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Non-consolidated Financial Results for the Six Months Ended September 30, 2019[Japanese GAAP]

October 29, 2019

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Code number: 9422
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Phone: 03-5331-3702
Stock exchange listing: Tokyo
URL: http://www.conexio.co.jp
Scheduled date of filing quarterly securities report: November 12, 2019
Scheduled date of commencing dividend payments: December 06, 2019
Availability of supplementary briefing material on quarterly financial results: Yes
Schedule of quarterly financial results briefing session: Yes (for institutional investors and analysts)

(Amounts of less than one million yen are rounded down)

1. Non-consolidated Financial Results for the Six Months Ended September 30, 2019 (April 01, 2019 to September 30, 2019)

(1) Non-consolidated Operating Results

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
September 30, 2019	105,980	(14.6)	5,323	26.0	5,466	24.6	3,752	30.9
September 30, 2018	124,083	6.7	4,226	(4.7)	4,388	(2.1)	2,866	(2.7)

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
September 30, 2019	83.88	-
September 30, 2018	64.08	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
As of	Million yen	Million yen	%
September 30, 2019	89,671	44,381	49.5
March 31, 2019	103,506	42,106	40.7

(Reference) Equity: As of September 30, 2019: ¥ 44,381 million
As of March 31, 2019: ¥ 42,106 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	-	30.00	-	30.00	60.00
Fiscal year ending March 31, 2020	-	30.00			
Fiscal year ending March 31, 2020 (Forecast)			-	30.00	60.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2020(April 01, 2019 to March 31, 2020)

The impact of the future business environment on our business results is unclear, and will be promptly disclosed as soon as they are reasonably calculated.

* Notes:

(1) Accounting policies adopted specially for the preparation of quarterly Non-consolidated financial statements: No

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(3) Total number of issued shares (common shares)

1) Total number of issued shares at the end of the period (including treasury shares):	September 30, 2019:	44,737,938 shares	March 31, 2019:	44,737,938 shares
2) Total number of treasury shares at the end of the period:	September 30, 2019:	122 shares	March 31, 2019:	122 shares
3) Average number of shares during the period:	Six months ended September 30, 2019:	44,737,816 shares	Six months ended September 30, 2018:	44,737,819 shares

*** This Financial Results is not subject to audit procedures.**

* **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“ (3) 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, 2019, the Japanese economy continued on a moderate recovery trend with improvements in corporate earnings as well as the employment environment. On the other hand, given the concerns about the rising uncertainty in the overseas economies due to the effects of trade issues, the outlook of the Japanese economy needs to be closely watched.

In the mobile phone market in which the Company conducts business activities, the "Telecommunications Business Act" was revised by the Ministry of Internal Affairs and Communications, which incorporated simpler and easier-to-understand payment plans for mobile phones, and went into effect from October 2019. As a result, the market environment has entered an age of great upheaval, with the introduction of plans that completely separate communication charges from handset fees, the correction of the excessive locking-in of customers through binding mobile contracts, and the adoption of the shop notification system. Currently, handset unit sales are undergoing significant fluctuations, due to consumption tax hike, as well as the rise in handset prices due to the correction of discounts offered on the purchase of handsets.

In such a business climate, despite the decrease in unit sales of handsets to 1,040,000 (down 14.9% year-on-year) due to the change in some of the product distribution flows and the reactionary drop in sales after last-minute demand before and after the introduction of the separate payment plans, revenue improved, thanks to the increase in commission and fees that were not linked to handset unit sales, reinforced sales of peripheral goods of smartphones and the growth of the corporate BPO services.

As a result, for the six months ended September 30, 2019, net sales were 105,980 million yen (down 14.6%), operating profit was 5,323 million yen (up 26.0%), ordinary profit was 5,466 million yen (up 24.6%), and profit was 3,752 million yen (up 30.9%), thereby achieving record highs for operating profit, ordinary profit and profit.

