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

October 27, 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: November 9, 2017
Scheduled date of commencement of dividend payment: December 6, 2017
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, 2017 (from April 1, 2017 to September 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	%
2Q FY2017	116,302	(3.3)	4,434	17.9	4,480	17.7	2,945	18.6
2Q FY2016	120,235	(6.5)	3,762	(6.7)	3,808	(6.5)	2,483	(1.6)

	Earnings per share	Diluted earnings per share
	yen	yen
2Q FY2017	65.85	—
2Q FY2016	55.50	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
2Q FY2017	85,513	35,658	41.7
FY2016	95,254	34,016	35.7

(Reference) Equity: 2Q FY2017: 35,658 million yen FY2016: 34,016 million 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	—	30.00			
FY2017(Forecast)			—	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)

2Q FY2017	44,737,938 shares	FY2016	55,923,000 shares
2Q FY2017	0 shares	FY2016	11,185,062 shares
2Q FY2017	44,737,938 shares	2Q 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 “Financial Forecasts and Other Forward-Looking Information” on page 4 of the Appendix

1. Qualitative Information on Quarterly Non-consolidated Financial Results

(1) Analysis of Operating Results

During the six months ended September 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 budget smartphones including the introduction of new charge plans that incorporate with handset prices and charge plans that match the usage conditions of the customers. They have been 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 efforts to promote the sales of tablet devices as well as to encourage customers to switch from feature phones to smartphones, unit sales of handsets increased steadily to 1,250,000 (up 2.4% year-on-year). Despite the decrease in net sales reflecting the growing weight of lower-priced models in the product mix, revenue increased thanks to the increase in unit sales, a revision of the price of certain handsets, and the strong sales of solution services to corporate customers. The Company also made capital investments in renovating shops and mobile helpdesks for corporate customers, while bolstering its personnel involved in smartphone lessons and solution services to corporate customers.

As a result, all profit accounts performed strongly and the Company’s financial results for the six months ended September 30, 2017 were 116,302 million yen in net sales (down 3.3 %), 4,434 million yen in operating profit (up 17.9%), 4,480 million yen in ordinary profit (up 17.7%) and 2,945 million in profit (up 18.6%).

◆Financial results

(Million yen)

Account title	Six months ended September 30, 2016	Six months ended September 30, 2017	Year-on-year change (%)
Net sales	120,235	116,302	(3.3)
Operating profit	3,762	4,434	17.9
Ordinary profit	3,808	4,480	17.7
Profit	2,483	2,945	18.6

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 of handsets in the Consumer Business increased steadily as sales of tablet devices as well as customers switching to smartphones increased. As part of initiatives to make the shops more attractive and make the customers want to visit again, the Company made efforts to improve customer satisfaction by hosting smartphone lessons for customers using smartphones for the first time. In addition, the Company made proposals of consulting services most suited to the customers’ lifestyles and reexamined customer flows with utilizing tablets. In order to implement these measures, the Company strengthened sales staff recruiting and proactively promoted shop renovations.
As a result, the financial results of Consumer Business were 106,966 million yen in net sales (down 4.9% year-on-year) and 5,425 million in operating profit (up 15.8%).

◆Financial results

(Million yen)

Account title	Six months ended September 30, 2016	Six months ended September 30, 2017	Year-on-year change (%)
Net sales	112,461	106,966	(4.9)
Operating profit	4,684	5,425	15.8

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 growth in revenue in its solution services for corporate customers, in conjunction with the increasing number of companies adopting smartphones. With the steady growth in mobile help desk services, the Company focused on recruiting operators and reinforcing its framework in line with this business expansion. In terms of the handset kitting services, the Company expanded its kitting center and enhanced its processing capabilities, in conjunction with the capture of a larger order. As for IoT solutions, the Company launched its testing support tool, “Smart Ready IoT/Starter Kit” and is making efforts to cultivate potential customers.
As a result, the financial results of Corporate Business were 9,336 million yen in net sales (up 20.1% year-on-year) and 928 million yen in operating profit (up 6.9%).

