Summary of Non-consolidated Financial Results for the Three Months Ended June 30, 2016 [Japanese GAAP]

July 29, 2016

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
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Scheduled date for filing of quarterly report: August 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 Three Months Ended June 30, 2016 (from April 1, 2016 to June 30, 2016)

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

	Net sales		Operating income		Ordinary income		Profit	
	million yen	%	million yen	%	million yen	%	million yen	%
1Q FY2016	54,749	(11.0)	1,266	(25.9)	1,305	(24.4)	823	(24.2)
1Q FY2015	61,532	2.0	1,709	28.0	1,726	25.5	1,086	37.6

	Earnings per share	Diluted earnings per share
	yen	yen
1Q FY2016	18.41	—
1Q FY2015	24.29	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
1Q FY2016	73,983	29,520	39.9
FY2015	96,912	29,850	30.8

(Reference) Equity: 1Q FY2016: 29,520 million yen FY2015: 29,850 million yen

2. Dividends

	Annual dividends				
	1Q end	2Q end	3Q end	Year end	Total
	yen	yen	yen	yen	yen
FY2015	—	22.50	—	25.50	48.00
FY2016	—				
FY2016(Forecast)		26.00	—	26.00	52.00

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

3. Financial Forecast for the Fiscal Year Ending March 31, 2017 (from April 1, 2016 to March 31, 2017)

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

	Net sales		Operating income		Ordinary income		Profit		Earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	270,000	(4.0)	9,210	0.1	9,300	0.1	5,700	(7.3)	127.41

(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)

1Q FY2016	55,923,000 shares	FY2015	55,923,000 shares
1Q FY2016	11,185,062shares	FY2015	11,185,062 shares
1Q FY2016	44,737,938shares	1Q FY2015	44,738,029shares

*** 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 three months ended June 30, 2016, the Japanese economy was on a moderate recovery trend. On the other hand, the outlook of personal consumption remained uncertain with consumer confidence remaining at a standstill and the improvement in corporate earnings waning due to the weakness in overseas economies and the rising yen.
In the mobile phone market in which the Company conducts business activities, major telecom carriers promoted efforts to capture customers by, for example, enhancing discounts on usage fee and strengthening loyalty services as part of preferential treatment of long-term subscribers while starting to offer non-telecom services such as electricity and insurance. Meanwhile, the practice of excessive preferential treatment of new subscribers was rectified and the effective purchase price of handsets increased. In addition, consumer protection rules were enhanced to revamp customer service requirements such as the enrichment of explanation and the delivery of contractual documents to customers.
In such a business climate, although the Company focused on the sales of new models and tablet devices, unit sales for the three months ended June 30, 2016 were 560,000 units (down 13.4% year-on-year) due to customers' reluctance to purchase following the rise in the effective purchase price of handsets and an inventory shortage of popular models. In this challenging environment, the Company strove to improve profitability per customer by, for example, securing a contract for optical-fiber broadband services and was able to maintain gross profit at a level similar to the previous fiscal year. However, profits were suppressed by the partial impact of the revision of commissions received from telecom carriers since the second half of the previous fiscal year, combined with increases in expenses due to the implementation of measures to expand and renovate shops and to improve the working conditions of the sales staff.
As a result, the Company's financial results for the three months ended June 30, 2016 were 54,749 million yen in net sales (down 11.0% year-on-year), 1,266 million yen in operating income (down 25.9%), 1,305 million yen in ordinary income (down 24.4%), and 823 million yen in profit (down 24.2%).

The financial results of each business segment were as follows.

(Consumer Business)
While the sales of handsets remained weak, the Company strengthened efforts to secure combined sales of tablet devices and optical-fiber broadband services. While customer service time per customer increased, the Company strove to increase customer satisfaction by improving the operations to customers and shop equipment to offer proposal-based and experience-based customer services.
As a result, net sales decreased 11.8% year-on-year to 50,892 million yen and operating income decreased 11.0% to 1,791 million yen.

(Corporate Business)
Sales of handsets continued to decline, although revenue from business process outsourcing services of smartphones (e.g. help desk) grew. Sales of prepaid cards also continued to be solid. In the area of IoT solutions, the Company and its partners jointly developed a small and affordable IoT gateway equipped with a high-performance processor as part of the Company's new initiatives. In addition, drawing from the experience as a sales agency of mobile phones, the Company started a business to support enterprises wishing to enter into the MVNO business.
As a result, net sales decreased 0.2% year-on-year to 3,857 million yen and operating income decreased 8.6% to 398 million yen.

(2) Analysis of Financial Position

Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 22,763 million yen from the end of the previous fiscal year to 52,255 million yen. This was mainly due to the decrease in accounts receivable-trade by 16,025 million yen, the decrease in accounts receivable-other by 5,926 million yen, and the decrease in merchandise and finished goods by 868 million yen.

Non-current assets decreased by 165 million yen from the end of the previous fiscal year to 21,728 million yen. This was mainly due to the decrease in the right of career shop management by 168 million yen.