◆Financial results

(Million yen)

Account title	Six months ended September 30, 2018	Six months ended September 30, 2019	Year-on-year change (%)
Net sales	124,083	105,980	(14.6)
Operating profit	4,226	5,323	26.0
Ordinary profit	4,388	5,466	24.6
Profit	2,866	3,752	30.9

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 provides its unique service "nexiplus" to meet the needs of smartphone users and strengthen the relationship with them.

In the Consumer Business, despite the decrease in unit sales of handsets, revenue remained robust, thanks to the increase in commission and fees that were not linked to handset unit sales and the reinforced sales of peripheral goods of smartphones. At the carrier-certified shops, efforts were made to strengthen the points of contact with customers by holding smartphone lessons while new services in response to diversified needs were offered by opening shops which were extensions of the smartphone lessons and based on the shop-concept as "a space for learning." The shops are also shortening the customers' waiting time and improving customer satisfaction by expanding reservation time frames for shop visits and improving operations.

As a result, the financial results of the Consumer Business were 97,559 million yen in net sales (down 15.7%) and 6,653 million yen in operating profit (up 7.8%).

◆Financial results

(Million yen)

Account title	Six months ended September 30, 2018	Six months ended September 30, 2019	Year-on-year change (%)
Net sales	115,766	97,559	(15.7)
Operating profit	6,172	6,653	7.8

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 mobile BPO services to corporate customers (outsourcing services covering mobile help desk, handset set-up (kitting), etc.), prepaid cards to convenience stores, and IoT solutions.

In the Corporate Business, revenue increased due to the increase in the number of companies adopting the mobile helpdesk and the proactive development of mobile solutions that promote companies' "work style reforms." As for IoT solutions, the Company began offering "Smart Ready IoT AR Equipment Maintenance Solution," which combined AR solutions offered by partner enterprise with the Company's own IoT services, as well as realizing large-scale one-stop solution projects. Additionally, in an effort to expand the business domain, the Company concluded a capital alliance agreement with SunBridge Inc. in September 2019. Going forward, the Company hopes to leverage each other's strengths and build the foundations of a services business that integrates "mobile×cloud×IoT."

As a result, the financial results of the Corporate Business were 8,420 million yen in net sales (up 1.2%) and 826 million yen in operating profit (up 382.2%).

◆Financial results

(Million yen)

Account title	Six months ended September 30, 2018	Six months ended September 30, 2019	Year-on-year change (%)
Net sales	8,317	8,420	1.2
Operating profit	171	826	382.2

(2) Analysis of Financial Position

Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 13,417 million yen from the end of the previous year to 69,177 million yen. This was mainly due to the decrease in notes and accounts receivable-trade by 11,292 million yen, the decrease in merchandise and finished goods by 4,338 million yen, the decrease in accounts receivable-other by 3,959 million yen, and the increase in cash and deposits by 6,148 million yen.

Non-current assets decreased by 416 million yen from the end of the previous fiscal year to 20,494 million yen. This was mainly due to the decrease in right of carrier shop management by 332 million yen and the decrease in property, plant, and equipment by 70 million yen.

As a result, total assets decreased by 13,834 million yen from the end of the previous fiscal year to 89,671 million yen.

(Liabilities)

Current liabilities decreased by 16,344 million yen from the end of the previous fiscal year to 38,920 million yen. This was mainly due to the decrease in accounts payable-trade by 7,220 million yen, the decrease in accounts payable-other by 5,399 million yen, and the decrease in accrued agency commission by 2,557 million yen.

Non-current liabilities increased by 234 million yen from the end of the previous fiscal year to 6,369 million yen. This was mainly due to the increase in provision for retirement benefits by 235 million yen.

As a result, total liabilities decreased by 16,109 million yen from the previous fiscal year to 45,290 million yen.

(Net assets)

Net assets increased by 2,275 million yen from the end of the previous fiscal year to 44,381 million yen. This was mainly due to the increase as a result of the recognition of profit of 3,752 million yen and the decrease as a result of the dividend payment of 1,342 million yen.

