number of shares during the period (cumulative)	1Q FY2014	44,738,146 shares	1Q FY2013	55,922,746 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 quarter ended June 30, 2014, the Japanese economy was on a moderate recovery trend and saw improvements in corporate earnings as well as the employment and household income environment, on the back of the economic policy of the government and the easy monetary policy of the Bank of Japan. On the other hand, personal consumption suffered from the aftereffects of the last minute surge in demand before the increase in the consumption tax rate and the economic outlook remained uncertain.

In the mobile phone market in which the Company conducts business activities, sales of handsets temporarily dipped due to the aftereffects of the last minute surge in demand in March, but started to improve partly supported by the launch of summer models coupled with the introduction of new charge rate schedule.

In such a business climate, the Company's sales of handsets also fell short of those for the same period in the previous fiscal year. As a result, the number of units sold for the first quarter was 640,000 (down 13.6% year-on-year). On the other hand, the Company succeeded in minimizing the effect of the decrease in the number of units sold by aggressively selling mobile-related products and services and solutions targeting corporate customers. The Company also reduced cost through cost structure reform including productivity improvement in sales practice and optimal inventory management.

As a result, the Company's financial results for the first quarter were 60,346 million yen in net sales (down 11.1% year-on-year), 1,335 million yen in operating income (up 18.9%), 1,375 million yen in ordinary income (up 19.3%) and 789 million yen in net income (up 55.4%).

The financial results of each business segment were as follows.

（Consumer Business）

While the Company was unable to expand the number of units sold during the first quarter as the dip in sales of handsets in April was significant, the Company aggressively sold mobile-related products and services such as accessories and contents. In addition, the Company's portal site for smartphone users "nexi" is expanding steadily, with more than 390,000 members. Meanwhile, the Company was able to cut cost through productivity improvement in sales practice by pursuing shorter service response time and optimal human resource mobilization as well as inventory management to keep inventories at optimal levels.

As a result, net sales decreased 12.4% year-on-year to 56,101 million yen and operating income increased 8.3% to 1,817 million yen.

(Corporate Business)

Supported by the improving corporate capital investment, the Company was able to maintain the number of units sold for the first quarter at about the same levels as the previous fiscal year, while expanding solution sales such as managed services and MBS (mobile biz suite). The Company also promoted the sales of cloud services such as sales force automation system and M2M. Sales of pre-paid cards ("POSA Cards") were firm as a result of an increase in use through campaigns and an increase in the variety of goods that can be purchased.

As a result, net sales increased 12.0% year-on-year to 4,244 million yen and operating income increased 35.5% to 493 million yen.

(2) Analysis of Financial Position

Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 18,378 million yen from the end of the previous fiscal year to 56,944 million yen. This was mainly due to the decrease in accounts receivable-trade by 15,116 million yen, the decrease in accounts receivable-other by 3,253 million yen, and the decrease in merchandise and finished goods by 198 million yen. Noncurrent assets increased by 142 million yen from the end of the previous fiscal year to 22,966 million yen. This was mainly attributable to the increase in property, plant and equipment by 288 million yen and the amortization of the right of career shop management of 171 million yen.
As a result, total assets decreased by 18,235 million yen from the end of the previous fiscal year to 79,910 million yen.

(Liabilities)

Current liabilities decreased by 18,762 million yen from the end of the previous fiscal year to 48,859 million yen. This was mainly due to the decrease in accounts payable-trade by 10,064 million yen, the decrease in accounts payable-other by 3,365 million yen, the decrease in accrued agency commission by 3,280 million yen, the decrease in income taxes payable by 2,406 million yen, the decrease in provision for bonuses by 1,064 million yen, and the increase in short-term loans payable by 500 million yen.
Noncurrent liabilities decreased by 269 million yen from the end of the previous fiscal year to 8,812 million yen. This was mainly due to the decrease in provision for retirement benefits by 940 million yen and the increase in other items by 672 million yen.
As a consequence, total liabilities decreased by 19,031 million yen from the end of the previous fiscal year to 57,671 million yen.

(Net assets)

Net assets increased by 795 million yen from the end of the previous fiscal year to 22,239 million yen. This was mainly due to the increase by 789 million yen resulting from the recognition of net income, the increase by 685 million yen resulting from the change in accounting policy for retirement benefits, and the decrease by 704 million yen resulting from dividend payments.
As a result, the Company’s equity ratio was 27.8%.

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

During the first quarter under review, the following percentages of forecasts were met: 20.5% of net sales; 19.8% of operating income; 20.2% of ordinary income; and 19.6% of net income. At this stage, no changes have been made to the first-half and full-year financial forecasts announced on April 30, 2014. 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

(Changes in accounting policies)

Applying the provisions of the main clause of paragraph 35 of the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012; hereinafter “Retirement Benefits Standard”) and the provisions of the main clause of paragraph 67 of the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012; hereinafter “Retirement Benefits Guidance”) starting from the first quarter under review, the Company has changed the calculation method of retirement benefit obligations and service cost by changing the method of periodic allocation of expected future retirement benefits from the straight-line basis to the benefit formula basis. The Company also changed the method to determine the discount rate from the use of a discount rate based on years similar to the average remaining service period of employees to the use of a single weighted-average discount rate reflecting the expected future payment periods of retirement benefits and the expected payment amount for each period.

