

# CONEXIO Corporation

9422

Tokyo Stock Exchange First Section

18-Jul.-2018

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## ■ Summary

### **ITOCHU Corporation-affiliated major mobile phone sales agency that is top in sales for NTT DOCOMO In FY3/18, achieved the medium-term target of operating profit of ¥10bn**

CONEXIO Corporation (9422) (“the Company”), a subsidiary of ITOCHU Corporation (8001), is a major mobile phone sales agency. It is the second-largest mobile phone sales agency in Japan in terms of unit sales, and the largest agency in terms of sales of mobile phones for NTT DOCOMO (9437). In addition to selling mobile phones, the Company provides mobile BPO services using smartphones to corporate customers and offers prepaid cards to convenience stores, as well as providing proprietary internet of things (IoT) products such as IoT gateway devices and IoT solutions.

#### **1. In FY3/18, achieved the medium-term target of operating profit of ¥10bn**

In the FY3/18 results, net sales increased 1.9% year on year (YoY) to ¥264,897mn, operating profit rose 2.3% to ¥10,207mn, ordinary profit grew 2.5% to ¥10,293mn, and profit increased 4.2% to ¥6,738mn. 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. In addition to improvements in gross profit due to the price revision of some devices, revenue increased thanks to the strong sales of mobile BPO services to corporate customers (outsourcing services such as mobile help desk and handset kitting services). As a result, the Company achieved the medium-term target of ¥10bn in operating profit.

#### **2. Announced a new medium-term management plan. Aiming for operating profit of ¥11bn, as the image to be achieved by 2020**

For the FY3/19 results, which is currently underway, the forecasts are for operating profit, ordinary profit, and profit to be unchanged YoY at ¥10,210mn, ¥10,295mn, ¥6,740mn, respectively. This is mainly because while net sales are forecast to increase 1.9% to ¥270,000mn, profits from prepaid cards will decrease and the Company will conduct systems investment to improve productivity. It has also announced the new medium-term management plan, CONEXIO Plan 2020, in which it is targeting operating profit of ¥11bn in 2020 (FY3/21).

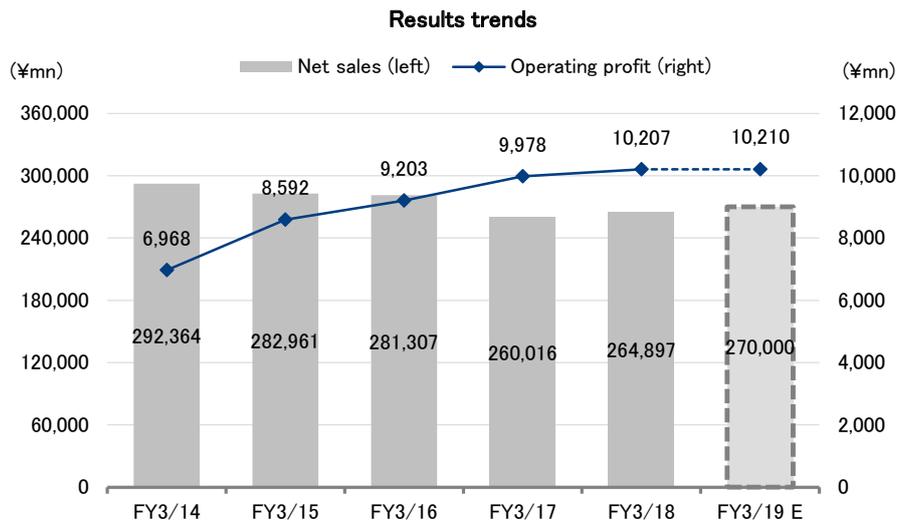
#### **3. Actively returns profits to shareholders. The FY3/19 forecast dividend payout ratio is 39.8%**

The Company’s basic policy for distributing profits is to work to improve financial results so it can continuously and stably pay dividends, targeting a dividend payout ratio of 40%. In FY3/18, it paid an annual dividend of ¥65 (dividend payout ratio 43.2%), which included a commemorative dividend of ¥5 on the 20th anniversary of its establishment, for the fifth consecutive fiscal year of higher dividends. The forecast for an annual dividend for 2019 is ¥60.0 (dividend payout ratio 39.8%), although there seems to be room for the dividend to be increased, depending on the upcoming results. Moreover, in July 2017, the Company canceled all of the 11,185,062 treasury shares (20% of the total number of issued shares) that it owned. This kind of active approach to returning profits to shareholders would seem to be worthy of considerable praise.