As a result, the Company's equity ratio was 49.5%.

(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 6,045 million yen from the end of the previous fiscal year to 17,405 million yen.

(Cash flows from operating activities)

Cash flows from operating activities resulted in a net inflow of 8,160 million yen (up 4,804 million yen year-on-year). This was mainly because increase factors, such as the decrease in trade receivables by 11,296 million yen, the recognition of profit before income taxes of 5,573 million yen, the decrease in inventory of 4,343 million yen, the decrease in accounts receivable-other by 3,959 million yen, and the recognition of depreciation of 1,021 million yen exceeded the decrease factors, such as the decrease in trade payables by 9,778 million yen, the decrease in accounts payable-other by 5,340 million yen and income taxes paid of 1,836 million yen.

(Cash flows from investing activities)

Cash flows from investing activities resulted in a net outflow of 772 million yen (up 1 million yen year-on-year). This was mainly attributable to the purchase of property, plant and equipment of 559 million yen, the purchase of investment securities of 157 million yen, the purchase of intangible assets of 127 million yen, the payments for lease and guarantee deposits of 113 million yen, and the proceeds from the sales of investment securities of 242 million yen.

(Cash flows from financing activities)

Cash flows from financing activities resulted in a net outflow of 1,342 million yen (down 223 million yen year-on-year). This was mainly attributable to cash dividend paid of 1,342 million yen.

(3) Financial Forecasts and Other Forward-Looking Information

In the business environment surrounding the Company, the "Telecommunications Business Act" was revised by the Ministry of Internal Affairs and Communications, which incorporated simpler and easier-to-understand payment plans for mobile phones, and went into effect from October 2019. As a result, the market environment has entered an age of great upheaval, with the introduction of plans that completely separate communication charges from handset fees, the correction of the excessive locking-in of customers through binding mobile contracts, and the adoption of the shop notification system. Currently, handset unit sales are undergoing significant fluctuations, due to consumption tax hike, as well as the rise in handset prices due to the correction of discounts offered on the purchase of handsets. The Company has determined that the impact of such developments on its business performance is still uncertain and that the calculation of appropriate and reasonable quantities is difficult. Going forward the Company intends to promptly disclose its financial forecasts as soon as they have been reasonably calculated.

2. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheets

(Million yen)

	As of March 31,2019	As of September 30,2019
Assets		
Current assets		
Cash and deposits	11,086	17,235
Notes and accounts receivable - trade	49,285	37,992
Merchandise and finished goods	8,221	3,883
Accounts receivable - other	12,914	8,955
Deposits paid	273	170
Other	818	945
Allowance for doubtful accounts	(6)	(5)
Total current assets	82,594	69,177
Non-current assets		
Property, plant and equipment	4,804	4,733
Intangible assets		
Goodwill	1,499	1,453
The right of carrier shop management	8,985	8,652
Other	355	358
Total intangible assets	10,839	10,464
Investments and other assets	5,267	5,296
Total non-current assets	20,911	20,494
Total assets	103,506	89,671
Liabilities		
Current liabilities		
Accounts payable - trade	20,275	13,055
Accrued agency commission	11,607	9,049
Accounts payable - other	12,387	6,988
Income taxes payable	2,095	2,170
Provision for bonuses	3,800	3,582
Provision for directors' bonuses	23	10
Other	5,074	4,063
Total current liabilities	55,264	38,920
Non-current liabilities		
Provision for bonuses	24	37
Provision for directors' bonuses	11	17
Provision for retirement benefits	5,252	5,488
Asset retirement obligations	669	676
Other	176	149
Total non-current liabilities	6,135	6,369
Total liabilities	61,400	45,290

(Million yen)