As a result, total assets decreased by 22,929 million yen from the end of the previous fiscal year to 73,983 million yen.

(Liabilities)

Current liabilities decreased by 22,668 million yen from the end of the previous fiscal year to 37,321 million yen. This was mainly due to the decrease in accounts payable-trade by 10,287 million yen, the decrease in accounts payable-other by 6,053 million yen, the decrease in accrued agency commission by 4,268 million yen, and the decrease in provision for bonuses by 1,519 million yen.

Non-current liabilities increased by 69 million yen from the end of the previous fiscal year to 7,141 million yen. This was mainly due to the increase in provision for retirement benefits by 151 million yen and the decrease in other by 79 million yen.

As a result, total liabilities decreased by 22,599 million yen from the end of the previous fiscal year to 44,463 million yen.

(Net assets)

Net assets decreased by 329 million yen from the end of the previous fiscal year to 29,520 million yen. This was mainly due to the increase as a result of the recognition of profit of 823 million yen and the decrease as a result of dividend payments of 1,140 million yen.

As a result, the Company’s equity ratio was 39.9%.

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

During the three months Ended June 30, 2016 under review, the following percentages of forecasts were met: 20.3% of net sales; 13.8% of operating income; 14.0% of ordinary income; and 14.5% of profit. At this stage, no changes have been made to the full-year financial forecasts announced on May 2, 2016. The Company will properly disclose any changes made to the forecasts in the future.

1 Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Million yen)

	As of March 31,2016	As of June 30,2016
Assets		
Current assets		
Cash and deposits	2,958	3,014
Accounts receivable - trade	46,020	29,995
Merchandise and finished goods	7,985	7,116
Accounts receivable - other	14,809	8,883
Deposits paid	130	149
Other	3,128	3,099
Allowance for doubtful accounts	(13)	(3)
Total current assets	75,018	52,255
Non-current assets		
Property, plant and equipment	4,186	4,176
Intangible assets		
Goodwill	1,830	1,839
The right of carrier shop management	11,102	10,934
Other	504	512
Total intangible assets	13,436	13,285
Investments and other assets	4,270	4,266
Total non-current assets	21,894	21,728
Total assets	96,912	73,983
Liabilities		
Current liabilities		
Accounts payable - trade	24,808	14,520
Accrued agency commission	10,579	6,310
Short-term loans payable	2,500	1,500
Accounts payable - other	13,402	7,349
Income taxes payable	521	400
Provision for bonuses	3,637	2,117
Provision for directors' bonuses	34	5
Other	4,507	5,118
Total current liabilities	59,990	37,321
Non-current liabilities		
Provision for retirement benefits	4,109	4,261
Asset retirement obligations	425	421
Other	2,537	2,458
Total non-current liabilities	7,072	7,141
Total liabilities	67,062	44,463

(Million yen)

	As of March 31,2016	As of June 30,2016
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	9,779	9,779
Retained earnings	26,373	26,055
Treasury shares	(9,194)	(9,194)
Total shareholders' equity	29,737	29,420
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	113	100
Total valuation and translation adjustments	113	100
Total net assets	29,850	29,520
Total liabilities and net assets	96,912	73,983

(2) Quarterly Non-Consolidated Statements of Income

First quarter cumulative period

(Million yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Net sales	61,532	54,749
Cost of sales	50,869	44,072
Gross profit	10,662	10,677
Selling, general and administrative expenses	8,953	9,410
Operating income	1,709	1,266
Non-operating income		
Interest income	0	0
Dividend income	1	9
Support money of store move etc income	9	16
Reversal of allowance for doubtful accounts	7	10
Other	10	12
Total non-operating income	29	49
Non-operating expenses		
Interest expenses	5	3
Loss on sales and retirement of non-current assets	1	2
Rent expenses on real estates	1	2
Other	3	2
Total non-operating expenses	12	10
Ordinary income	1,726	1,305
Extraordinary income		
Gain on sales of non-current assets	0	0
Gain on sales of investment securities	11	—
Total extraordinary income	11	0
Extraordinary losses		
Loss on sales and retirement of non-current assets	1	11
Impairment loss	8	2
Loss on closing of stores	14	14
Total extraordinary losses	24	28
Profit before income taxes	1,713	1,276
Income taxes - current	442	295
Income taxes - deferred	184	157
Total income taxes	627	453
Profit	1,086	823

2 Supplementary Information

Status of Sales

(Unit: million yen, %)

		Three months ended June 30, 2015	Three months ended June 30, 2016	Rate of change
Consumer Business	Net sales	57,669	50,892	(11.8)
	Operating income	2,013	1,791	(11.0)
Corporate Business	Net sales	3,863	3,857	(0.2)
	Operating income	436	398	(8.6)
Adjustments	Company-wide expenses	740	923	24.7
Amount recorded in quarterly non-consolidated statement of income	Net sales	61,532	54,749	(11.0)
	Operating income	1,709	1,266	(25.9)