Non-consolidated Financial Results for the Nine Months Ended December 31, 2014 [Japanese GAAP]

January 30, 2015

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: February 12, 2015
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 Nine Months Ended December 31, 2014 (from April 1, 2014 to December 31, 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	%
3Q FY2014	205,529	(2.7)	6,682	48.5	6,766	47.6	4,093	67.3
3Q FY2013	211,314	53.4	4,498	17.5	4,583	17.2	2,446	24.6

	Earnings per share (EPS)	Diluted EPS
	yen	yen
3Q FY2014	91.51	—
3Q FY2013	48.90	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
3Q FY2014	96,645	24,823	25.7
FY2013	98,146	21,443	21.8

(Reference) Equity: 3Q FY2014: 24,823 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)	3Q FY2014	55,923,000 shares	FY2013	55,923,000 shares
(ii)	Number of shares of treasury stock as of the end of period	3Q FY2014	11,184,932 shares	FY2013	11,184,854 shares
(iii)	Average number of shares during the period (cumulative)	3Q FY2014	44,738,107 shares	3Q FY2013	50,025,412 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.

○Contents of Appendix

1. Qualitative Information on Quarterly Non-consolidated Financial Results....2
(1) Analysis of Operating Results....2
(2) Analysis of Financial Position....3
(3) Analysis of Financial Forecasts and Other Forward-Looking Information....3
2. Summary Information (Notes)....4
(1) Changes in significant subsidiaries during the period....4
(2) Application of special accounting procedures in the preparation of quarterly financial statements....4
(3) Changes in accounting policies, changes in accounting estimates and restatements....4
3. Quarterly Non-Consolidated Financial Statements....5
(1) Quarterly Non-Consolidated Balance Sheets....5
(2) Quarterly Non-Consolidated Statements of Income....7
(3) Notes to Quarterly Non-Consolidated Financial Statements....8
(Notes on Going Concern Assumption)....8
(Notes on Cases of Significant Changes in Shareholders' Equity)....8
(Segment Information)....8
4. Supplementary Information....9
Status of Sales....9

1. Qualitative Information on Quarterly Non-consolidated Financial Results

(1) Analysis of Operating Results

During the nine months ended December 31, 2014, the Japanese economy was on a moderate recovery trend on the back of the economic policy of the government and the monetary easing by the Bank of Japan. On the other hand, the recovery of personal consumption was slowed down by the consumption tax increase and rising prices and the economic outlook remained uncertain.

In the mobile phone market in which the Company conducts business activities, sales of handsets temporarily dipped in April due to the aftereffects of the last minute surge in demand in March, but started to improve thereafter supported by the launch of popular models coupled with the introduction of new rate plans and other services by major telecom carriers.

In such a business climate, the Company's sales of handsets are recovering from the temporary dip after the last minute surge in demand at the beginning of this year. As a result, the number of units sold for the nine months ended December 31, 2014 was 2,130,000 (down 2.9% year-on-year). Meanwhile, the Company vigorously promoted the sales of mobile-related products and services and content sales as well as business development for various services targeting corporate customers, while making a steady progress in reducing selling, general and administrative expenses through cost structure reforms.

As a result, the Company's financial results for the nine months ended December 31, 2014 were 205,529 million yen in net sales (down 2.7% year-on-year), 6,682 million yen in operating income (up 48.5%),6,766 million yen in ordinary income (up 47.6%) and 4,093 million yen in net income (up 67.3%).

The financial results of each business segment were as follows.

（Consumer Business）

In this business, given the limited growth potential of the number of shop visitors, the Company focused on the promotion of new rate plans and other services and sales of tablet devices. The Company also carried out shop renovation in order to expand the sales of mobile-related products and services that are becoming the necessities for smartphone users. In addition, the Company continued to promote the sales of "nexi" and other contents and strive for productivity improvement on the sales front.

As a result, net sales decreased 3.6% year-on-year to 192,279 million yen and operating income increased 36.0% to 7,691 million yen.

(Corporate Business)

The number of units sold is stable helped by the improvement of corporate investment appetite. The percentage of smartphones and tablet devices in the total sales is also increasing. The Company continues to strengthen consulting sales, thereby acquiring contracts for cloud services, such as managed services, mbs (mobile biz suite), and sales force automation systems Sales of pre-paid cards ("POSA Cards") were also strong.

As a result, net sales increased 12.6% year-on-year to 13,250 million yen and operating income increased 6.4% to 1,628 million yen.

(2) Analysis of Financial Position

Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 997 million yen from the end of the previous fiscal year to 74,325 million yen. This was mainly due to the decrease in accounts receivable-trade by 4,711 million yen, the decrease in accounts receivable-other by 2,785 million yen, and the increase in merchandise and finished goods by 6,558 million yen.

Noncurrent assets decreased by 503 million yen from the end of the previous fiscal year to 22,320 million yen. This was mainly due to the decrease in the right of career shop management by 546 million yen and the increase in property, plant and equipment by 101 million yen.

As a result, total assets decreased by 1,500 million yen from the end of the previous fiscal year to 96,645 million yen.

(Liabilities)

Current liabilities decreased by 2,305 million yen from the end of the previous fiscal year to 65,315 million yen. This was mainly due to the decrease in income taxes payable by 2,173 million yen, the decrease in accounts payable-trade by 1,566 million yen, the decrease in accounts payable-other by 1,441 million yen, the decrease in accrued agency commission by 1,262 million yen, the increase in current portion of long-term loans payable by 3,000 million yen, the increase in short-term loans payable by 500 million yen, and the increase in other by 1,089 million yen.

