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Non-consolidated Financial Results for the Year Ended March 31, 2020[Japanese GAAP]

April 30, 2020

Company name: CONEXIO Corporation
Code number: 9422
Representative: Hiroo Inoue
President
Contact: Shinya Nakada
General Manager, Corporate Planning Department
Phone: 03-5331-3702
Stock exchange listing: Tokyo
URL: https://www.conexio.co.jp

Scheduled date of Annual General Meeting of Shareholders: June 23, 2020
Scheduled date of commencing dividend payments: June 24, 2020
Scheduled date of filing annual securities report: June 23, 2020
Availability of supplementary briefing material on annual financial results: Yes
Schedule of annual financial results briefing session: Yes

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

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

(1) Non-consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2020	209,005	(20.8)	10,330	0.5	10,515	(0.2)	7,000	1.1
March 31, 2019	263,925	(0.4)	10,277	0.7	10,539	2.4	6,921	2.7

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets ratio	Operating profit to net sales ratio
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2020	156.48	-	15.8	10.6	4.9
March 31, 2019	154.72	-	17.2	10.4	3.9

(Reference) Equity in earnings (losses) of affiliated companies: Fiscal year ended March 31, 2020: ¥ - million
Fiscal year ended March 31, 2019: ¥ - million

(2) Non-consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2020	95,757	46,287	48.3	1,034.64
March 31, 2019	103,506	42,106	40.7	941.18

(Reference) Equity: As of March 31, 2020: ¥ 46,287 million
As of March 31, 2019: ¥ 42,106 million

(3) Non-consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
March 31, 2020	13,118	(1,290)	(2,685)	20,499
March 31, 2019	8,558	(2,108)	(2,909)	11,360

2. Dividends

	Annual dividends					Total dividends	Payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
March 31, 2019	-	30.00	-	30.00	60.00	2,684	38.8	6.7
March 31, 2020	-	30.00	-	30.00	60.00	2,684	38.3	6.1
Fiscal year ending March 31, 2021(Forecast)	-	-	-	-	-		-	

The dividends for the fiscal year ending March 31, 2021 is undecided at the present stage, and the dividends forecast will be immediately disclosed when the financial results forecast can be disclosed.

3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2021 (April 01, 2020 to March 31, 2021)

The impact of the widespread outbreak of coronavirus disease 2019 (COVID-19) on our business results is unclear, and we will disclose the financial results forecast as soon as we can comprehend it to a certain degree, based on an assessment of the changing circumstances in the future.

* Notes:

(1) 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

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

1) Total number of issued shares at the end of the period (including treasury shares):	March 31, 2020:	44,737,938 shares	March 31, 2019:	44,737,938 shares
2) Total number of treasury shares at the end of the period:	March 31, 2020:	122 shares	March 31, 2019:	122 shares
3) Average number of shares during the period:	Fiscal Year ended March 31, 2020:	44,737,816 shares	Fiscal Year ended March 31, 2019:	44,737,817 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.

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1. Overview of operating results, etc.

(1) Overview of operating results for the fiscal year ended March 31, 2020

(i) Operating results for the fiscal year ended March 31, 2020

The Japanese economy in the fiscal year under review, while having showed a gradual recovery following improving corporate profits and employment, is currently being heavily depressed due to trade issues and the COVID-19 Pandemic and is also expected to remain under severe pressure for the time being.

In the mobile phone market in which the Company conducts business activities, the “Telecommunications Business Act” was revised to introduce simple and user-friendly price packages for mobile phones and to optimize the subsidy system for the purchase of mobile handsets. The resulting increase in handset unit price, as well as the consumption tax hike, caused a significant decrease in the number of handset units sold. On the other hand, the commercial service of the new telecommunication standard, “5G” (the 5th generation mobile telecommunication system), was launched in the spring of 2020. The mobile phone market is now moving toward a new stage since demand for services utilizing various technologies and “5G”-compatible handsets is expected to rise following the wide spread availability of “5G” with the expansion of “5G” coverage.

Under such a business environment, our handset unit sales totaled 2.01 million units (down 19.8% year-on-year) due to the enforcement of the revised “Telecommunications Business Act” and the consumption tax hike, but we achieved an increase in operating profit for the 9th consecutive year and an increase in profit for the 8th consecutive year due to the revenue growth achieved through our own initiatives (such as peripheral products for smartphones and mobile help desk services for corporate clients).

As a result, for the fiscal year under review, net sales were 209,005 million yen (down 20.8%), operating profit was 10,330 million yen (up 0.5%), ordinary profit was 10,515 million yen (down 0.2%) and profit was 7,000 million yen (up 1.1%).

◆Financial results

(Million yen)

Account title	FY2019	FY2020	Year-on-year change (%)
Net sales	263,925	209,005	(20.8)
Operating profit	10,277	10,330	0.5
Ordinary profit	10,539	10,515	(0.2)
Profit	6,921	7,000	1.1

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's unique services "nexiplus" to meet the needs of smartphone users and strengthen the relationship with them.