	As of March 31,2019	As of September 30,2019
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	585	585
Retained earnings	38,606	41,016
Treasury shares	(0)	(0)
Total shareholders' equity	41,970	44,380
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	136	0
Total valuation and translation adjustments	136	0
Total net assets	42,106	44,381
Total liabilities and net assets	103,506	89,671

(2) Non-consolidated Statements of Income

(Million yen)

	For the six months ended September 30,2018	For the six months ended September 30,2019
Net sales	124,083	105,980
Cost of sales	99,450	80,350
Gross profit	24,633	25,630
Selling, general and administrative expenses	20,407	20,306
Operating profit	4,226	5,323
Non-operating income		
Interest income	0	0
Dividend income	1	2
Support money of store move etc income	65	98
Reversal of allowance for doubtful accounts	0	1
Gain on sales of goods	116	-
Other	17	45
Total non-operating income	200	148
Non-operating expenses		
Interest expenses	0	0
Loss on sales and retirement of non-current assets	27	4
Rental expenses on real estate	2	-
Other	7	1
Total non-operating expenses	38	5
Ordinary profit	4,388	5,466
Extraordinary income		
Gain on sales of non-current assets	0	-
Gain on sales of investment securities	0	174
Total extraordinary income	0	174
Extraordinary losses		
Loss on sales and retirement of non-current assets	24	4
Impairment loss	24	37
Loss on store closings	45	25
Other	2	-
Total extraordinary losses	96	68
Profit before income taxes	4,291	5,573
Income taxes - current	1,562	1,915
Income taxes - deferred	(137)	(95)
Total income taxes	1,424	1,820
Profit	2,866	3,752

(3) Quarterly Non-consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30,2018	For the six months ended September 30,2019
Cash flows from operating activities		
Profit before income taxes	4,291	5,573
Depreciation	1,041	1,021
Amortization of goodwill	62	62
Impairment loss	24	37
Increase (decrease) in allowance for doubtful accounts	0	(1)
Increase (decrease) in provision for bonuses	(386)	(204)
Increase (decrease) in provision for directors' bonuses	(12)	(6)
Increase (decrease) in provision for retirement benefits	239	235
Interest and dividend income	(1)	(2)
Interest expenses	0	0
Foreign exchange losses (gains)	(0)	0
Loss (gain) on sales of investment securities	(0)	(174)
Decrease (increase) in trade receivables	6,075	11,296
Decrease (increase) in accounts receivable - other	1,869	3,959
Decrease (increase) in inventories	1,471	4,343
Increase (decrease) in trade payables	(5,766)	(9,778)
Increase (decrease) in accounts payable - other	(2,373)	(5,340)
Increase (decrease) in accrued consumption taxes	66	(60)
Other, net	(904)	(1,086)
Subtotal	5,696	9,873
Interest and dividend income received	1	2
Interest paid	(0)	(0)
Income taxes (paid) refund	(2,365)	(1,836)
Other, net	23	120
Net cash provided by (used in) operating activities	3,355	8,160
Cash flows from investing activities		
Purchase of property, plant and equipment	(600)	(559)
Purchase of intangible assets	(30)	(127)
Proceeds from sales of property, plant and equipment	0	242
Purchase of investment securities	(0)	(157)
Payments of leasehold and guarantee deposits	(238)	(113)
Proceeds from refund of leasehold and guarantee deposits	114	32
Purchase of long-term prepaid expenses	(90)	(53)
Payments for acquisition of businesses	-	(29)
Other, net	75	(7)
Net cash provided by (used in) investing activities	(770)	(772)
Cash flows from financing activities		
Purchase of treasury shares	(0)	-
Dividends paid	(1,565)	(1,342)
Other, net	(0)	-
Net cash provided by (used in) financing activities	(1,566)	(1,342)
Effect of exchange rate change on cash and cash equivalents	0	(0)
Net increase (decrease) in cash and cash equivalents	1,020	6,045
Cash and cash equivalents at beginning of period	7,821	11,360
Cash and cash equivalents at end of period	8,841	17,405