



Summary of Non-consolidated Financial Results for the Six Months Ended September 30, 2018 [Japanese GAAP]

October 29, 2018

Company name: CONEXIO Corporation	Stock exchange listing: Tokyo Stock Exchange, First Section	
Stock code: 9422	URL: https://www.conexio.co.jp	
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Scheduled date for filing of quarterly report:		November 12, 2018
Scheduled date of commencement of dividend payment:		December 6, 2018
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, 2018 (from April 1, 2018 to September 30, 2018)

(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 FY2018	124,083	6.7	4,226	(4.7)	4,388	(2.1)	2,866	(2.7)
2Q FY2017	116,302	(3.3)	4,434	17.9	4,480	17.7	2,945	18.6
	Earnings per share		Diluted earnings per share					
		yen		yen				
2Q FY2018		64.08		—				
2Q FY2017		65.85		—				

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
2Q FY2018	91,218	39,460	43.3
FY2017	99,407	38,174	38.4

(Reference) Equity: 2Q FY2018: 39,460 million yen FY2017: 38,174 million yen

2. Dividends

	Annual dividends				
	1Q end	2Q end	3Q end	Year end	Total
	yen	yen	yen	yen	yen
FY2017	—	30.00	—	35.00	65.00
FY2018	—	30.00			
FY2018(Forecast)				30.00	60.00

(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, 2019 (from April 1, 2018 to March 31, 2019)

(% 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	270,000	1.9	10,210	0.0	10,295	0.0	6,740	0.0	150.66

(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 FY2018	44,737,938 shares	FY2017	44,737,938 shares
2Q FY2018	122 shares	FY2017	86 shares
2Q FY2018	44,737,819 shares	2Q FY2017	44,737,938 shares

* **This Financial Summary is not subject to audits by certified public accountants or audit corporations.**

* **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, 2018, the Japanese economy continued to recover at a moderate pace on the back of, among others, the improvements in corporate earnings and in the employment and income environment. On the other hand, given the concerns about the rising uncertainty in overseas economies due to the effect of trade frictions and the effect of natural disasters occurring one after another, the outlook of the Japanese economy need to be closely watched.

In the mobile phone market in which the Company conducts business activities, major telecom carriers, aiming to build long-term relationships with customers, have been expanding services that are in line with customer needs. They are also strengthening their customer bases centering on service members. Meanwhile, market revitalization due to the (scheduled) entry of a new telecommunication carrier and price revision in response to the government's policy to promote competition are among the indications for changes expected in the future.

In such a business climate, despite our efforts to encourage customers to replace their smartphones, unit sales of handsets decreased to 1,230,000 (down 1.7% year-on-year) due to the change in some of the product distribution flows. Although the Company made efforts to expand revenue through the price revision of certain handsets as well as the functional expansion of the Company's unique services for smartphones, profit decreased due to the decrease in revenue as a result of the revision in transaction terms for the sales of prepaid cards to convenience stores and the increase in selling, general and administrative expenses as a result of the Company's continued efforts to secure personnel for carrier-certified shops and reinforce its Corporate Business structure.

As a result, for the six months ended September 30, 2018, net sales were 124,083 million yen (up 6.7%), operating profit was 4,226 million yen (down 4.7%), ordinary profit was 4,388 million yen (down 2.1%), and profit was 2,866 million yen (down 2.7%).

◆ Financial results

Account title	(Million yen)		
	Six months ended September 30, 2017	Six months ended September 30, 2018	Year-on-year change (%)
Net sales	116,302	124,083	6.7
Operating profit	4,434	4,226	(4.7)
Ordinary profit	4,480	4,388	(2.1)
Profit	2,945	2,866	(2.7)

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.

In the Consumer Business, unit sales of handsets decreased as a result of the change in some of the product distribution flows and as the demand for tablet devices has run its course, although more customers replaced their smartphones. At the carrier-certified shops, efforts were made to improve customer satisfaction and encourage continued use of services by expanding reservation frames for shop visits to shorten the customers’ waiting time at the shops and by improving the quality of smartphone lessons for customers. For secure, safe, and comfortable smartphone life of customers, the Company’s unique service for smartphones, “nexiplus,” added contents and began sales of security software for smartphones.

As a result, the financial results of Consumer Business were 115,766 million yen in net sales (up 8.2%) and 6,172 million yen in operating profit (up 13.8%).