Noncurrent liabilities decreased by 2,575 million yen from the end of the previous fiscal year to 6,506 million yen. This was mainly due to the decrease in long-term loans payable by 3,000 million yen, the decrease in provision for retirement benefits by 771 million yen and the increase in other items by 1,189 million yen.

As a consequence, total liabilities decreased by 4,881 million yen from the end of the previous fiscal year to 71,822 million yen.

(Net assets)

Net assets increased by 3,380 million yen from the end of the previous fiscal year to 24,823 million yen. This was mainly due to the increase by 4,093 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 1,509 million yen resulting from dividend payments.

As a result, the Company’s equity ratio was 25.7%.

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

The progress ratios through the third quarter of the fiscal year under review for net sales (75.0%), operating income (91.5%), ordinary income (90.2%), and net income (95.2%) indicates a satisfactory progress. However, given the uncertainty in sales strategies for the period of high sales in March, the Company has not changed its full-year financial and dividend forecasts announced on October 14, 2014.

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 fiscal year.

As a result, the balance of allowance for retirement benefits at the beginning of the fiscal year 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 nine months ended December 31, 2014 each increased by 106 million yen.

3. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Million yen)

	As of March 31,2014	As of December 31, 2014
Assets		
Current assets		
Cash and deposits	3,914	3,712
Accounts receivable - trade	45,993	41,282
Merchandise and finished goods	8,488	15,046
Accounts receivable - other	13,463	10,677
Deposits paid	237	231
Other	3,247	3,389
Allowance for doubtful accounts	(21)	(14)
Total current assets	75,322	74,325
Non-current assets		
Property, plant and equipment	3,471	3,572
Intangible assets		
Goodwill	2,018	1,951
The right of career shop management	12,721	12,174
Other	502	537
Total intangible assets	15,241	14,663
Investments and other assets	4,110	4,084
Total non-current assets	22,823	22,320
Total assets	98,146	96,645
Liabilities		
Current liabilities		
Accounts payable - trade	27,271	25,705
Accrued agency commission	8,001	6,738
Short-term loans payable	9,000	9,500
Current portion of long-term loans payable	—	3,000
Accounts payable - other	13,544	12,103
Income taxes payable	2,786	613
Provision for bonuses	2,905	2,443
Provision for directors' bonuses	20	30
Other	4,090	5,180
Total current liabilities	67,621	65,315
Non-current liabilities		
Long-term loans payable	3,000	—
Provision for retirement benefits	4,367	3,596
Asset retirement obligations	407	414
Other	1,306	2,495
Total non-current liabilities	9,081	6,506
Total liabilities	76,703	71,822

(Million yen)

	As of March 31,2014	As of December 31, 2014
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	9,779	9,779
Retained earnings	18,024	21,294
Treasury shares	(9,193)	(9,193)
Total shareholders' equity	21,389	24,659
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	54	164
Total valuation and translation adjustments	54	164
Total net assets	21,443	24,823
Total liabilities and net assets	98,146	96,645

(2) Quarterly Non-Consolidated Statements of Income

Third quarter cumulative period

(Million yen)

	Nine months ended December 31, 2013	Nine months ended December 31, 2014
Net sales	211,314	205,529
Cost of sales	178,585	171,593
Gross profit	32,728	33,936
Selling, general and administrative expenses	28,230	27,254
Operating income	4,498	6,682
Non-operating income		
Interest income	0	0
Dividend income	8	3
Income related to sales contest	15	11
Support money of store move etc income	34	36
Reversal of allowance for doubtful accounts	22	25
Other	62	45
Total non-operating income	143	121
Non-operating expenses		
Interest expenses	34	29
Loss on sales and retirement of non-current assets	11	0
Commission for purchase of treasury shares	5	0
Other	7	6
Total non-operating expenses	59	36
Ordinary income	4,583	6,766
Extraordinary income		
Gain on sales of non-current assets	0	1
Other	0	—
Total extraordinary income	0	1
Extraordinary losses		
Loss on closing of stores	49	15
Loss on sales and retirement of non-current assets	18	14
Loss on valuation of shares of subsidiaries and associates	7	—
Head office transfer cost	101	42
Impairment loss	22	59
Other	2	6
Total extraordinary losses	202	137
Income before income taxes	4,381	6,630
Income taxes - current	1,312	1,975
Income taxes - deferred	622	561
Total income taxes	1,935	2,536
Net income	2,446	4,093

(3) Notes to Quarterly Non-Consolidated Financial Statements

(Notes on Going Concern Assumption)

Nine months ended December 31, 2014 (from April 1, 2014 to December 31, 2014)

Not applicable.

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

Nine months ended December 31, 2014 (from April 1, 2014 to December 31, 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

Nine months ended December 31, 2014 (from April 1, 2014 to December 31, 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	192,279	13,250	205,529	—	205,529
Segment income	7,691	1,628	9,320	(2,638)	6,682

(Notes)

1. Adjustments to segment income in the amount of -2,638 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 nine months ended December 31, 2014 increased by 82 million yen and segment income of Corporate Business increased by 17 million yen as compared with those that would have been reported under the old method.

4. Supplementary Information

Status of Sales

(Unit: million yen, %)

		Nine months ended December 31, 2013	Nine months ended December 31, 2014	Rate of change
Consumer Business	Net sales	199,549	192,279	(3.6)
	Operating income	5,657	7,691	36.0
Corporate Business	Net sales	11,765	13,250	12.6
	Operating income	1,530	1,628	6.4
Adjustments	Company-wide expenses	2,689	2,638	(1.9)
Amount recorded in quarterly non-consolidated statement of income	Net sales	211,314	205,529	(2.7)
	Operating income	4,498	6,682	48.5