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

October 29, 2014

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: +81-3-5331-3702
Scheduled date for filing of quarterly report: November 11, 2014
Scheduled date of commencement of dividend payment: December 5, 2014
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 for the Six Months Ended September 30, 2014 (from April 1, 2014 to September 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	%
2Q FY2014	129,827	(0.4)	3,998	88.4	4,070	86.2	2,431	123.9
2Q FY2013	130,360	88.1	2,121	10.0	2,185	10.7	1,086	12.5

	Earnings per share (EPS)	Diluted EPS
	yen	yen
2Q FY2014	54.36	—
2Q FY2013	20.62	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
2Q FY2014	82,421	23,919	29.0
FY2013	98,146	21,443	21.8

(Reference) Equity: 2Q FY2014: 23,919 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	—	18.00			
FY2014(Forecast)			—	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
Full year	274,000	(6.3)	7,300	4.8	7,500	6.4	4,300	7.4	96.11

(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)	2Q FY2014	55,923,000 shares	FY2013	55,923,000 shares
(ii) Number of shares of treasury stock as of the end of period	2Q FY2014	11,184,910 shares	FY2013	11,184,854 shares
(iii) Average number of shares during the period (cumulative)	2Q FY2014	44,738,123 shares	2Q FY2013	52,683,491 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 4 of the Appendix.

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1. Qualitative Information on Quarterly Non-consolidated Financial Results

(1) Analysis of Operating Results

During the six months ended September 30, 2014, the Japanese economy continued on a gradual recovery trend and saw improvements in corporate earnings mainly of large corporations as well as in the employment and household income environment, on the back of the economic policy of the government and the easing of the monetary policy of the Bank of Japan.

On the other hand, personal consumption suffered from the prolonged 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, despite the aftereffects of the last minute surge in demand in March, store traffic showed signs of improvement due to the introduction of services such as new rate plan by major communication carriers. Helped by the launch of popular models, sales of handsets are on a recovery trend.

In such a business climate, the Company's sales of handsets are also on a recovery path, and the number of units sold for the six months ended September 30, 2014was 1,380,000 (down 2.3% year-on-year). Sales of mobile-related products and services, contents and various services targeting corporate customers remained firm. The Company also made steady progress in reducing selling, general and administrative expenses through cost structure reform.

As a result, the Company's financial results for the six months ended September 30, 2014 were 129,827 million yen in net sales (down 0.4% year-on-year), 3,998 million yen in operating income (up 88.4%), 4,070 million yen in ordinary income (up 86.2%) and 2,431 million yen in net income (up 123.9%).

The financial results of each business segment were as follows.

（Consumer Business）

Due to services such as the new rate plan and launch of popular models, the number of customers visiting the store is recovering, and sales of mobile-related products, services and contents expanded. In addition, the number of members of the Company's "nexi" portal site for smartphone users exceeded 580,000. The Company also reduced costs by continuing with productivity improvement in sales practices and inventory management to keep inventories at optimal levels.

As a result, net sales decreased 1.0% year-on-year to 121,032 million yen and operating income increased 54.4% to 4,774 million yen.

(Corporate Business)

Against a backdrop of improving corporate appetite for investment, the number of companies considering the use of tablets and switching to new rate plan is increasing. Seizing this opportunity, the Company focused on offering managed services, MBS (mobile biz suite) and cloud services such as sales force automation systems. Sales of pre-paid cards ("POSA Cards") remained firm partly as a result of an increase in use.

As a result, net sales increased 9.3% year-on-year to 8,795 million yen and operating income increased 18.2% to 1,079 million yen.

(2) Analysis of Financial Position

(i)Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 15,442 million yen from the end of the previous fiscal year to 59,880 million yen. This was due to the decrease in accounts receivable-trade by 12,774 million yen, the decrease in accounts receivable-other by 2,941 million yen, the decrease in merchandise and finished goods by 1,382 million yen and the increase in cash and deposits by 1,583 million yen, etc.

Non current assets decreased by 283 million yen from the end of the previous fiscal year to 22,540 million yen. This was due to the decrease in the right of career shop management by 375 million yen and the increase in property, plant and equipment by 218 million yen, etc.

As a result, total assets decreased by 15,725 million yen from the end of the previous fiscal year to 82,421 million yen.

(Liabilities)

Current liabilities decreased by 15,311 million yen from the end of the previous fiscal year to 52,309 million yen. This was due to the decrease in accounts payable-trade by 5,962 million yen, the decrease in short-term loans payable by 5,700 million yen, the decrease in accrued agency commission by 2,873 million yen, the decrease in accounts payable-other by 2,818 million yen, the decrease in income taxes payable by 1,563 million yen and the increase in the current portion of long-term loans payable by 3,000 million yen, etc.