◆ Financial results

(Million yen)			
Account title	Six months ended September 30, 2017	Six months ended September 30, 2018	Year-on-year change (%)
Net sales	106,966	115,766	8.2
Operating profit	5,425	6,172	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 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 from the sales of prepaid cards to convenience stores decreased due to a revision in transaction terms of last year. Operating profit also decreased due to the weakness in the sales of handsets to corporate customers, combined with the temporary cost increase caused by the relocation/floor expansion of the mobile BPO center, etc. Meanwhile, sales promotion efforts were made by introducing new prepaid card equipment sequentially for convenience stores. As for IoT solutions, the Company commenced sales of the new service, “Smart Ready IoT Solution Template,” and is now able to quickly and easily build IoT systems in line with the demands of the customers.

As a result, the financial results of Corporate Business were 8,317 million yen in net sales (down 10.9%) and 171 million yen in operating profit (down 81.5%).

◆ Financial results

(Million yen)			
Account title	Six months ended September 30, 2017	Six months ended September 30, 2018	Year-on-year change (%)
Net sales	9,336	8,317	(10.9)
Operating profit	928	171	(81.5)

(2) Analysis of Financial Position

(i) Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 8,257 million yen from the end of the previous fiscal year to 70,437 million yen. This was mainly due to the decrease in notes and accounts receivable-trade by 6,073 million yen, the decrease in accounts receivable-other by 1,869 million yen, the decrease in merchandise and finished goods by 1,434 million yen, and the increase in cash and deposits by 928 million yen.

Non-current assets increased by 67 million yen from the end of the previous fiscal year to 20,780 million yen. This was mainly due to the increase in property, plant and equipment by 312 million yen, the increase in investments and other assets by 211 million yen, and the decrease in the right of career shop management by 332 million yen.

As a result, total assets decreased by 8,189 million yen from the end of the previous fiscal year to 91,218 million yen.

(Liabilities)

Current liabilities decreased by 9,908 million yen from the end of the previous fiscal year to 45,731 million yen. This was mainly due to the decrease in accounts payable-trade by 5,701 million yen, the decrease in accounts payable-other by 2,244 million yen, the decrease in income taxes payable by 810 million yen, and the decrease in provision for bonuses by 386 million yen.

Non-current liabilities increased by 433 million yen from the end of the previous fiscal year to 6,026 million yen. This was mainly due to the increase in provision for retirement benefits by 239 million yen and the increase in asset retirement obligations by 201 million yen.

As a result, total liabilities decreased by 9,475 million yen from the end of the previous fiscal year to 51,758 million yen.

(Net assets)

Total net assets increased by 1,285 million yen from the end of the previous fiscal year to 39,460 million yen. This was mainly due to the increase as a result of the recognition of profit of 2,866 million yen and the decrease as a result of dividend payments of 1,565 million yen.

As a result, the Company's equity ratio was 43.3%.

“Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) has been applied from the beginning of the first quarter of the fiscal year ending March 31, 2019. Accordingly, the comparative analysis with the previous fiscal year is made on the basis of figures after applying the new accounting standards retrospectively.

(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 1,020 million yen from the end of the previous fiscal year to 8,841 million yen.

(Cash flows from operating activities)

Cash flows from operating activities resulted in a net inflow of 3,355 million yen (down 242 million yen year-on-year). This was mainly because the increase factors, such as the decrease in notes and accounts receivable-trade by 6,075 million yen, the recognition of profit before income taxes of 4,291 million yen, the decrease in accounts receivable-other by 1,869 million yen, the decrease in inventories by 1,471 million yen, and the recognition of depreciation of 1,041 million yen, exceeded the decrease factors, such as the decrease in notes and accounts payable-trade by 5,766 million yen, the decrease in accounts payable-other by 2,373 million yen, and income taxes paid of 2,365 million yen.

(Cash flows from investing activities)

Cash flows from investment activities resulted in a net outflow of 770 million yen (down 258 million yen year-on-year). This was mainly due to the purchase of property, plant and equipment of 600 million yen, payments for lease and guarantee deposits of 238 million yen, and proceeds from collection of lease and guarantee deposits of 114 million yen.

(Cash flows from financing activities)

Cash flows from financing activities resulted in a net outflow of 1,566 million yen (up 223 million yen year-on-year). This was mainly due to cash dividends paid of 1,565 million yen.