In the Consumer Business, operating profit decreased due to the decline in handset unit sales while we saw revenue growth in our own initiatives, which was insufficient to cover said revenue decrease. At 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 of "a space for learning." The shops are also shortening customer waiting time and improving customer satisfaction by expanding reservation slots for shop visits and improving operations.

As a result, the financial results of the Consumer Business were 191,810 million yen in net sales (down 21.6%) and 13,196 million yen in operating profit (down 2.7%).

◆Financial results

(Million yen)

Account title	FY2019	FY2020	Year-on-year change (%)
Net sales	244,587	191,810	(21.6)
Operating profit	13,566	13,196	(2.7)

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 corporate customers. The Company also offers mobile handset management and operation services to corporate clients (outsourcing services covering mobile help desk, handset set-up, etc.), prepaid cards to convenience stores, and IoT solutions.

In the Corporate Business, operating profit increased due to the increase in the number of companies adopting the mobile helpdesk and the proactive development of mobile solutions that promote companies' "workstyle reforms," despite the decrease in handset unit sales. As for IoT solutions, the Company has been establishing a track record of tests and the full-scale implementation of various services that have already been released centering on the Edge Computing Gateway, "CONEXIOBlackBear," as well as making efforts to accumulate knowledge and build sales channels for solution products, in preparation for the advent of "5G." Furthermore, we entered into a capital and business alliance agreement with SunBridge Inc. in September 2019 for the further development of our business domain.

As a result, the financial results of the Corporate Business were 17,194 million yen in net sales (down 11.1%) and 1,714 million yen in operating profit (up 75.4%).

◆Financial results

(Million yen)

Account title	FY2019	FY2020	Year-on-year change (%)
Net sales	19,337	17,194	(11.1)
Operating profit	977	1,714	75.4

(2) Overview of financial position for the fiscal year ended March 31, 2020

(i) Status of assets, liabilities and net assets

(Current assets)

Current assets decreased by 7,070 million yen from the end of the previous fiscal year to 75,524 million yen. This was mainly due to a decrease in notes and accounts receivable-trade of 8,904 million yen, a decrease in accounts receivable-other of 4,102 million yen, a decrease in merchandise and finished goods of 3,299 million yen, and an increase in cash and deposits of 9,301 million yen.

(Non-current assets)

Non-current assets decreased by 677 million yen from the end of the previous fiscal year to 20,233 million yen. This was mainly due to a decrease in the right of carrier shop management of 665 million yen, a decrease in tools, furniture and fixtures of 342 million yen, a decrease in buildings of 215 million yen, a decrease in long-term prepaid expenses of 115 million yen, a decrease in goodwill of 108 million yen, a decrease in investment securities of 105 million yen, and an increase in deferred tax assets of 812 million yen.

As a result, total assets decreased by 7,748 million yen from the end of the previous fiscal year to 95,757 million yen.

(Current liabilities)

Current liabilities decreased by 12,165 million yen from the end of the previous fiscal year to 43,099 million yen. This was mainly due to a decrease in accounts payable-trade of 6,881 million yen, a decrease in accounts payable-other of 5,513 million yen, a decrease in accrued agency commission of 1,479 million yen, an increase in provision for bonuses of 850 million yen and an increase in accrued consumption taxes of 723 million yen.

(Non-current liabilities)

Non-current liabilities increased by 235 million yen from the end of the previous fiscal year to 6,371 million yen. This was mainly due to an increase in provision for retirement benefits of 328 million yen, a decrease in provision for bonuses of 24 million yen, and a decrease in provision for directors' bonuses of 11 million yen.

As a result, total liabilities decreased by 11,929 million yen from the end of the previous fiscal year to 49,470 million yen.

(Net assets)

Net assets increased by 4,181 million yen from the end of the previous fiscal year to 46,287 million yen. This was mainly due to the increase as a result of the recognition of profit of 7,000 million yen and the decrease as a result of dividend payment of 2,684 million yen.

As a result, the Company's equity ratio was 48.3%.

(ii) Status of cash flows

Cash and cash equivalents (hereinafter referred to as "Cash") at the end of the current fiscal year increased by 9,139 million yen from the end of the previous fiscal year to 20,499 million yen.

(Cash flows from operating activities)

Cash obtained from operating activities was 13,118 million yen (up 4,560 million yen from the previous fiscal year). This was mainly because the increasing factors, including the recognition of profit before income taxes of 10,386 million yen, a decrease in trade receivables of 8,901 million yen, a decrease in accounts receivable-other of 4,102 million yen, a decrease in inventories of 3,293 million yen and the recognition of depreciation of 2,032 million yen, exceeded the decreasing factors, including a decrease in trade payables of 8,360 million yen and a decrease in accounts payable-other of 5,468 million yen.

(Cash flows from investing activities)

Cash used for investing activities was 1,290 million yen (down 817 million yen from the previous fiscal year). This was mainly due to the expenditure of 902 million yen for the purchase of property, plant and equipment and the expenditure of 208 million yen for the purchase of intangible assets.

(Cash flows from financing activities)

Cash used for financing activities was 2,685 million yen (down 223 million yen from the previous fiscal year). This was due to the dividends paid of 2,685 million yen.

