Summary of Non-consolidated Financial Results for the Nine Months Ended December 31, 2016 [Japanese GAAP]

January 30, 2017

Company name: CONEXIO Corporation
Stock exchange listing: Tokyo Stock Exchange, First Section
Stock code: 9422
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Scheduled date for filing of quarterly report: February 10, 2017
Scheduled date of commencement of dividend payment: —
Supplementary briefing material on quarterly financial results: Available
Briefing session of quarterly financial results: Not scheduled

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

1. Financial Results for the Nine Months Ended December 31, 2016 (from April 1, 2016 to December 31, 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	%
3Q FY2016	191,215	(5.8)	6,823	9.4	6,886	9.1	4,520	15.1
3Q FY2015	202,974	(1.2)	6,240	(6.6)	6,313	(6.7)	3,927	(4.1)

	Earnings per share	Diluted earnings per share
	yen	yen
3Q FY2016	101.05	—
3Q FY2015	87.79	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
3Q FY2016	92,168	32,075	34.8
FY2015	96,912	29,850	30.8

(Reference) Equity: 3Q FY2016: 32,075 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	—	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)

3Q FY2016	55,923,000 shares	FY2015	55,923,000 shares
3Q FY2016	11,185,062 shares	FY2015	11,185,062 shares
3Q FY2016	44,737,938 shares	3Q FY2015	44,737,999 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 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, 2016, the Japanese economy was on a moderate recovery trend with improvements in the employment and income environments. On the other hand, its outlook remained unclear as uncertainty increased in the overseas economies. 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 fees 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 consumer protection rules were enhanced.
In such a business climate, unit sales of handsets declined significantly in the beginning of the fiscal year as the effective purchase price of handsets rose owing to the rectification of excessive preferential treatment of new subscribers. However, sales gradually recovered from the second quarter, and in the nine months ended December 31, 2016 unit sales reached 1,930,000 units (down 6.4% year-on-year). Profitability per customer rose, as price competition subsided and proposal-based customer services in line with the customers' usage environment became firmly established, and the Company was able to secure an increase in revenues by making up for the increase in expenses through such efforts as the implementation of measures to improve the working conditions of the sales staff as well as the introduction of a new POS system aimed to enhance the efficiency of store operation.
As a result, the Company's financial results for the nine months ended December 31, 2016 were 191,215 million yen in net sales (down 5.8% year-on-year), 6,823 million yen in operating income (up 9.4%), 6,886 million yen in ordinary income (up 9.1%) and 4,520 million yen in profit (up 15.1%).

The financial results of each business segment were as follows.

(Consumer Business)
The Company focused on encouraging customers to switch from feature phones to smartphones as well as sales of tablet devices and optical-fiber broadband services, and at carrier-certified shops, unit sales of handsets for the nine months ended December 31, 2016 recovered to the point of exceeding the unit sales for the same period of the previous fiscal year. 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 has been raising profitability per customer, and enhancing the efficiency of shop operations by adopting a new POS system replacing the conventional POS registers at all the shops.
As a result, net sales decreased 6.1% year-on -year to 179,248 million yen and operating income increased 13.6% to 8,131 million yen.

(Corporate Business)
Regarding Corporate Business, while unit sales continued to decline, the effects of efforts to expand solution services gradually yielded results, as the Company steadily accumulated contracts for business process outsourcing services of smartphones (e.g. help desk) and sales from other solution services targeting corporate customers. Sales of prepaid cards continue to be steady and in terms of IoT solutions, proof of concept using the IoT gateways which went on sale in December are underway at a number of companies.
As a result, net sales decreased 1.3% year-on-year to 11,967 million yen and operating income decreased 5.0% to 1,448 million yen.

(2) Analysis of Financial Position

Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 4,273 million yen from the end of the previous fiscal year to 70,744 million yen. This was mainly due to the decrease in accounts receivable-other by 3,547 million yen, the decrease in accounts receivable-trade by 3,311 million yen and the increase in merchandise and finished goods by 2,635 million yen.

Non-current assets decreased by 470 million yen from the end of the previous fiscal year to 21,423 million yen. This was mainly due to the decrease in the right of carrier shop management by 504 million yen. As a result, total assets decreased by 4,744 million yen from the end of the previous fiscal year to 92,168 million yen.

(Liabilities)

Current liabilities decreased by 7,010 million yen from the end of the previous fiscal year to 52,979 million yen. This was mainly due to the decrease in accounts payable-other by 3,295 million yen, the decrease in accounts payable-trade by 3,269 million yen, the decrease in provision for bonuses by 1,920 million yen and the increase in short-term loans payable by 1,000 million yen.