◆Financial results

(Million yen)

Account title	Six months ended September 30, 2016	Six months ended September 30, 2017	Year-on-year change (%)
Net sales	7,773	9,336	20.1
Operating profit	868	928	6.9

(2) Analysis of Financial Position

(i) Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 9,596 million yen from the end of the previous fiscal year to 64,678 million yen. This was mainly due to the decrease in notes and accounts receivable-trade by 6,688 million yen, the decrease in accounts receivable-other by 2,596 million yen and the decrease in merchandise and finished goods by 1,662 million yen.

Non-current assets decreased by 144 million yen from the end of the previous fiscal year to 20,834 million yen. This was mainly due to the decrease in the right of carrier shop management by 333 million yen and the increase in investments and other assets by 121 million yen.

As a result, total assets decreased by 9,740 million yen from the end of the previous fiscal year to 85,513 million yen.

(Liabilities)

Current liabilities decreased by 11,512 million yen from the end of the previous fiscal year to 42,810 million yen. This was mainly due to the decrease in accounts payable-trade by 9,115 million yen and the decrease in accounts payable-other by 2,277 million yen.

Non-current liabilities increased by 130 million yen from the end of the previous fiscal year to 7,044 million yen. This was mainly due to the increase in provision for retirement benefits by 222 million yen and the decrease in other by 156 million yen.

As a result, total liabilities decreased by 11,382 million yen from the end of the previous fiscal year to 49,855 million yen.

(Net assets)

Total net assets increased by 1,641 million yen from the end of the previous fiscal year to 35,658 million yen. This was mainly due to the increase as a result of the recognition of profit of 2,945 million yen and the decrease as a result of dividend payment of 1,342 million yen. As a result, the Company’s equity ratio was 41.7%.

(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 1,227 million yen from the end of the previous fiscal year to 6,241 million yen.

(Cash flows from operating activities)

Cash flows from operating activities resulted in a net inflow of 3,598 million yen (down 1,227 million yen year-on-year). This was mainly because increase factors such as the decrease in notes and accounts receivable-trade by 6,689 million yen, the recognition of profit before income taxes of 4,425 million yen, the decrease in accounts receivable-other by 2,597 million yen, the decrease in inventories of 1,680 million yen and the recognition of depreciation of 1,002 million yen exceeded the decrease factors such as the decrease in notes and accounts payable-trade by 8,723 million yen, the decrease in accounts payable-other of 2,261 million yen and income taxes paid of 1,777 million yen.

(Cash flows from investing activities)

Cash flows from investing activities resulted in a net outflow of 1,028 million yen (up 30 million yen year-on-year). This was mainly attributable to the purchase of property, plant and equipment of 667 million yen, payments for lease and guarantee deposits of 163 million yen and purchase of long-term prepaid expenses of 113 million yen.

(Cash flows from financing activities)

Cash flows from financing activities resulted in a net outflow of 1,342 million yen (down 2,297 million yen year-on-year). This was attributable to cash dividend paid of 1,342 million yen.

(3) Financial Forecasts and Other Forward-Looking Information

During the six months Ended September 30, 2017 under review, the following percentages of forecasts were met: 46.1% of net sales; 44.3% of operating profit; 44.4% of ordinary profit; and 45.3% 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 September 30,2017
Assets		
Current assets		
Cash and deposits	4,879	6,036
Notes and accounts receivable - trade	45,343	38,655
Merchandise and finished goods	8,301	6,638
Accounts receivable - other	13,325	10,729
Deposits paid	134	204
Other	2,302	2,424
Allowance for doubtful accounts	(11)	(9)
Total current assets	74,275	64,678
Non-current assets		
Property, plant and equipment	4,170	4,300
Intangible assets		
Goodwill	1,745	1,684
The right of carrier shop management	10,326	9,993
Other	400	399
Total intangible assets	12,472	12,077
Investments and other assets	4,335	4,456
Total non-current assets	20,978	20,834
Total assets	95,254	85,513
Liabilities		
Current liabilities		
Accounts payable - trade	24,280	15,164
Accrued agency commission	8,395	8,788
Accounts payable - other	11,558	9,281
Income taxes payable	2,122	1,832
Provision for bonuses	3,324	3,017
Provision for directors' bonuses	30	9
Other	4,611	4,715
Total current liabilities	54,322	42,810
Non-current liabilities		
Provision for retirement benefits	4,554	4,777
Asset retirement obligations	416	480
Other	1,943	1,787
Total non-current liabilities	6,914	7,044
Total liabilities	61,237	49,855

