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

October 28, 2016

Company name: CONEXIO Corporation
Stock exchange listing: Tokyo Stock Exchange, First Section
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 9, 2016
Scheduled date of commencement of dividend payment: December 6, 2016
Supplementary briefing material on quarterly financial results: Available
Briefing session of quarterly financial results: Scheduled (for institutional investors and analysts)

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

1. Financial Results for the Six Months Ended September 30, 2016 (from April 1, 2016 to September 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	%
2Q FY2016	120,235	(6.5)	3,762	(6.7)	3,808	(6.5)	2,483	(1.6)
2Q FY2015	128,636	(0.9)	4,033	0.9	4,075	0.1	2,523	3.8

	Earnings per share	Diluted earnings per share
	yen	yen
2Q FY2016	55.50	—
2Q FY2015	56.41	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
2Q FY2016	83,105	31,164	37.5
FY2015	96,912	29,850	30.8

(Reference) Equity: 2Q FY2016: 31,164million 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	—	26.00			
FY2016(Forecast)			—	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)

2Q FY2016	55,923,000 shares	FY2015	55,923,000 shares
2Q FY2016	11,185,062 shares	FY2015	11,185,062 shares
2Q FY2016	44,737,938 shares	2Q FY2015	44,738,006 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.

1. Qualitative Information on Quarterly Non-consolidated Financial Results

(1) Analysis of Operating Results

During the six months ended September 30, 2016, the Japanese economy was on a moderate recovery trend. On the other hand, its outlook remained uncertain with, among others, the weakness in the overseas economies, the rising yen, and personal consumption remaining at a standstill.
In the mobile phone market in which the Company conducts business activities, while regulatory measures are being taken to rectify excessive preferential treatment of new contracts and to enhance consumer protection rules, 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.
In such a business climate, although customer purchases slowed down in response to the rise in the effective purchase price of handsets due to the rectification of excessive preferential treatment mentioned above, the Company was able to limit the sales decline to 1,220,000 unit sales for the six month ended September 30, 2016 (down 9.4% year-on-year) by strengthening sales with well-timed new models and launching popular apps. Although the Company strove to improve profitability per customer by, for example, securing a contract for optical-fiber broadband services through proposal-based customer services, such effort was not sufficient to compensate for the increases in expenses that were caused by the effect of revised commission received from telecom carriers since the second half of the previous fiscal year, in addition to the implementation of measures to improve the working conditions of the sales staff.
As a result, the Company’s financial results for the six months ended September 30, 2016 were 120,235 million yen in net sales (down 6.5% year-on-year), 3,762 million yen in operating income (down 6.7%), 3,808 million yen in ordinary income (down 6.5%), and 2,483 million yen in net income (down 1.6%).

The financial results of each business segment were as follows.

(Consumer Business)
The Company focused on sales of new models as well as sales of tablet devices and optical-fiber broadband services through proposal-based customer services that are customized to the family structure of each customer and experience-based customer services that enable customers to feel the real benefit of “smart life.” The Company also strove to increase customer satisfaction by promoting more customer-friendly shop environment and improving the operations to customers.
As a result, net sales decreased 6.7% year-on-year to 112,461 million yen and operating income decreased 0.0% to 4,684 million yen.

(Corporate Business)
While Corporate Business continues to face difficulty due to the decline in sales of handsets, the Company steadily accumulated contracts for business process outsourcing services of smartphones (e.g. help desk) and also made efforts to expand solution services targeting corporate customers. Sales of prepaid cards continue to be strong as the Company deployed furniture designed to encourages purchases near the cash register. In the area of IoT solutions, the Company strengthened the coordination with its partners with the launch of IoT gateways just around the corner.
As a result, net sales decreased 3.5% year-on-year to 7,773 million yen and operating income decreased 8.1% to 868 million yen.

(2) Analysis of Financial Position

(i) Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 13,401 million yen from the end of the previous fiscal year to 61,616 million yen. This was mainly due to the decrease in notes and accounts receivable-trade by 9,635 million yen, the decrease in accounts receivable-other by 3,965 million yen, and the increase in merchandise and finished goods by 304 million yen.
Non-current assets decreased by 405 million yen from the end of the previous fiscal year to 21,488 million yen. This was mainly due to the decrease in the right of carrier shop management by 336 million yen. As a result, total assets decreased by 13,807 million yen from the end of the previous fiscal year to 83,105 million yen.