In applying these standards, the Company, in accordance with the transition provisions of Article 37 of the Accounting Standard for Retirement Benefits, added or subtracted the effect of changes in the calculation method for retirement benefit obligation and service cost to or from retained earnings at the beginning of the first quarter.

As a result, the balance of allowance for retirement benefits at the beginning of the first quarter decreased by 1,065 million yen and earned retained earnings increased by 685 million yen. Operating income, ordinary income, and income before income taxes for the first quarter each increased by 35 million yen.

3. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Million yen)

	As of March 31,2014	As of June 30,2014
Assets		
Current assets		
Cash and deposits	3,914	3,905
Accounts receivable - trade	45,993	30,876
Merchandise and finished goods	8,488	8,289
Accounts receivable - other	13,463	10,209
Deposits paid	237	247
Other	3,247	3,426
Allowance for doubtful accounts	(21)	(11)
Total current assets	75,322	56,944
Non-current assets		
Property, plant and equipment	3,471	3,759
Intangible assets		
Goodwill	2,018	1,990
The right of career shop management	12,721	12,549
Other	502	511
Total intangible assets	15,241	15,051
Investments and other assets	4,110	4,155
Total non-current assets	22,823	22,966
Total assets	98,146	79,910
Liabilities		
Current liabilities		
Accounts payable - trade	27,271	17,207
Accrued agency commission	8,001	4,721
Short-term loans payable	9,000	9,500
Accounts payable - other	13,544	10,178
Income taxes payable	2,786	380
Provision for bonuses	2,905	1,841
Provision for directors' bonuses	20	6
Other	4,090	5,023
Total current liabilities	67,621	48,859
Non-current liabilities		
Long-term loans payable	3,000	3,000
Provision for retirement benefits	4,367	3,426
Asset retirement obligations	407	406
Other	1,306	1,979
Total non-current liabilities	9,081	8,812
Total liabilities	76,703	57,671

(Million yen)

	As of March 31,2014	As of June 30,2014
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	9,779	9,779
Retained earnings	18,024	18,796
Treasury shares	(9,193)	(9,193)
Total shareholders' equity	21,389	22,160
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	54	79
Total valuation and translation adjustments	54	79
Total net assets	21,443	22,239
Total liabilities and net assets	98,146	79,910

(2) Quarterly Non-Consolidated Statements of Income

First quarter cumulative period

(Million yen)

	Three months ended June 30, 2013	Three months ended June 30, 2014
Net sales	67,855	60,346
Cost of sales	56,518	49,851
Gross profit	11,337	10,495
Selling, general and administrative expenses	10,214	9,160
Operating income	1,123	1,335
Non-operating income		
Interest income	—	0
Dividend income	3	1
Income related to sales contest	4	4
Support money of store move etc income	14	20
Other	19	26
Total non-operating income	42	53
Non-operating expenses		
Interest expenses	8	10
Loss on sales and retirement of non-current assets	1	—
Other	2	2
Total non-operating expenses	12	12
Ordinary income	1,152	1,375
Extraordinary income		
Gain on sales of non-current assets	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on closing of stores	40	15
Head office transfer cost	—	27
Loss on sales and retirement of non-current assets	0	4
Loss on valuation of shares of subsidiaries and associates	7	—
Impairment loss	11	8
Other	2	3
Total extraordinary losses	63	58
Income before income taxes	1,089	1,316
Income taxes - current	368	342
Income taxes - deferred	212	184
Total income taxes	580	526
Net income	508	789

(3) Notes to Quarterly Non-Consolidated Financial Statements

(Notes on Going Concern Assumption)

First quarter under review (from April 1, 2014 to June 30, 2014)

Not applicable.

(Notes on Cases of Significant Changes in Shareholders' Equity)

First quarter under review (from April 1, 2014 to June 30, 2014)

Not applicable.

(Segment Information)

1. Overview of reporting segments

In the "consumer business," the Company acts as an intermediary for concluding contracts for mobile phones and other communications services targeted at consumers, provides after-sales services, operates a portal site "nexi" to meet the needs of smartphone users and strengthen the relationship with them, offers marketing solutions using mobile phones, and sells mobile phone handsets, etc.

In the "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 solutions using smartphones, 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

First quarter under review (from April 1, 2014 to June 30, 2014)

(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	56,101	4,244	60,346	—	60,346
Segment income	1,817	493	2,311	(976)	1,335

(Notes)

1. Adjustments to segment income in the amount of -976 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.

3. Matters concerning the change of reportable segments

As noted in the "Changes in accounting policies" section, the Company changed the calculation method of retirement benefit obligations and service cost effective from the first quarter under review. As a result, the Company also changed the calculation method of retirement benefit obligations and service cost by operating segment. As a result, segment income of Consumer Business for the first quarter increased by 27 million yen and segment income of Corporate Business increased by 5 million yen as compared with those that would have been reported under the old method.

4. Supplementary Information

Status of Sales

(Unit: million yen, %)

		Three months ended June 30, 2013	Three months ended June 30, 2014	Rate of change
Consumer Business	Net sales	64,066	56,101	(12.4)
	Operating income	1,678	1,817	8.3
Corporate Business	Net sales	3,788	4,244	12.0
	Operating income	364	493	35.5
Adjustments	Company-wide expenses	919	976	6.2
Amount recorded in quarterly non-consolidated statement of income	Net sales	67,855	60,346	(11.1)
	Operating income	1,123	1,335	18.9