Summary of Non-consolidated Financial Results for the Three Months Ended June 30, 2017 [Japanese GAAP]

July 28, 2017

Company name: CONEXIO Corporation
Stock exchange listing: Tokyo Stock Exchange, First Section
Stock code: 9422
URL: https://www.conexio.co.jp
Representative: (Title) President (Name) Hiroo Inoue
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Scheduled date for filing of quarterly report: August 9, 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 Three Months Ended June 30, 2017 (from April 1, 2017 to June 30, 2017)

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

	Net sales		Operating profit		Ordinary profit		Profit	
	million yen	%	million yen	%	million yen	%	million yen	%
1Q FY2017	55,743	1.8	1,402	10.7	1,428	9.4	910	10.5
1Q FY2016	54,749	(11.0)	1,266	(25.9)	1,305	(24.4)	823	(24.2)

	Earnings per share	Diluted earnings per share
	yen	yen
1Q FY2017	20.35	—
1Q FY2016	18.41	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
1Q FY2017	78,346	33,612	42.9
FY2016	95,254	34,016	35.7

(Reference) Equity: 1Q FY2017: 33,612 million yen FY2016: 34,016million yen

2. Dividends

	Annual dividends				
	1Q end	2Q end	3Q end	Year end	Total
	yen	yen	yen	yen	yen
FY2016	—	26.00	—	30.00	56.00
FY2017	—				
FY2017(Forecast)		30.00	—	35.00	65.00

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

Breakdown of annual dividend for FY2017:

Ordinary dividend of 60 yen + Commemorative dividend of 5 yen (celebrating 20th company anniversary)

3. Financial Forecast for the Fiscal Year Ending March 31, 2018 (from April 1, 2017 to March 31, 2018)

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

	Net sales		Operating profit		Ordinary profit		Profit		Earnings per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	252,500	(2.9)	10,000	0.2	10,100	0.5	6,500	0.5	145.29

(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 FY2017	55,923,000 shares	FY2016	55,923,000 shares
1Q FY2017	11,185,062 shares	FY2016	11,185,062 shares
1Q FY2017	44,737,938 shares	1Q FY2016	44,737,938 shares

*** This Quarterly Financial Results is not subject to quarterly review.**

*** 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.

1. Qualitative Information on Quarterly Non-consolidated Financial Results

(1) Analysis of Operating Results

During the three months ended June 30, 2017, the Japanese economy was on a moderate recovery trend with improvements in the corporate earnings as well as 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, aiming to capture customers, implemented measures to compete against the rising presence of budget smartphones including the introduction of new charge plans that incorporate with handset price. They are also promoting efforts to improve the working environment for the sales staff, such as shortening the business hours and designating a monthly regular holiday of carrier-certified shops.

In such a business climate, as a result of our efforts to promote sales of tablet devices as well as to encourage customers to switch from feature phones to smartphones, unit sales of handsets increased to 590,000 (up 5.9% year-on-year). The Company was able to secure revenue owing to the increase in unit sales of handsets and the revenue improvement through the revision of handset prices, in addition to the growth in sales of solution services to corporate customers. The Company also promoted active efforts to secure human resources by strengthening its recruiting activities.

As a result, the Company’s financial results for the three months ended June 30, 2017 were 55,743 million yen in net sales (up 1.8%), 1,402 million yen in operating profit (up 10.7%), 1,428 million yen in ordinary profit (up 9.4%) and 910 million yen in profit (up 10.5%).

◆Financial results

(Million yen)

Account title	Three months ended June 30, 2016	Three months ended June 30, 2017	Year-on-year change (%)
Net sales	54,749	55,743	1.8
Operating profit	1,266	1,402	10.7
Ordinary profit	1,305	1,428	9.4
Profit	823	910	10.5

The financial results of each business segment were as follows.

Consumer Business

In the Consumer Business, the Company acts as an intermediary for concluding contracts for mobile phones and other communications services, provides after-sales services and sells handsets, etc., targeting at consumer customers. In addition, the Company operates a portal site “nexi” to meet the needs of smartphone users and strengthen the relationship with them.

Sales in the Consumer Business were strong as sales of tablet devices as well as customers switching from feature phones to smartphones increased. In addition to our continued efforts to improve customer satisfaction by hosting smartphone lessons for customers who use smartphones for the first time, the Company started to offer its own unique service “nexi plus” as a new initiative. The Company also strengthened sales staff recruiting and took measures to increase their retention rate.
As a result, the financial results of Consumer Business were 51,269 million yen in net sales (up 0.7%) and 2,038 million yen in operating profit (up 13.8%).

◆Financial results

(Million yen)

Account title	Three months ended June 30, 2016	Three months ended June 30, 2017	Year-on-year change (%)
Net sales	50,892	51,269	0.7
Operating profit	1,791	2,038	13.8

Corporate Business

In the Corporate Business, the Company acts as an intermediary for concluding contracts for mobile phones and other communication services, provides after-sales services and sells mobile phone handsets, etc., targeting at corporate customers. The Company also offers solution services using smartphones to corporate customers and prepaid cards to convenience stores, and provides IoT solutions.