(Liabilities)

Current liabilities decreased by 15,166 million yen from the end of the previous fiscal year to 44,823 million yen. This was mainly due to the decrease in accounts payable-other by 4,155 million yen, the decrease in accrued agency commission by 4,065 million yen, the decrease in accounts payable-trade by 3,731 million yen, and the decrease in short-term loans payable by 2,500 million yen.
Non-current liabilities increased by 45 million yen from the end of the previous fiscal year to 7,117 million yen. This was mainly due to the increase in provision for retirement benefits by 248 million yen and the decrease in other by 200 million yen. As a result, total liabilities decreased by 15,121 million yen from the end of the previous fiscal year to 51,940 million yen.

(Net assets)

Total net assets increased by 1,313 million yen from the end of the previous fiscal year to 31,164 million yen. This was mainly due to the increase as a result of the recognition of profit of 2,483 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 37.5%.

(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 187 million yen from the end of the previous fiscal year to 3,276 million yen.

(Cash flow from operating activities)
Cash flows from operating activities resulted in a net inflow of 4,825 million yen (down 694 million yen year-on-year). This was mainly because increase factors such as the decrease in notes and accounts receivable-trade by 9,576 million yen, the decrease in accounts receivable-other by 3,965 million yen, the recognition of profit before income taxes of 3,767 million yen, and the recognition of depreciation of 987 million yen exceeded the decrease factors such as the decrease in notes and accounts payable-trade by 7,796 million yen, the decrease in accounts payable-other by 4,133 million yen, the decrease in provision for bonuses by 566 million yen, and income taxes paid of 384 million yen.

(Cash flow from investing activities)
Cash flows from investing activities resulted in a net outflow of 997 million yen (down 8 million yen year-on-year). This was mainly attributable to purchase of property, plant and equipment of 542 million yen, payments for lease and guarantee deposits of 134 million yen, and purchase of intangible assets of 121 million yen.

(Cash flow from financing activities)
Cash flows from financing activities resulted in a net outflow of 3,640 million yen (down 1,343 million yen year-on-year). This was mainly attributable to decrease in short-term loans payable of 2,500 million yen and cash dividend paid of 1,140 million yen.

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

During the six months ended September 30, 2016 under review, the following percentages of forecasts were met: 44.5% of net sales; 40.9% of operating income; 40.9% of ordinary income; and 43.6% 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.

2. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Million yen)

	As of March 31,2016	As of September 30,2016
Assets		
Current assets		
Cash and deposits	2,958	3,143
Notes and accounts receivable - trade	46,020	36,385
Merchandise and finished goods	7,985	8,289
Accounts receivable - other	14,809	10,843
Deposits paid	130	132
Other	3,128	2,826
Allowance for doubtful accounts	(13)	(4)
Total current assets	75,018	61,616
Non-current assets		
Property, plant and equipment	4,186	4,169
Intangible assets		
Goodwill	1,830	1,807
The right of carrier shop management	11,102	10,766
Other	504	506
Total intangible assets	13,436	13,080
Investments and other assets	4,270	4,237
Total non-current assets	21,894	21,488
Total assets	96,912	83,105
Liabilities		
Current liabilities		
Accounts payable - trade	24,808	21,076
Accrued agency commission	10,579	6,513
Short-term loans payable	2,500	-
Accounts payable - other	13,402	9,246
Income taxes payable	521	1,181
Provision for bonuses	3,637	3,070
Provision for directors' bonuses	34	10
Other	4,507	3,723
Total current liabilities	59,990	44,823
Non-current liabilities		
Provision for retirement benefits	4,109	4,358
Asset retirement obligations	425	423
Other	2,537	2,336
Total non-current liabilities	7,072	7,117
Total liabilities	67,062	51,940

(Million yen)