(Million yen)

	As of March 31,2017	As of September 30,2017
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	9,779	585
Retained earnings	30,538	32,141
Treasury shares	(9,194)	―
Total shareholders' equity	33,902	35,505
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	114	152
Total valuation and translation adjustments	114	152
Total net assets	34,016	35,658
Total liabilities and net assets	95,254	85,513

(2) Quarterly Non-Consolidated Statements of Income

Second quarter cumulative period

(Million yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net sales	120,235	116,302
Cost of sales	97,950	92,335
Gross profit	22,285	23,966
Selling, general and administrative expenses	18,522	19,532
Operating profit	3,762	4,434
Non-operating income		
Interest income	0	0
Dividend income	9	1
Support money of store move etc income	30	51
Reversal of allowance for doubtful accounts	10	2
Other	18	20
Total non-operating income	68	75
Non-operating expenses		
Interest expenses	5	3
Loss on sales and retirement of non-current assets	8	20
Rent expenses on real estates	4	3
Other	3	1
Total non-operating expenses	22	29
Ordinary profit	3,808	4,480
Extraordinary income		
Gain on sales of non-current assets	0	1
Total extraordinary income	0	1
Extraordinary losses		
Loss on sales and retirement of non-current assets	15	14
Impairment loss	9	20
Loss on closing of stores	15	21
Total extraordinary losses	40	56
Profit before income taxes	3,767	4,425
Income taxes - current	961	1,580
Income taxes - deferred	323	(100)
Total income taxes	1,284	1,479
Profit	2,483	2,945

(3) Quarterly Non-Consolidated Cash Flows

(Million yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Cash flows from operating activities		
Profit before income taxes	3,767	4,425
Depreciation	987	1,002
Amortization of goodwill	62	62
Impairment loss	9	20
Increase (decrease) in allowance for doubtful accounts	(10)	(2)
Increase (decrease) in provision for bonuses	(566)	(306)
Increase (decrease) in provision for directors' bonuses	(23)	(20)
Increase (decrease) in provision for retirement benefits	248	222
Interest and dividend income	(9)	(1)
Interest expenses	5	3
Decrease (increase) in notes and accounts receivable - trade	9,576	6,689
Decrease (increase) in accounts receivable - other	3,965	2,597
Decrease (increase) in inventories	(281)	1,680
Increase (decrease) in notes and accounts payable - trade	(7,796)	(8,723)
Increase (decrease) in accounts payable - other	(4,133)	(2,261)
Increase (decrease) in accrued consumption taxes	(126)	125
Other, net	(485)	(151)
Subtotal	5,191	5,360
Interest and dividend income received	9	1
Interest expenses paid	(5)	(3)
Income taxes (paid) refund	(384)	(1,777)
Other, net	15	18
Net cash provided by (used in) operating activities	4,825	3,598
Cash flows from investing activities		
Purchase of property, plant and equipment	(542)	(667)
Purchase of intangible assets	(121)	(92)
Payments for lease and guarantee deposits	(134)	(163)
Proceeds from collection of lease and guarantee deposits	85	73
Purchase of long-term prepaid expenses	(63)	(113)
Payment for transfer of business	(90)	-
Payments for transfer of business	(83)	(7)
Other, net	(46)	(58)
Net cash provided by (used in) investing activities	(997)	(1,028)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,500)	-
Cash dividends paid	(1,140)	(1,342)
Net cash provided by (used in) financing activities	(3,640)	(1,342)
Net increase (decrease) in cash and cash equivalents	187	1,227
Cash and cash equivalents at beginning of period	3,088	5,013
Cash and cash equivalents at end of period	3,276	6,241