Summary of Non-consolidated Financial Results for the Nine Months Ended December 31, 2015 [Japanese GAAP]

January 29, 2016

Company name: CONEXIO Corporation
Stock exchange listing: Tokyo Stock Exchange
Stock code: 9422
URL: http://www.conexio.co.jp/index.html
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Scheduled date for filing of quarterly report: February 10, 2016
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, 2015 (from April 1, 2015 to December 31, 2015)

(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 FY2015	202,974	(1.2)	6,240	(6.6)	6,313	(6.7)	3,927	(4.1)
3Q FY2014	205,529	(2.7)	6,682	48.5	6,766	47.6	4,093	67.3

	Net income per share	Diluted net income per share
	yen	yen
3Q FY2015	87.79	—
3Q FY2014	91.51	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
3Q FY2015	95,609	27,629	28.9
FY2014	102,404	25,731	25.1

(Reference) Equity: 3Q FY2015: 27,629million yen FY2014: 25,731 million yen

2. Dividends

	Annual dividends				
	1Q end	2Q end	3Q end	Year end	Total
	yen	yen	yen	yen	yen
FY2014	—	18.00	—	22.00	40.00
FY2015	—	22.50	—		
FY2015(Forecast)				22.50	45.00

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

3. Financial Forecast for Fiscal Year Ending March 31, 2016 (from April 1, 2015 to March 31, 2016)

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

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	285,000	0.7	8,150	(5.1)	8,250	(5.0)	5,030	0.3	112.43

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

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)

3Q FY2015	55,923,000 shares	FY2014	55,923,000 shares
3Q FY2015	11,185,016 shares	FY2014	11,184,932 shares
3Q FY2015	44,737,999 shares	3Q FY2014	44,738,107shares

*** 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 2 of the Appendix.

1. Qualitative Information on Quarterly Non-consolidated Financial Results

(1) Analysis of Operating Results

During the nine months ended December 31, 2015, 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 other hand, personal consumption continued to fail to show strength.
In the mobile phone market in which the Company conducts business activities, various contents such as videos, music and magazines were actively promoted, while competition in optical-fiber broadband services heated up among the major telecom carriers. Additionally, each company has been reinforcing its bonus points program and has begun preparations to offer services in fields other than telecommunications such as electricity and insurance, which has led to the necessity for carrier-certified shops to respond and provide services accordingly. Meanwhile, the ICT Service Safety and Security Study Group of the Ministry of Internal Affairs and Communications has been conducting various discussions on mobile phone billing plans and services, which has led to uncertainty in predicting market trends going forward.
In such a business climate, while new sales of handsets such as those based on the demand for tablet devices as one's second handset grew, the cycle for handset replacement became longer and as a result, the Company's sales of handsets decreased to 2,070,000 (down 3.0% year-on-year). The Company continued to focus on sales of smartphone accessories and contents to improve profit per customer and pushed ahead with cost reduction; however, such efforts were not enough to compensate for the decrease in the number of handsets sold and the decrease in commissions received from telecom carriers.
As a result, the Company's financial results for the nine months ended December 31, 2015 were 202,974 million yen in net sales (down 1.2% year-on-year), 6,240 million yen in operating income (down 6.6%), 6,313 million yen in ordinary income (down 6.7%) and 3,927 million yen in net income (down 4.1%).

The financial results of each business segment were as follows.

(Consumer Business)
The carrier-certified shops reinforced sales of tablet devices and optical-fiber broadband services while also making efforts to make the shops more customer-friendly. As a result, despite the lack of growth in the number of customers visiting shops, the Company secured the same levels of unit sales in the carrier-certified shops as in the same period of the previous fiscal year. On the other hand, the sales environment at major camera and electronics retail stores remained harsh and unit sales declined. While the Company focused its efforts on the sales of smartphone accessories and various contents, and despite the continuing strong sales of the portal site "nexi," the Company's proprietary service, profits declined due to the decrease in commission received from telecom carriers.
As a result, net sales decreased 0.7% year-on-year to 190,852 million yen and operating income decreased 6.9% to 7,157 million yen.

(Corporate Business)
The number of large transactions continued to decline from the previous fiscal year and the sales of handsets to corporate customers remained weak. In such a harsh climate, the Company promoted such businesses as setting up smartphones on behalf of corporate customers and business process outsourcing services of smartphones and other devices (e.g. help desk), commenced a new service in which only mobile handsets with access authority may access the sales force automation system "Salesforce," and began preparations to offer "E-PORTER+," a service in which corporate customers can centrally manage its mobile handset assets and charges. Sales of pre-paid cards ("POSA Cards") continued to be strong.
As a result, net sales decreased 8.5% year-on-year to 12,121 million yen and operating income decreased 6.4% to 1,524 million yen.

(2) Analysis of Financial Position

Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 6,338 million yen from the end of the previous fiscal year to 73,702 million yen. This was mainly due to the decrease in accounts receivable-trade by 4,998 million yen, the decrease in accounts receivable-other by 3,493 million yen, the decrease in cash and deposits by 1,981 million yen and the increase in merchandise and finished goods by 3,920 million yen.

Non-current assets decreased by 455 million yen from the end of the previous fiscal year to 21,907 million yen. This was mainly due to the decrease in the right of carrier shop management by 529 million yen and the increase in property, plant and equipment by 122 million yen.