	As of March 31,2016	As of September 30,2016
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	9,779	9,779
Retained earnings	26,373	27,715
Treasury shares	(9,194)	(9,194)
Total shareholders' equity	29,737	31,079
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	113	84
Total valuation and translation adjustments	113	84
Total net assets	29,850	31,164
Total liabilities and net assets	96,912	83,105

(2) Quarterly Non-Consolidated Statements of Income

Second quarter cumulative period

(Million yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	128,636	120,235
Cost of sales	106,770	97,950
Gross profit	21,866	22,285
Selling, general and administrative expenses	17,832	18,522
Operating income	4,033	3,762
Non-operating income		
Interest income	0	0
Dividend income	1	9
Support money of store move etc income	40	30
Reversal of allowance for doubtful accounts	7	10
Other	20	18
Total non-operating income	70	68
Non-operating expenses		
Interest expenses	13	5
Loss on sales and retirement of non-current assets	4	8
Rent expenses on real estates	6	4
Other	4	3
Total non-operating expenses	29	22
Ordinary income	4,075	3,808
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	3	15
Impairment loss	102	9
Loss on closing of stores	20	15
Total extraordinary losses	126	40
Profit before income taxes	3,960	3,767
Income taxes - current	1,076	961
Income taxes - deferred	360	323
Total income taxes	1,436	1,284
Profit	2,523	2,483

(3) Quarterly Non-Consolidated Cash Flows

(Million yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Cash flows from operating activities		
Profit before income taxes	3,960	3,767
Depreciation	995	987
Amortization of goodwill	56	62
Impairment loss	102	9
Increase (decrease) in allowance for doubtful accounts	(8)	(10)
Increase (decrease) in provision for bonuses	(1,246)	(566)
Increase (decrease) in provision for directors' bonuses	(41)	(23)
Increase (decrease) in provision for retirement benefits	259	248
Interest and dividend income	(2)	(9)
Interest expenses	13	5
Loss (gain) on sales of investment securities	(11)	-
Decrease (increase) in notes and accounts receivable - trade	11,646	9,576
Decrease (increase) in accounts receivable - other	4,560	3,965
Decrease (increase) in inventories	(1,269)	(281)
Increase (decrease) in notes and accounts payable - trade	(4,427)	(7,796)
Increase (decrease) in accounts payable - other	(4,828)	(4,133)
Increase (decrease) in accrued consumption taxes	(1,258)	(126)
Other, net	(846)	(485)
Subtotal	7,654	5,191
Interest and dividend income received	2	9
Interest expenses paid	(14)	(5)
Income taxes (paid) refund	(2,155)	(384)
Other, net	34	15
Net cash provided by (used in) operating activities	5,519	4,825
Cash flows from investing activities		
Purchase of property, plant and equipment	(560)	(542)
Purchase of intangible assets	(143)	(121)
Proceeds from sales of investment securities	24	-
Proceeds from liquidation of subsidiaries and associates	24	-
Payments for lease and guarantee deposits	(341)	(134)
Proceeds from collection of lease and guarantee deposits	48	85
Purchase of long-term prepaid expenses	(32)	(63)
Payment for transfer of business	-	(90)
Payments for transfer of business	-	(83)
Other, net	(25)	(46)
Net cash provided by (used in) investing activities	(1,006)	(997)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(1,000)	(2,500)
Repayments of long-term loans payable	(3,000)	-
Cash dividends paid	(983)	(1,140)
Other, net	(0)	-
Net cash provided by (used in) financing activities	(4,984)	(3,640)

(Million yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net increase (decrease) in cash and cash equivalents	(470)	187
Cash and cash equivalents at beginning of period	3,997	3,088
Cash and cash equivalents at end of period	3,527	3,276

3. Supplementary Information

Status of Sales

(Unit: million yen, %)

		Six months ended September 30, 2015	Six months ended September 30, 2016	Rate of change
Consumer Business	Net sales	120,584	112,461	(6.7)
	Operating income	4,685	4,684	(0.0)
Corporate Business	Net sales	8,051	7,773	(3.5)
	Operating income	945	868	(8.1)
Adjustments	Company-wide expenses	1,597	1,790	12.1
Amount recorded in quarterly non-consolidated statement of income	Net sales	128,636	120,235	(6.5)
	Operating income	4,033	3,762	(6.7)