(Reference) Changes in cash flow related indicators

	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020
Equity ratio (%)	31.5	36.3	38.4	40.7	48.3
Market-value equity ratio (%)	53.7	81.4	102.1	60.3	63.3
Cash flow to interest-bearing debt ratio (%)	0.3	—	—	—	—
Interest coverage ratio (times)	263.5	716.3	907.8	4,164.6	1,064,150.8

(Note) 1. Equity ratio: Equity / total assets
2. Market-value equity ratio: market capitalization / total assets
*Market capitalization is calculated by multiplying the stock's closing price at the term end by the number of outstanding shares at term end.
3. Ratio of interest-bearing liabilities to cash flow: Interest-bearing liabilities/cash flows from operating activities
*The Company had no interest-bearing debt in the year ended March 31, 2017 and the year ended March 31, 2018 and the year ended March 31, 2019 and the year ended March 31, 2020. Accordingly, the cash flow to interest-bearing debt ratio is not stated.
4. Interest coverage ratio: Cash flows from operating activities/interest payments

(3) Outlook

(i) Perception of the business environment

In the mobile phone market in which the Company mainly conducts its business activities, the number of handset unit sold has been decreasing due to the impact of the revised “Telecommunications Business Act” and the COVID-19 Pandemic. Furthermore, in the working environment, the Company is required to develop a new personnel system following the introduction of the “equal pay for equal work” regime that intends to eliminate unreasonable treatment differences between regular employees and non-regular employees. On the other hand, commercial services of the new telecommunication standard, “5G” (5th generation mobile telecommunication system), were launched in the spring of 2020. Going forward, demand for services utilizing various technologies and “5G”-compatible handsets is expected to grow following the wide spread availability of “5G” with the expansion of “5G” coverage. With the announcement of the end of the “3G” (3rd generation mobile telecommunication system) services currently being provided, demand for transitioning from conventional mobile phones to smartphones is expected to grow toward the future. In the corporate market, the wider utilization of mobile solutions and the creation of IoT utilization opportunities for corporate clients are expected since an increasing number of companies have been introducing telework systems in response to accelerating needs for workstyle reforms under the COVID-19 Pandemic. In addition, the mobile phone market is now moving toward a new stage with the entry of the fourth telecom carrier, which will further accelerate the competition to lock in customers among carriers and the expanded online sales of mobile handsets.

(ii) Basic policy of the medium-term management plan and the 5 business strategies for the fiscal year ending March 31, 2021

On May 1, 2018, the Company announced its medium-term management plan which extends until the fiscal year ending March 2021 (*see reference materials below).

Based on the aforementioned business environment and the basic policy of the medium-term management plan, the Company will focus on the following activities, which we recognize as our business challenges, during the fiscal year ending March 31, 2021, the final year of the medium-term management plan.

<1. Build a long-term relationship with customers>

Currently, the number of store visitors has been decreasing because of shortened store operating hours due to the COVID-19 Pandemic. We will strive to offer our services with peace of mind to customers by shortening our service time per customer. At the same time, we anticipate that demand for 5G-supporting handsets will create new contact opportunities with customers. We aim to provide the best-fit services for each customer and deepen the customer relationship through services that cannot be provided online to make ourselves the store of choice for customers.

<2. Achieve highly productive shop operations>

We will continue to increase the reservation slots for customers and further improve the customer service process to reduce the waiting time and staying time of customers. In addition, we will introduce IT for store operations and improve operational efficiency to further enhance our productivity.

<3. Evolve into a mobile solutions provider>

Corporate demand for smartphones and mobile solutions has been increasing due to the COVID-19 Pandemic; smartphones have been introduced at a rapid pace even at small and medium-sized enterprises. We will establish a solution-oriented sales system while enhancing a product lineup that is highly synergistic with mobile phones meeting strong customer needs while expanding the functions of mobile handset management and operation services.

<4. Enhance IoT/5G solutions>

With the advent of technologies such as 5G, AI and AR, IoT with various information processing features has been increasingly utilized for industrial use. We aim to deploy solution packages for the manufacturing, construction and construction/agricultural machinery industries with a focus on “CONEXIOBlackBear,” which has advantages in edge computing.

<5. Reinforce the management base>

・Capital strategy

The Company upholds the basic policy on profit allocation to endeavor to improve financial results so that it can consistently pay stable dividends to shareholders at a payout ratio of about 40%. The Company will continue to uphold this basic policy.

・Investment strategy

The Company will steadily carry out strategic investments that will lead to future growth, while at the same time make investments in directly-operated shops, as well as growth investments such as reinforcing the functions of the IT systems to enhance the productivity and the energy-saving functions of the shops. Also in the insurance agency business, which was launched as a new business in March 2020, we will stabilize store operations, generate profits, and open new stores.

・Human capital strategy

We have strived to change the employment status of store sales staff to regular employees, improve workstyles and enhance the work-life balance of employees. We will maintain the current workforce in anticipation of the post COVID-19 Pandemic and continue to invest in human resources, through efforts such as the implementation of new personnel systems that comply with the equal pay for equal work regime, including improved treatment of store sales staff, and further improvement of the retention rate.