Non current liabilities decreased by 2,889 million yen from the end of the previous fiscal year to 6,192 million yen. This was due to the decrease in long-term loans payable by 3,000 million yen, the decrease in provision for retirement benefits by 842 million yen and the increase in other items by 947 million yen, etc.

As a consequence, total liabilities decreased by 18,201 million yen from the end of the previous fiscal year to 58,502 million yen.

(Net assets)

Net assets increased by 2,475 million yen from the end of the previous fiscal year to 23,919 million yen. This was mainly due to the increase by 2,431 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 29.0%.

(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 1,514 million yen from the end of the previous fiscal year to 5,666 million yen.

(Cash flow from operating activities)

Net cash provided by operating activities was 8,498 million yen (down 2,684 million yen year-on-year). This was mainly because increase factors such as the recognition of income before income taxes of 3,947 million yen, depreciation of 1,015 million yen, the decrease in notes and accounts receivable-trade of 12,867 million yen, the decrease in accounts receivable-other of 2,941 million yen and the decrease in inventories of 1,399 million yen, etc., exceeded the decrease factors such as the decrease in notes and accounts payable-trade of 8,835 million yen, the decrease in accounts payable-other of 2,917 million yen and income taxes paid of 2,687 million yen, etc.

(Cash flow from investing activities)

Cash flows from investing activities resulted in a net outflow of 579 million yen (down 207 million yen year-on-year). This was attributable to purchase of property, plant and equipment (635 million yen), purchase of intangible assets (108 million yen), payments for lease and guarantee deposits (114 million yen), Proceeds from collection of lease and guarantee deposits (516 million yen), etc.

(Cash flow from financing activities)

Net cash used in financing activities was 6,404 million yen (down 3,435 million yen year-on-year). This was mainly due to the repayment of short-term loans payable of 5,700 million yen and the cash dividend paid of 704 million yen, etc.

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

As stated in the "Notice of Revisions to Full-year Forecasts (Non-consolidated)" announced October 14, 2014, in light of the recent business environment, the full-year forecasts have been revised to net sales at 274,000 million yen, operating income at 7,300 million yen, ordinary income at 7,500 million yen, and net income at 4,300 million yen.

Differences from the full-year forecasts accounted on April 30, 2014 are summarized below.

Modification of the full-year ended March 31, non-consolidated forecasts, 2015（from April 1, 2014 to March 31, 2015）

	Net sales	Operating income	Ordinary income	Net income	Earnings per share (EPS)
	Million yen	Million yen	Million yen	Million yen	Million yen
Previous forecast (A)	295,000	6,750	6,800	4,020	89.86
This revised Forecast (B)	274,000	7,300	7,500	4,300	96.11
Increase (decrease) (B-A)	(21,000)	550	700	280	
Rate of change (%)	(7.1)	8.1	10.3	7.0	
(Reference) previous year (The fiscal year ending March 31, 2014)	292,364	6,968	7,050	4,002	82.16

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 six months ended September 30, 2014 each increased by 71 million yen.

3. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Million yen)

	As of March 31,2014	As of September 30,2014
Assets		
Current assets		
Cash and deposits	3,914	5,497
Accounts receivable - trade	45,993	33,219
Merchandise and finished goods	8,488	7,105
Accounts receivable - other	13,463	10,521
Deposits paid	237	168
Other	3,247	3,381
Allowance for doubtful accounts	(21)	(12)
Total current assets	75,322	59,880
Non-current assets		
Property, plant and equipment	3,471	3,689
Intangible assets		
Goodwill	2,018	1,973
The right of career shop management	12,721	12,346
Other	502	496
Total intangible assets	15,241	14,816
Investments and other assets	4,110	4,034
Total non-current assets	22,823	22,540
Total assets	98,146	82,421
Liabilities		
Current liabilities		
Accounts payable - trade	27,271	21,309
Accrued agency commission	8,001	5,127
Short-term loans payable	9,000	3,300
Current portion of long-term loans payable	—	3,000
Accounts payable - other	13,544	10,726
Income taxes payable	2,786	1,222
Provision for bonuses	2,905	3,292
Provision for directors' bonuses	20	20
Other	4,090	4,310
Total current liabilities	67,621	52,309
Non-current liabilities		
Long-term loans payable	3,000	—
Provision for retirement benefits	4,367	3,525
Asset retirement obligations	407	412
Other	1,306	2,254
Total non-current liabilities	9,081	6,192
Total liabilities	76,703	58,502

(Million yen)

	As of March 31,2014	As of September 30,2014
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	9,779	9,779
Retained earnings	18,024	20,438
Treasury shares	(9,193)	(9,193)
Total shareholders' equity	21,389	23,802
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	54	116
Total valuation and translation adjustments	54	116
Total net assets	21,443	23,919
Total liabilities and net assets	98,146	82,421