As a result, total assets decreased by 6,794 million yen from the end of the previous fiscal year to 95,609 million yen.

(Liabilities)

Current liabilities decreased by 9,678 million yen from the end of the previous fiscal year to 60,661 million yen. This was mainly due to the decrease in provision for bonuses by 3,324 million yen, the decrease in accounts payable-trade by 3,299 million yen, the decrease in accounts payable-other by 3,113 million yen, the decrease in current portion of long-term loans payable by 3,000 million yen, the decrease in income taxes payable by 2,131 million yen, and the increase in short-term loans payable by 5,600 million yen.

Non-current liabilities increased by 986 million yen from the end of the previous fiscal year to 7,319 million yen. This was mainly due to the increase in provision for retirement benefits by 367 million yen and the increase in other by 584 million yen.

As a result, total liabilities decreased by 8,692 million yen from the end of the previous fiscal year to 67,980 million yen.

(Net assets)

Net assets increased by 1,897 million yen from the end of the previous fiscal year to 27,629 million yen. This was mainly due to the increase as a result of the recognition of net income of 3,927 million yen and the decrease as a result of dividend payments of 1,990 million yen.

As a result, the Company’s equity ratio was 28.9%.

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

During the third quarter under review, the following percentages of forecasts were met: 71.2% of net sales; 76.6% of operating income; 76.5% of ordinary income; and 78.1% of net income. At this stage, no changes have been made to the full-year financial forecasts announced on April 30, 2015. The Company will properly disclose any changes made to the forecasts in the future.

2. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Million yen)

	As of March 31,2015	As of December 31, 2015
Assets		
Current assets		
Cash and deposits	3,849	1,868
Accounts receivable - trade	48,573	43,574
Merchandise and finished goods	8,301	12,222
Accounts receivable - other	15,301	11,807
Deposits paid	148	170
Other	3,883	4,070
Allowance for doubtful accounts	(16)	(12)
Total current assets	80,041	73,702
Non-current assets		
Property, plant and equipment	3,995	4,117
Intangible assets		
Goodwill	1,923	1,839
The right of carrier shop management	11,800	11,271
Other	566	505
Total intangible assets	14,290	13,615
Investments and other assets	4,077	4,173
Total non-current assets	22,362	21,907
Total assets	102,404	95,609
Liabilities		
Current liabilities		
Accounts payable - trade	26,244	22,945
Accrued agency commission	7,826	8,374
Short-term loans payable	5,000	10,600
Current portion of long-term loans payable	3,000	—
Accounts payable - other	15,014	11,901
Income taxes payable	2,255	123
Provision for bonuses	5,162	1,837
Provision for directors' bonuses	52	15
Other	5,783	4,862
Total current liabilities	70,339	60,661
Non-current liabilities		
Provision for retirement benefits	3,735	4,103
Asset retirement obligations	402	436
Other	2,194	2,778
Total non-current liabilities	6,332	7,319
Total liabilities	76,672	67,980

(Million yen)

	As of March 31,2015	As of December 31, 2015
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	9,779	9,779
Retained earnings	22,214	24,151
Treasury shares	(9,193)	(9,194)
Total shareholders' equity	25,579	27,515
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	152	114
Total valuation and translation adjustments	152	114
Total net assets	25,731	27,629
Total liabilities and net assets	102,404	95,609

(2) Quarterly Non-Consolidated Statements of Income

Third quarter cumulative period

(Million yen)

	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Net sales	205,529	202,974
Cost of sales	171,593	169,827
Gross profit	33,936	33,147
Selling, general and administrative expenses	27,254	26,906
Operating income	6,682	6,240
Non-operating income		
Interest income	0	0
Dividend income	3	3
Support money of store move etc income	36	75
Reversal of allowance for doubtful accounts	25	7
Other	56	37
Total non-operating income	121	123
Non-operating expenses		
Interest expenses	29	20
Loss on sales and retirement of non-current assets	0	14
Rent expenses on real estates	4	9
Other	2	6
Total non-operating expenses	36	50
Ordinary income	6,766	6,313
Extraordinary income		
Gain on sales of non-current assets	1	1
Gain on sales of investment securities	—	11
Total extraordinary income	1	12
Extraordinary losses		
Loss on sales and retirement of non-current assets	14	6
Impairment loss	59	132
Loss on closing of stores	15	32
Head office transfer cost	42	—
Other	6	—
Total extraordinary losses	137	172
Income before income taxes	6,630	6,153
Income taxes - current	1,975	1,689
Income taxes - deferred	561	537
Total income taxes	2,536	2,226
Profit	4,093	3,927

3. Supplementary Information

Status of Sales

(Unit: million yen, %)

		Nine months ended December 31, 2014	Nine months ended December 31, 2015	Rate of change
Consumer Business	Net sales	192,279	190,852	(0.7)
	Operating income	7,691	7,157	(6.9)
Corporate Business	Net sales	13,250	12,121	(8.5)
	Operating income	1,628	1,524	(6.4)
Adjustments	Company-wide expenses	2,638	2,442	(7.4)
Amount recorded in quarterly non-consolidated statement of income	Net sales	205,529	202,974	(1.2)
	Operating income	6,682	6,240	(6.6)