・ESG/CSR management

The Company will upgrade its initiatives in the fields of environment, society and governance and SDGs in order to meet the expectations of its stakeholders.

(Environment)

The Company will make efforts to lessen the environmental burden in business processes through such initiatives as collecting used mobile phones and reducing power usage.

(Society)

In recognition of its role as a company responsible for social infrastructure, the Company will continue to offer high-quality services that will satisfy its customers, while at the same time continuing educational activities to promote the safe and secure use of the Internet.

(Governance)

With the recognition that compliance and information security are the most important issues in our CSR, we will strive to

develop a more effective check and control system and continue to enhance education and training programs for employees. In the area of corporate governance, we will further strengthen the supervisory function of the Board of Directors.

(iii) Business performance forecast

Following the declaration by the Japanese government of a state of emergency on April 7, 2020 and the request by the Ministry of Internal Affairs and Communications of "Further efforts to prevent the COVID-19 Pandemic," each telecom carrier has shortened business hours and limited customer requests handled at stores. Inevitably, the number of customers coming to our stores and the sales volume, especially at our carrier shops, have been declining significantly.

While it is still difficult to anticipate future developments, we are currently conducting analysis and trial calculations in an effort to see if we can disclose any business performance forecasts based on certain assumptions regarding the timing of the end of the Pandemic.

We will disclose the business performance forecast for the current fiscal year as soon as the impact amount can be sorted out while keeping an eye on the changing situation.

(*Reference)

Basic policy of the medium-term management plan (Fiscal year ending March 31, 2019 to fiscal year ending March 31, 2021) (Announced on May 1, 2018)

CONEXIO Plan 2020

Strengthening Touch points with Costumers and Enhancing Productivity towards Achieving a Smart Society Pioneered by 5G

Given that the Company as a member of the telecommunication industry is afforded opportunities to access state-of-the-art practical technology such as 5G ahead of others, We believe that the company has a responsibility to utilize these technologies to enrich society. Particularly from a role which we are in customer contact points, the Company recognizes the expectations placed on its role to connect people with new services to the end of realizing a society in which everyone can enjoy the benefits of 5G.

The Company, as an optimal partner, will firmly standby our customers to provide secure and reliable services towards the age of 5G.

Furthermore, in an increasingly harsh employment environment, the Company intends to enhance productivity by reviewing its existing services, proactively adopting IT systems and investing in human capital.

・5 business strategies that look towards the age of 5G

In order to achieve the basic policy of the plan, the Company has formulated 5 business strategies that look towards the age of 5G, as follows.

[5 Business Strategies that Look towards the Age of 5G]

1. Build a long-term relationship with customers
2. Achieve highly productive shop operations
3. Evolve into a mobile solutions provider
4. Enhance IoT/5G solutions
5. Reinforce the management base
   - ・Capital strategy: Aim for a dividend payout ratio of 40% and ROE of 15%
   - ・Investment strategy: Steadily carry out strategic investments that will lead to future growth
   - ・Human capital strategy: Reinforce human capital investments that sustain CONEXIO
   - ・ESG/CSR management: Further promote ESG/CSR management

(4) Basic Policy on Profit Allocation, and Dividend Payment for the Current and Next Terms

The Company recognizes the return of profit to shareholders as one of the key issues of management and it is our basic profit appropriation policy to endeavor to improve financial results so that we can pay stable dividends at a payout ratio of about 40% consistently over period.

Based on this policy, after considering various factors including the financial results for the fiscal year under review and the stability of dividends, the Company plans to pay a year-end ordinary dividend of 30 yen per share. As a result, the full-year dividend will be 60 yen per share (interim at 30 yen, year-end at 30 yen).

For the next fiscal year, we will disclose the business performance forecast for the current fiscal year and the dividend forecast based on it as soon as the impact amount can be sorted out while keeping an eye on the changing situation.

(5) Business Risks

Risks that may impact the operating results and the financial condition of the Company are stated below. Items that do not fall under the category of business risks are also included from the viewpoint of proactive disclosure if an item is deemed significant in terms of investment decision-making by investors. The Company recognizes the potential for these risks, and then endeavors to avoid their occurrence, as well as to localize and minimize the impact, should the risks materialize. The decision to invest in the Company, however, must ultimately lie with the measured judgment and self-responsibility of the investor. Items concerning the future in the text below have been recognized by the Company as of the filing date.

< Social, economic and regulatory risks>

① Personal information leakage, etc.

We handle the personal information disclosed by customers to the telecom carrier under situations including the conclusion of contracts, etc. We also collect personal information in other services provided by the Company. We follow the strict rules and manuals of telecom carriers upon the conclusion of contracts and strive to enhance employee education and business partner management, including other services handled by the Company. We have developed thorough management systems that enable us to prevent unexpected incidents, including the ISO 27001 certification (Note 2) obtained especially for the business areas (Note 1) where personal information is collected. The unlikely event of information leakage would make our group liable to our business partners, hinder our reputation and have a significant impact on our group's performance.