Non-current liabilities increased by 40 million yen from the end of the previous fiscal year to 7,113 million yen. This was mainly due to the increase in provision for retirement benefits by 332 million yen and the decrease in other by 283 million yen.

As a result, total liabilities decreased by 6,969 million yen from the end of the previous fiscal year to 60,093 million yen.

(Net assets)

Total net assets increased by 2,224 million yen from the end of the previous fiscal year to 32,075 million yen. This was mainly due to the increase as a result of the recognition of profit of 4,520 million yen and the decrease as a result of dividend payments of 2,304 million yen.

As a result, the Company’s equity ratio was 34.8%.

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

During the nine months ended December 31, 2016 under review, the following percentages of forecasts were met: 70.8% of net sales; 74.1% of operating income; 74.0% of ordinary income; and 79.3% 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 December 31, 2016
Assets		
Current assets		
Cash and deposits	2,958	3,374
Accounts receivable - trade	46,020	42,709
Merchandise and finished goods	7,985	10,620
Accounts receivable - other	14,809	11,261
Deposits paid	130	177
Other	3,128	2,607
Allowance for doubtful accounts	(13)	(5)
Total current assets	75,018	70,744
Non-current assets		
Property, plant and equipment	4,186	4,203
Intangible assets		
Goodwill	1,830	1,776
The right of carrier shop management	11,102	10,597
Other	504	471
Total intangible assets	13,436	12,846
Investments and other assets	4,270	4,373
Total non-current assets	21,894	21,423
Total assets	96,912	92,168
Liabilities		
Current liabilities		
Accounts payable - trade	24,808	21,538
Accrued agency commission	10,579	10,162
Short-term loans payable	2,500	3,500
Accounts payable - other	13,402	10,107
Income taxes payable	521	972
Provision for bonuses	3,637	1,717
Provision for directors' bonuses	34	16
Other	4,507	4,966
Total current liabilities	59,990	52,979
Non-current liabilities		
Provision for retirement benefits	4,109	4,442
Asset retirement obligations	425	416
Other	2,537	2,254
Total non-current liabilities	7,072	7,113
Total liabilities	67,062	60,093

(Million yen)

	As of March 31,2016	As of December 31, 2016
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	9,779	9,779
Retained earnings	26,373	28,589
Treasury shares	(9,194)	(9,194)
Total shareholders' equity	29,737	31,953
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	113	121
Total valuation and translation adjustments	113	121
Total net assets	29,850	32,075
Total liabilities and net assets	96,912	92,168

(2) Quarterly Non-Consolidated Statements of Income

Third quarter cumulative period

(Million yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	202,974	191,215
Cost of sales	169,827	156,593
Gross profit	33,147	34,621
Selling, general and administrative expenses	26,906	27,797
Operating income	6,240	6,823
Non-operating income		
Interest income	0	0
Dividend income	3	10
Support money of store move etc income	75	47
Reversal of allowance for doubtful accounts	7	7
Other	37	36
Total non-operating income	123	102
Non-operating expenses		
Interest expenses	20	7
Loss on sales and retirement of non-current assets	14	18
Rent expenses on real estates	9	6
Other	6	7
Total non-operating expenses	50	40
Ordinary income	6,313	6,886
Extraordinary income		
Gain on sales of non-current assets	1	0
Gain on sales of investment securities	11	―
Total extraordinary income	12	0
Extraordinary losses		
Loss on sales and retirement of non-current assets	6	17
Impairment loss	132	13
Loss on closing of stores	32	47
Total extraordinary losses	172	78
Profit before income taxes	6,153	6,807
Income taxes - current	1,689	1,798
Income taxes - deferred	537	489
Total income taxes	2,226	2,287
Profit	3,927	4,520

3. Supplementary Information

Status of Sales

(Unit: million yen, %)

		Nine months ended December 31, 2015	Nine months ended December 31, 2016	Rate of change
Consumer Business	Net sales	190,852	179,248	(6.1)
	Operating income	7,157	8,131	13.6
Corporate Business	Net sales	12,121	11,967	(1.3)
	Operating income	1,524	1,448	(5.0)
Adjustments	Company-wide expenses	2,442	2,756	12.9
Amount recorded in quarterly non-consolidated statement of income	Net sales	202,974	191,215	(5.8)
	Operating income	6,240	6,823	9.4