(3) Financial Forecasts and Other Forward-Looking Information

During the six months Ended September 30, 2018 under review, the following percentages of forecasts were met: 46.0% of net sales; 41.4% of operating profit; 42.6% of ordinary profit; and 42.5% of profit. At this stage, no changes have been made to the full-year financial forecasts announced on May 1, 2018. 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, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	7,606	8,534
Notes and accounts receivable - trade	48,934	42,860
Merchandise and finished goods	8,900	7,465
Accounts receivable - other	12,188	10,318
Deposits paid	215	307
Other	856	956
Allowance for doubtful accounts	(6)	(6)
Total current assets	78,694	70,437
Non-current assets		
Property, plant and equipment	4,368	4,681
Intangible assets		
Goodwill	1,621	1,559
The right of carrier shop management	9,650	9,317
Other	354	292
Total intangible assets	11,626	11,170
Investments and other assets	4,717	4,929
Total non-current assets	20,713	20,780
Total assets	99,407	91,218
Liabilities		
Current liabilities		
Accounts payable - trade	22,441	16,740
Accrued agency commission	9,673	9,608
Accounts payable - other	12,100	9,856
Income taxes payable	2,599	1,788
Provision for bonuses	3,412	3,025
Provision for directors' bonuses	21	9
Other	5,391	4,702
Total current liabilities	55,640	45,731
Non-current liabilities		
Provision for retirement benefits	4,888	5,127
Asset retirement obligations	485	686
Other	219	213
Total non-current liabilities	5,592	6,026
Total liabilities	61,233	51,758

(Million yen)

	As of March 31, 2018	As of September 30, 2018
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	585	585
Retained earnings	34,592	35,893
Treasury shares	(0)	(0)
Total shareholders' equity	37,956	39,257
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	218	202
Total valuation and translation adjustments	218	202
Total net assets	38,174	39,460
Total liabilities and net assets	99,407	91,218

(2) Quarterly Non-Consolidated Statements of Income

Second quarter cumulative period

(Million yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	116,302	124,083
Cost of sales	92,335	99,450
Gross profit	23,966	24,633
Selling, general and administrative expenses	19,532	20,407
Operating profit	4,434	4,226
Non-operating income		
Interest income	0	0
Dividend income	1	1
Support money of store move etc income	51	65
Reversal of allowance for doubtful accounts	2	0
Gain on sales of goods	—	116
Other	20	17
Total non-operating income	75	200
Non-operating expenses		
Interest expenses	3	0
Loss on sales and retirement of non-current assets	20	27
Rent expenses on real estates	3	2
Other	1	7
Total non-operating expenses	29	38
Ordinary profit	4,480	4,388
Extraordinary income		
Gain on sales of non-current assets	1	0
Other	—	0
Total extraordinary income	1	0
Extraordinary losses		
Loss on sales and retirement of non-current assets	14	24
Impairment loss	20	24
Loss on closing of stores	21	45
Other	—	2
Total extraordinary losses	56	96
Profit before income taxes	4,425	4,291
Income taxes - current	1,580	1,562
Income taxes - deferred	(100)	(137)
Total income taxes	1,479	1,424
Profit	2,945	2,866

(3) Quarterly Non-Consolidated Cash Flows

(Million yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	4,425	4,291
Depreciation	1,002	1,041
Amortization of goodwill	62	62
Impairment loss	20	24
Increase (decrease) in allowance for doubtful accounts	(2)	0
Increase (decrease) in provision for bonuses	(306)	(386)
Increase (decrease) in provision for directors' bonuses	(20)	(12)
Increase (decrease) in provision for retirement benefits	222	239
Interest and dividend income	(1)	(1)
Interest expenses	3	0
Foreign exchange losses (gains)	—	(0)
Loss (gain) on sales of investment securities	—	(0)
Decrease (increase) in notes and accounts receivable - trade	6,689	6,075
Decrease (increase) in accounts receivable - other	2,597	1,869
Decrease (increase) in inventories	1,680	1,471
Increase (decrease) in notes and accounts payable - trade	(8,723)	(5,766)
Increase (decrease) in accounts payable - other	(2,261)	(2,373)
Increase (decrease) in accrued consumption taxes	125	66
Other, net	(151)	(904)
Subtotal	5,360	5,696
Interest and dividend income received	1	1
Interest expenses paid	(3)	(0)
Income taxes (paid) refund	(1,777)	(2,365)
Other, net	18	23
Net cash provided by (used in) operating activities	3,598	3,355
Cash flows from investing activities		
Purchase of property, plant and equipment	(667)	(600)
Purchase of intangible assets	(92)	(30)
Proceeds from sales of investment securities	—	0
Payments for lease and guarantee deposits	(163)	(238)
Proceeds from collection of lease and guarantee deposits	73	114
Purchase of long-term prepaid expenses	(113)	(90)
Payments for transfer of business	(7)	—
Other, net	(58)	74
Net cash provided by (used in) investing activities	(1,028)	(770)

(Million yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from financing activities		
Purchase of treasury shares	—	(0)
Cash dividends paid	(1,342)	(1,565)
Other, net	—	(0)
Net cash provided by (used in) financing activities	(1,342)	(1,566)
Effect of exchange rate change on cash and cash equivalents	—	0
Net increase (decrease) in cash and cash equivalents	1,227	1,020
Cash and cash equivalents at beginning of period	5,013	7,821
Cash and cash equivalents at end of period	6,241	8,841