(Note) 1. Certified scope of work:

- Acting as an intermediary for concluding mobile phone contracts in Call Center, Distribution Center
- Network solution service, Mobile solution service
- Acting as an intermediary for concluding mobile phone contracts, providing after-sales services to subscribers, and selling mobile phone handsets for corporate customers in the Head Office, branch offices and business centers

2. International Standards for information security management systems

② Laws and regulations

The agency business for telecom carriers, etc. is subject to various laws and regulations including the Telecommunications Business Act, the Antimonopoly Act (Act on Prohibition of Private Monopolization and Maintenance of Fair Trade), the Act against Unjustifiable Premiums and Misleading Representations, the Act on the Protection of Personal Information, the Act on Identification, etc. by Mobile Voice Communications Carriers of their Subscribers, etc. and for the Prevention of Improper Use of Mobile Voice Communications Services, the Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People, the Guidelines for Consumer Protection Rules for the Telecommunications Business Act, the Guidelines on the Protection of Personal Information in the Telecommunications Business and the Code of Ethics in Sales Activities of Agents prescribed by the Telecommunications Carriers Association. In addition to the above, the insurance agency business launched in March 2020 is subject to legal restrictions such as the "Insurance Business Act" and the "Order for Enforcement of the Insurance Business Act."The Company makes efforts to strengthen the internal management system including the employee education to comply with these laws and regulations. However, if there is a violation of these laws and regulations, the Company may be subject to claims for compensation for damages, cancellation of agency contracts, suspension of operation, etc. This may significantly impact the financial results of the Company.

③ Effect of changes in the rules proposed by the Ministry of Internal Affairs and Communications

The Ministry of Internal Affairs and Communications revised the "Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People" in February 2018 and the "Guidelines for Consumer Protection Rules of the Telecommunications Business Act" in September 2018. Furthermore, "Urgent Proposals for Optimization of Mobile Services, etc." was announced in January 2019, and the revised "Telecommunications Business Act" came into effect in October 2019. In spite of the regular efforts made by the Company, as a mobile phone agency, to execute appropriate operations, any future amendment of laws and regulations relating to these developments may affect the strategies of telecom carriers as well as the entire mobile phone market and may also affect the business and financial results of the Company.

<Risks concerning business strategy>

④ Concentration on mobile phone agency business

The sales of the Company are largely from the mobile phone agency business. Steady demand is expected in the mobile phone market, particularly from replacement needs. However, if mobile phone services and products themselves lose their appeal or substitute services/products are commercialized, their sales may significantly contract and this may impact the financial results of the Company.

⑤ Business expansion through business acquisitions, etc.

The Company may, among other things, expand its business or distribution network through business transfer or merger involving other companies in the industry in the future. Goodwill emerging as a result of such merger may impact the financial position and the financial results of the Company. Depending on the market conditions or economic environment, there is no guarantee that such merger, etc. will produce results that had been initially expected and this may impact the financial results of the Company. Similarly, goodwill, etc. resulting from the merger with Panasonic Telecom Co. on October 1, 2012 may also impact the financial results of the Company.

< Risks relating to the market and competition >

⑥ Impact of telecom carriers' business policies

The Company obtains commissions from telecom carriers for selling mobile phone handsets, concluding mobile phone contracts, and after-sales service. The commission system is different for each telecom carrier, and the type, unit price, subject period, subject customers and contents of the service for commission payment, the ratio against the communications fees paid, etc., may be reviewed accordingly depending on each telecom carrier's performance and sales policy. Furthermore, it is required in the agency contract with the telecom carrier that if a user who has entered into a contract via the Company cancels the contract within a certain period, the Company must return part of the commission which was paid to the Company from the telecom carrier at the time of the contract. Agency contracts with telecom carriers that underline these transactions are usually renewed automatically every year, although the contract can be dissolved either by the telecom carrier or the Company by advance notice. Such business policies and changes in the contracts may significantly impact the financial results of the Company.

⑦ Constraints in store development

The Company has carrier-certified shops across the country based on the service agreement which is attached to the agency agreement with the telecom carrier (the Company owns or rents 292 stores in addition to 141 stores of which operation the Company contracts out to secondary agencies), and the Company intends to continue its aggressive opening of new stores and its review of locations from the viewpoint of profitability. However, the entity operating a carrier-certified shop is selected by the telecom carrier, and there are many carrier-certified stores that already exist in the market, with limited room for new stores, and thus things may not go according to plan. In cases where operation is contracted out to a secondary agency, the management policy of the secondary agency may affect the service quality of the Company's network of stores, and thus the financial results of the Company may be affected.

⑧ Concentration of sales and purchases on NTT DOCOMO, INC.

The main business of the Company is the agency business for NTT DOCOMO, INC. NTT DOCOMO, INC. is the leading company in the industry with about a 45% share of mobile phone subscribers as of the end of December 2019 (source: Telecommunications Carriers Association). The Company has shared marketing strategies with NTT DOCOMO, INC. from the earliest days of the mobile phone market, and has invested management resources in expanding docomo shops and developing strong sales channels such as major electronics retailers, which together contribute considerably to the Company's high profitability. However, if a situation occurs such as

the customer base of NTT DOCOMO, INC. contracts drastically due, for example, to competition among telecom carriers, this may impact the financial results of the Company.