The Company achieved a growth in revenue for solution services to corporate customers such as mobile help desk services, as their need for the use of smartphones increases. As we expect further business expansion in this area, we focused on recruiting and training operators. In terms of IoT solutions, we are in the process of developing customers with the support through the proof of concept.
As a result, the financial results of Corporate Business were 4,473 million yen in net sales (up 16.0%) and 350 million yen in operating profit (down 12.1%).

◆Financial results

(Million yen)

Account title	Three months ended June 30, 2016	Three months ended June 30, 2017	Year-on-year change (%)
Net sales	3,857	4,473	16.0
Operating profit	398	350	(12.1)

(2) Analysis of Financial Position

Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 16,877 million yen from the end of the previous fiscal year to 57,397 million yen. This was mainly due to the decrease in accounts receivable-trade by 11,382 million yen, the decrease in accounts receivable-other by 3,919 million yen, and the decrease in cash and deposits by 1,987 million yen.

Non-current assets decreased by 29 million yen from the end of the previous fiscal year to 20,948 million yen. This was mainly due to the decrease in the right of carrier shop management by 166 million yen and the increase in investments and other assets by 129 million yen.

As a result, total assets decreased by 16,907 million yen from the end of the previous fiscal year to 78,346 million yen.

(Liabilities)

Current liabilities decreased by 16,543 million yen from the end of the previous fiscal year to 37,779 million yen. This was mainly due to the decrease in accounts payable-trade by 9,662 million yen, the decrease in accounts payable-other by 4,028 million yen, the decrease in income taxes payable by 1,456 million yen, and the decrease in provision for bonuses by 1,276 million yen.

Non-current liabilities increased by 39 million yen from the end of the previous fiscal year to 6,954 million yen. This was mainly due to the increase in provision for retirement benefits by 120 million yen and the decrease in other items by 75 million yen.

As a result, total liabilities decreased by 16,504 million yen from the end of the previous fiscal year to 44,733 million yen.

(Net assets)

Total net assets decreased by 403 million yen from the end of the previous fiscal year to 33,612 million yen. This was mainly due to the increase as a result of the recognition of profit of 910 million yen and the decrease as a result of dividend payments of 1,342 million yen.

As a result, the Company’s equity ratio was 42.9%.

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

During the three months Ended June 30, 2017 under review, the following percentages of forecasts were met: 22.1% of net sales; 14.0% of operating profit; 14.1% of ordinary profit; and 14.0% of profit. At this stage, no changes have been made to the full-year financial forecasts announced on April 28, 2017. 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 31,2017	As of June 30,2017
Assets		
Current assets		
Cash and deposits	4,879	2,892
Accounts receivable - trade	45,343	33,961
Merchandise and finished goods	8,301	8,531
Accounts receivable - other	13,325	9,406
Deposits paid	134	145
Other	2,302	2,470
Allowance for doubtful accounts	(11)	(10)
Total current assets	74,275	57,397
Non-current assets		
Property, plant and equipment	4,170	4,175
Intangible assets		
Goodwill	1,745	1,715
The right of carrier shop management	10,326	10,159
Other	400	432
Total intangible assets	12,472	12,307
Investments and other assets	4,335	4,465
Total non-current assets	20,978	20,948
Total assets	95,254	78,346
Liabilities		
Current liabilities		
Accounts payable - trade	24,280	14,618
Accrued agency commission	8,395	7,644
Accounts payable - other	11,558	7,530
Income taxes payable	2,122	665
Provision for bonuses	3,324	2,047
Provision for directors' bonuses	30	4
Other	4,611	5,267
Total current liabilities	54,322	37,779
Non-current liabilities		
Provision for retirement benefits	4,554	4,675
Asset retirement obligations	416	410
Other	1,943	1,868
Total non-current liabilities	6,914	6,954
Total liabilities	61,237	44,733

(Million yen)

	As of March 31,2017	As of June 30,2017
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	9,779	9,779
Retained earnings	30,538	30,106
Treasury shares	(9,194)	(9,194)
Total shareholders' equity	33,902	33,470
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	114	142
Total valuation and translation adjustments	114	142
Total net assets	34,016	33,612
Total liabilities and net assets	95,254	78,346

(2) Quarterly Non-Consolidated Statements of Income

First quarter cumulative period

(Million yen)

	Three months ended June 30, 2016	Three months ended June 30, 2017
Net sales	54,749	55,743
Cost of sales	44,072	44,427
Gross profit	10,677	11,315
Selling, general and administrative expenses	9,410	9,913
Operating profit	1,266	1,402
Non-operating income		
Interest income	0	—
Dividend income	9	1
Support money of store move etc income	16	19
Reversal of allowance for doubtful accounts	10	1
Other	12	8
Total non-operating income	49	31
Non-operating expenses		
Interest expenses	3	1
Loss on sales and retirement of non-current assets	2	1
Rent expenses on real estates	2	2
Other	2	0
Total non-operating expenses	10	5
Ordinary profit	1,305	1,428
Extraordinary income		
Gain on sales of non-current assets	0	0
Total extraordinary income	0	0
Extraordinary losses		
Loss on sales and retirement of non-current assets	11	7
Impairment loss	2	13
Loss on closing of stores	14	6
Total extraordinary losses	28	27
Profit before income taxes	1,276	1,400
Income taxes - current	295	540
Income taxes - deferred	157	(50)
Total income taxes	453	489
Profit	823	910