(2) Quarterly Non-Consolidated Statements of Income

Second quarter cumulative period

(Million yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Net sales	130,360	129,827
Cost of sales	108,335	107,495
Gross profit	22,024	22,331
Selling, general and administrative expenses	19,902	18,333
Operating income	2,121	3,998
Non-operating income		
Interest income	0	0
Dividend income	7	1
Income related to sales contest	9	7
Support money of store move etc income	22	31
Reversal of allowance for doubtful accounts	12	22
Other	48	34
Total non-operating income	101	97
Non-operating expenses		
Interest expenses	20	21
Loss on sales and retirement of non-current assets	5	0
Commission for purchase of treasury shares	5	0
Other	6	4
Total non-operating expenses	37	25
Ordinary income	2,185	4,070
Extraordinary income		
Gain on sales of non-current assets	0	0
Other	0	—
Total extraordinary income	0	0
Extraordinary losses		
Loss on closing of stores	44	15
Loss on sales and retirement of non-current assets	9	10
Loss on valuation of shares of subsidiaries and associates	7	—
Head office transfer cost	—	42
Impairment loss	13	48
Other	2	6
Total extraordinary losses	76	123
Income before income taxes	2,109	3,947
Income taxes - current	606	1,142
Income taxes - deferred	417	372
Total income taxes	1,023	1,515
Net income	1,086	2,431

(3) Quarterly Non-Consolidated Cash Flows

(Million yen)

	Six months ended September 30, 2013	Six months ended September 30, 2014
Cash flows from operating activities		
Income before income taxes	2,109	3,947
Depreciation	926	1,015
Amortization of goodwill	248	55
Impairment loss	13	48
Increase (decrease) in allowance for doubtful accounts	(12)	(22)
Increase (decrease) in provision for bonuses	197	386
Increase (decrease) in provision for directors' bonuses	(13)	0
Increase (decrease) in provision for retirement benefits	287	223
Interest and dividend income	(7)	(2)
Interest expenses	20	21
Decrease (increase) in notes and accounts receivable - trade	10,859	12,867
Decrease (increase) in accounts receivable - other	2,896	2,941
Decrease (increase) in inventories	(1,310)	1,399
Increase (decrease) in notes and accounts payable - trade	(1,013)	(8,835)
Increase (decrease) in accounts payable - other	(3,336)	(2,917)
Other, net	(1,249)	346
Subtotal	10,614	11,476
Interest and dividend income received	7	2
Interest expenses paid	(18)	(22)
Income taxes (paid) refund	578	(2,687)
Other proceeds	71	64
Other payments	(72)	(333)
Net cash provided by (used in) operating activities	11,182	8,498
Cash flows from investing activities		
Purchase of property, plant and equipment	(653)	(635)
Purchase of intangible assets	(93)	(108)
Purchase of investment securities	(4)	(25)
Purchase of shares of subsidiaries and associates	(16)	-
Proceeds from liquidation of subsidiaries and associates	10	-
Payments for lease and guarantee deposits	(96)	(114)
Proceeds from collection of lease and guarantee deposits	75	516
Payments for transfer of business	-	(55)
Other, net	(8)	(155)
Net cash provided by (used in) investing activities	(786)	(579)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,900)	(5,700)
Proceeds from long-term loans payable	3,000	-
Purchase of treasury shares	(9,198)	(0)
Cash dividends paid	(740)	(704)
Net cash provided by (used in) financing activities	(9,839)	(6,404)
Net increase (decrease) in cash and cash equivalents	556	1,514
Cash and cash equivalents at beginning of period	1,860	4,151
Cash and cash equivalents at end of period	2,416	5,666

(4) Notes to Quarterly Non-Consolidated Financial Statements

(Notes on Going Concern Assumption)

Six months ended September 30, 2014 (from April 1, 2014 to September 30, 2014)

Not applicable.

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

Six months ended September 30, 2014 (from April 1, 2014 to September 30, 2014)

Not applicable.

(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 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

Six months ended September 30, 2014 (from April 1, 2014 to September 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	121,032	8,795	129,827	—	129,827
Segment income	4,774	1,079	5,854	(1,856)	3,998

(Notes)

1. Adjustments to segment income in the amount of -1,856 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 six months ended September 30, 2014 increased by 54 million yen and segment income of Corporate Business increased by 11 million yen as compared with those that would have been reported under the old method.

4. Supplementary Information

Status of Sales

(Unit: million yen, %)

		Six months ended September 30, 2013	Six months ended September 30, 2014	Rate of change
Consumer Business	Net sales	122,309	121,032	(1.0)
	Operating income	3,092	4,774	54.4
Corporate Business	Net sales	8,050	8,795	9.3
	Operating income	913	1,079	18.2
Adjustments	Company-wide expenses	1,884	1,856	(1.5)
Amount recorded in quarterly non-consolidated statement of income	Net sales	130,360	129,827	(0.4)
	Operating income	2,121	3,998	88.4