[Commission income]

	Year ended March 31, 2019		Year ended March 31, 2020	
	Net sales (million yen)	Component ratio (%)	Net sales (million yen)	Component ratio (%)
Commission income (NTT DOCOMO, INC.)	60,337	77.8	53,287	74.4
Total commission income	77,542	100.0	71,596	100.0

[Cost of purchased goods]

	Year ended March 31, 2019		Year ended March 31, 2020	
	Purchase of goods (million yen)	Component ratio (%)	Purchase of goods (million yen)	Component ratio (%)
Cost of purchased goods (NTT DOCOMO, INC.)	159,664	88.5	111,942	86.9
Total cost of purchased goods	180,385	100.0	128,757	100.0

<Risks relating to human resources>

⑨ Securing necessary personnel

In the labor market, there has been a serious shortage in the youthful workforce year after year as a result of the declining birthrate, and the stable securing of necessary human capital is expected to become even more difficult. In the mobile phone sales business in which the Company conducts business activities, the increasingly diverse service offerings and the long hours of serving customers in addition to further sophistication of the functions of the smartphones, tablet devices, etc. have become a burden on the shop sales staff, and securing a stable workforce and enhancing the retention rate have become issues of increasing importance. On the other hand, we have endeavored to improve the treatment of store sales staff since April 1, 2020 by reviewing our personnel systems to support the equal pay for equal work regime. We have achieved an enhanced work-life balance of employees and improved productivity up until now as a result of our continuous efforts to “improve workstyles,” such as reducing total working hours and urging the taking of long vacations. Going forward, we will continue to actively invest in human resources and endeavor to promote diversity-conscious management by further promoting human resources development through the promotion of “CONEXIO College,” our company-wide education system and women's active participation.

However, if the Company is unable to secure employees including sales staff as planned and the retention rate deteriorates, this may destabilize the financial results of the Company.

<Matters concerning disasters, infectious diseases, etc.>

⑩ Impact of disasters, infectious diseases, etc.

The Company is committed to risk management, including the formulation of a business continuity plan (BCP), the implementation of disaster prevention measures/disaster prevention drills, the development of communication systems under the disaster management headquarters and property and casualty insurance coverage, in preparation for the occurrence of (and in an effort to minimize the surge of losses upon their occurrence) natural disasters including earthquakes, typhoons/heavy rain, floods/immersions, heavy snowfalls, tsunamis and lightning, human disasters including blackouts, traffic interruptions, fires and explosions, the spread of highly-infectious epidemics such as influenza, and employees infected with highly-toxic influenza or highly-infectious new diseases. Especially for COVID-19, our store operations may be restricted based on the policy of the telecom carrier in response to the government's declaration of a state of emergency and requests from the Ministry of Internal Affairs and Communications. In addition, we proactively promote telework and shift work from the perspective of preventing infections inside and outside the Company and ensuring employee safety. At carrier-certified shops, we also make efforts such as shortening the customer service time and ensuring social distancing by keeping intervals between waiting seats as much as possible.

Our business performance and financial position may be affected if the aforementioned disasters or infectious diseases occur.

<Risks relating to the parent company>

⑪ Relationship with the parent company

As of the filing date, ITOCHU Corporation is the parent company and owns 60.35% of voting rights of the Company. However, the business and human relationships, etc. are limited. As a result, if the capital relationship with the parent company were to change, the impact on the business would be minor.

2. Corporate Group

The corporate group consists of the Company and CONEXIO WITH Corporation (a wholly-owned subsidiary to promote the employment of people with disabilities, unconsolidated). The Group's core business is to serve as a sales agency, which involves acting as an intermediary for concluding contracts of communication services such as mobile phones, providing after-sales services to subscribers, and selling mobile phone handsets, etc.

“Intermediary for concluding contracts of communication services” refers to acting as an intermediary based on agency agreements with telecom carriers (such as NTT DOCOMO, INC., KDDI Corp., Softbank Corp., etc.) to conclude contracts of telecommunications services provided by the telecom carriers for consumer and corporate customers. The Company receives commissions from the telecom carriers at the time of conclusion of contract and during certain subsequent periods. The Company also receives commissions relating to various after-sales services for customers at carrier-certified shops (such as docomo shops, au shops and Softbank shops). The “sale of mobile phone handsets” refers to sale of mobile communication terminals such as mobile phones purchased from telecom carriers, etc., to consumer and corporate customers.

The Company carries out these business activities at carrier-certified shops and major electronics retailers, as well as in the corporate business departments.

(1) Consumer Business

In the Consumer Business, the Company mainly 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. The Company has two main sales channels: carrier-certified shops and major electronics retailers. The Company does not operate small shops that specialize in the sale of mobile phone handsets without contracted after-sales services. In addition, the Company operates a portal site “nexiplus” to meet the needs of smartphone users and strengthen the relationship with them.

(2) 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 handset management and operation services to corporate clients (outsourcing services covering mobile help desk, handset set-up, etc.) and provides prepaid cards to convenience stores and IoT solutions (such as technology for the automated mutual collection of information, management and control between networked machines).

3. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheets

(Million yen)

	As of March 31,2019	As of March 31,2020
Assets		
Current assets		
Cash and deposits	11,086	20,387
Notes and accounts receivable - trade	49,285	40,380
Merchandise and finished goods	8,221	4,922
Raw materials and supplies	29	36
Prepaid expenses	788	877
Accounts receivable - other	12,914	8,812
Deposits paid	273	111
Other	0	-
Allowance for doubtful accounts	(6)	(5)
Total current assets	82,594	75,524
Non-current assets		
Property, plant and equipment		
Buildings	5,519	5,705
Accumulated depreciation	(2,651)	(3,053)
Buildings, net	2,867	2,651
Structures	331	356
Accumulated depreciation	(120)	(134)
Structures, net	210	222
Machinery and equipment	9	9
Accumulated depreciation	(3)	(4)
Machinery and equipment, net	5	5
Tools, furniture and fixtures	4,618	4,581
Accumulated depreciation	(2,950)	(3,256)
Tools, furniture and fixtures, net	1,668	1,325
Land	52	52
Construction in progress	0	6
Total property, plant and equipment	4,804	4,262
Intangible assets		
Goodwill	1,499	1,390
Software	331	407
Software in progress	13	18
The right of career shop management	8,985	8,319
Other	9	9
Total intangible assets	10,839	10,146
Investments and other assets		
Investment securities	295	189
Shares of subsidiaries and associates	13	13
Long-term prepaid expenses	391	276
Deferred tax assets	597	1,410
Leasehold and guarantee deposits	3,856	3,827
Other	181	149
Allowance for doubtful accounts	(68)	(42)
Total investments and other assets	5,267	5,824
Total non-current assets	20,911	20,233
Total assets	103,506	95,757

(Million yen)

	As of March 31,2019	As of March 31,2020
Liabilities		
Current liabilities		
Accounts payable - trade	20,275	13,394
Accrued agency commission	11,607	10,128
Accounts payable - other	12,387	6,874
Accrued expenses	3,291	2,980
Income taxes payable	2,095	2,547
Accrued consumption taxes	767	1,490
Advances received	13	10
Deposits received	969	959
Provision for bonuses	3,800	4,651
Provision for bonuses for directors (and other officers)	23	34
Other	33	27
Total current liabilities	55,264	43,099
Non-current liabilities		
Provision for bonuses	24	-
Provision for directors' bonuses	11	-
Provision for retirement benefits	5,252	5,580
Asset retirement obligations	669	668
Other	176	122
Total non-current liabilities	6,135	6,371
Total liabilities	61,400	49,470
Net assets		
Shareholders' equity		
Share capital	2,778	2,778
Capital surplus		
Legal capital surplus	580	580
Other capital surplus	4	4
Total capital surpluses	585	585
Retained earnings		
Legal retained earnings	113	113
Other retained earnings		
General reserve	2,469	2,469
Retained earnings brought forward	36,022	40,339
Total retained earnings	38,606	42,922
Treasury shares	(0)	(0)
Total shareholders' equity	41,970	46,286
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	46,287
Total liabilities and net assets	103,506	95,757

(2) Non-consolidated Statements of Income

(Million yen)

	For the fiscal year ended March 31,2019	For the fiscal year ended March 31,2020
Net sales		
Net sales of goods	186,382	137,409
Commission income	77,542	71,596
Total net sales	263,925	209,005
Cost of sales		
Beginning merchandise inventory	8,900	8,221
Cost of purchased goods	180,385	128,757
Total	189,285	136,979
Ending merchandise inventory	8,264	5,092
Valuation loss on goods	43	169
Cost of goods sold	181,064	132,056
Agent fee	30,980	24,703
Total cost of sales	212,044	156,760
Gross profit	51,880	52,245
Selling, general and administrative expenses		
Remuneration for directors (and other officers)	144	179
Salaries and allowances	11,430	11,087
Bonuses	1,174	1,356
Provision for bonuses	3,824	4,651
Provision for bonuses for directors (and other officers)	34	34
Retirement benefit expenses	579	553
Legal welfare expenses	3,627	3,891
Temporary staffing expense	2,403	2,029
Packing and delivery expenses	539	382
Promotion expenses	2,821	2,439
Communication expenses	544	554
Rent expenses on land and buildings	4,293	4,518
Repair and maintenance expenses	943	1,364
Outsourcing expenses	1,444	1,086
Rent expenses	124	173
Depreciation	2,086	2,032
Amortization of goodwill	124	125
Provision of allowance for doubtful accounts	0	-
Other	5,459	5,452
Total selling, general and administrative expenses	41,602	41,914
Operating profit	10,277	10,330

(Million yen)

	For the fiscal year ended March 31,2019	For the fiscal year ended March 31,2020
Non-operating income		
Interest income	0	0
Dividend income	4	4
Support money of store move etc income	154	148
Gain on sales of goods	116	-
Other	57	45
Total non-operating income	332	199
Non-operating expenses		
Interest expenses	2	0
Foreign exchange losses	0	2
Loss on sales and retirement of non-current assets	49	4
Rental expenses on real estate	3	2
Loss on cancellation of contracts	6	3
Other	8	2
Total non-operating expenses	70	14
Ordinary profit	10,539	10,515
Extraordinary income		
Gain on sales of non-current assets	6	-
Gain on sales of investment securities	0	174
Other	0	11
Total extraordinary income	6	186
Extraordinary losses		
Loss on store closings	60	48
Loss on sales and retirement of non-current assets	80	18
Impairment loss	83	244
Loss on valuation of shares of subsidiaries and associates	16	-
Other	4	2
Total extraordinary losses	244	314
Profit before income taxes	10,302	10,386
Income taxes - current	3,764	4,130
Income taxes - deferred	(384)	(744)
Total income taxes	3,380	3,386
Profit	6,921	7,000

(3) Non-consolidated Statements of Changes in Eqity

For the fiscal year ended March 31,2019

(Million yen)

	Shareholders' equity							
	Share capital	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
						General reserve	Retained earnings brought forward	
Balance at beginning of period	2,778	580	4	585	113	2,469	32,008	34,592
Changes during period								
Dividends of surplus							(2,907)	(2,907)
Profit							6,921	6,921
Purchase of treasury shares								
Net changes in items other than shareholders' equity								
Total changes during period	-	-	-	-	-	-	4,013	4,013
Balance at end of period	2,778	580	4	585	113	2,469	36,022	38,606

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	(0)	37,956	218	218	38,174
Changes during period					
Dividends of surplus		(2,907)			(2,907)
Profit		6,921			6,921
Purchase of treasury shares	(0)	(0)			(0)
Net changes in items other than shareholders' equity			(82)	(82)	(82)
Total changes during period	(0)	4,013	(82)	(82)	3,931
Balance at end of period	(0)	41,970	136	136	42,106

For the fiscal year ended March 31,2020

(Million yen)

	Shareholders' equity							
	Share capital	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
						General reserve	Retained earnings brought forward	
Balance at beginning of period	2,778	580	4	585	113	2,469	36,022	38,606
Changes during period								
Dividends of surplus							(2,684)	(2,684)
Profit							7,000	7,000
Purchase of treasury shares								
Net changes in items other than shareholders' equity								
Total changes during period	-	-	-	-	-	-	4,316	4,316
Balance at end of period	2,778	580	4	585	113	2,469	40,339	42,922

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	(0)	41,970	136	136	42,106
Changes during period					
Dividends of surplus		(2,684)			(2,684)
Profit		7,000			7,000
Purchase of treasury shares		-			-
Net changes in items other than shareholders' equity			(135)	(135)	(135)
Total changes during period	-	4,316	(135)	(135)	4,181
Balance at end of period	(0)	46,286	0	0	46,287

(4) Non-consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended March 31,2019	For the fiscal year ended March 31,2020
Cash flows from operating activities		
Profit before income taxes	10,302	10,386
Depreciation	2,086	2,032
Amortization of goodwill	124	125
Impairment loss	83	244
Increase (decrease) in allowance for doubtful accounts	(1)	(2)
Increase (decrease) in provision for bonuses	412	826
Increase (decrease) in provision for bonuses for directors (and other officers)	12	0
Increase (decrease) in provision for retirement benefits	364	328
Interest and dividend income	(4)	(4)
Interest expenses	2	0
Foreign exchange losses (gains)	1	3
Loss (gain) on sales of investment securities	(0)	(174)
Decrease (increase) in trade receivables	(351)	8,901
Decrease (increase) in accounts receivable - other	(725)	4,102
Decrease (increase) in inventories	739	3,293
Increase (decrease) in trade payables	(231)	(8,360)
Increase (decrease) in accounts payable - other	136	(5,468)
Increase (decrease) in accrued consumption taxes	175	723
Other, net	(428)	(283)
Subtotal	12,696	16,673
Interest and dividends received	4	4
Interest paid	(2)	(0)
Income taxes (paid) refund	(4,253)	(3,700)
Other, net	112	140
Net cash provided by (used in) operating activities	8,558	13,118
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,462)	(902)
Purchase of intangible assets	(105)	(208)
Proceeds from sales of investment securities	0	242
Purchase of investment securities	(0)	(157)
Payments of leasehold and guarantee deposits	(574)	(192)
Proceeds from refund of leasehold and guarantee deposits	222	80
Purchase of long-term prepaid expenses	(225)	(82)
Other, net	37	(69)
Net cash provided by (used in) investing activities	(2,108)	(1,290)
Cash flows from financing activities		
Purchase of treasury shares	(0)	-
Dividends paid	(2,909)	(2,685)
Other, net	(0)	-
Net cash provided by (used in) financing activities	(2,909)	(2,685)
Effect of exchange rate change on cash and cash equivalents	(1)	(3)
Net increase (decrease) in cash and cash equivalents	3,538	9,139
Cash and cash equivalents at beginning of period	7,821	11,360
Cash and cash equivalents at end of period	11,360	20,499