Summary

**Key Points**

- Major mobile phone sales agency, largest in terms of sales of mobile phones for NTT DOCOMO
- In FY3/18, achieved the medium-term target of operating profit of ¥10bn
- Actively returns profits to shareholders: The FY3/19 forecast dividend payout ratio is 39.8%, while the dividend may be increased, depending on the results



Source: Prepared by FISCO from the Company's financial results

## Company profile

### ITOCHU Corporation-affiliated major mobile phone sales agency that is top in sales for NTT DOCOMO

#### 1. Company profile

CONEXIO, a subsidiary of ITOCHU Corporation, is a major mobile phone sales agency. It is the second-largest mobile phone sales agency in Japan in terms of unit sales, and the largest agency in terms of sales of mobile phones for NTT DOCOMO. In addition to wholesale and retail sales of mobile phones, the Company is active in a wide range of business fields including providing mobile BPO services using smartphones to corporate customers, offering prepaid cards at convenience stores, and providing IoT solutions. Based on the philosophy statement of “the Company is to connect people and values”, the Company holds up a 10-year vision to “create advanced services in communications and networks meeting the wishes of each customer and become the most reliable partner.” According to this vision, the Company is pursuing a strategy of offering high-value-added carrier-certified shops that are “selected by customers.” In FY3/18, unit sales were 2.717mn and the Company had 428 carrier-certified shops as of March 31, 2018.

Company profile

**2. History**

The Company was established in August 1997 as ITC NETWORKS CORPORATION that undertook telecommunications business as a subcontractor for ITOCHU Corporation. In April 2002, the Company became a sales agency directly from telecom carriers of mobile phones, taking over the position from ITOCHU Corporation\*, and the business foundation as a mobile phone marketer was prepared. As mobile phones were increasingly adopted in Japan, the Company grew, and in March 2006, listed the shares on the Second Section of the Tokyo Stock Exchange. And in December 2007, the Company was promoted to the First Section.

\* ITOCHU Corporation began selling mobile phones in 1991, before mobile phones had been adopted on a full scale in Japan. In October 1992, the Company opened the first docomo Shop in Japan, in Hachioji City, which is part of the Tokyo Metropolitan area.

After listing the shares, the Company rapidly expanded the business base and scale through M&A. The first acquisition, in August 2006, was of Idomco Communications Co., which was fully merged in April 2007. In July 2008, ITC Mobile Co., a wholly-owned subsidiary of the Company, succeeded to the mobile communications sales business of Hitachi Mobile Co. (now Hitachi Auto Parts & Services Co.) and the Company merged ITC Mobile Co. into itself. In October 2012, the Company merged Panasonic Telecom Co., which had been a subsidiary of Panasonic Mobile Communications Co. Through these acquisitions, dramatically expanding the business base and scale, the Company became one of the top three sales agencies of mobile phones in Japan. In October 2013, the Company changed the name to CONEXIO Corporation\*.

\* The company name, CONEXIO, is derived from the Latin word for bond and connotes a hope and passionate determination "to establish deep bonds of trust by respecting and connecting the wishes of each customer and encompassing all people in a circle of happiness."

## Business overview

### Main business is mobile phone shops targeting individual customers (Consumer Business), but also aggressively expanding corporate business

**1. Main business is mobile phone shops targeting individual customers (Consumer Business), but also aggressively expanding Corporate Business**

The Company's main business is the agency business for telecom carriers that includes selling mobile phones and tablet devices, concluding contracts of telecommunications services\* and providing after-sale services. And this business consists of the Consumer Business and the Corporate Business. In FY3/18, the Consumer Business accounted for 92.7% of total non-consolidated sales, while the Corporate Business provided 7.3% of sales.

\* Based on agency contracts between the Company and the telecom carriers, the Company sells the telecommunications services offered by the telecom carriers to individuals and companies. When concluding contracts for these services and for a fixed period thereafter, the Company receives commission income from the telecom carriers.

Business overview

**(1) Consumer Business**

The Consumer Business consists of operating carrier-certified shops of Japan's three main telecom carriers: NTT DOCOMO (9437), KDDI Corp. (9433) as known as "au", and SoftBank Corp. (9984) and wholesale of mobile phones to major electronics retailers and facilitating their sales. Also, the Consumer Business operates the "nexi" and "nexiplus,"\* portal site services developed in-house. The Consumer Business generates revenue by selling goods, such as feature phones, smartphones, tablet devices and peripheral equipment for smartphones, and by receiving commission income for selling the products and services offered by the telecom carriers. In FY3/18, sales of goods amounted to ¥183,032mn (74.5% of total sales by the Consumer Business), while commission income came to ¥62,501mn (25.5% of total sales by the business).

\* Convenient smartphone services including providing daily information such as weather, fortune telling, and online search functions. In the paid-for nexiplus plan, it provides contents that are useful for daily living, such as member benefits (coupons) and free telephone counselling (such as legal counseling or love counseling).

**a) Carrier-certified shops**

At the end of FY3/18, the Company had 428 carrier-certified shops\*, and 280 of which were operated directly by the Company. Of the 428 shops, 366 were docomo Shops (238 directly operated, 128 outsourced), 47 were au shops (27 directly operated, 20 outsourced), 5 were SoftBank shops (all operated directly), and 10 were other shops (all operated directly). In terms of the number of shops and unit sales of mobile phones and tablet devices, the Company is the leading sales agency for NTT DOCOMO.

\* In addition to directly operated shops, the Company has 148 outsourced shops.

The Company is aiming to realize high value-added shops that are "selected by customers," and it is offering smartphone lessons at directly managed shops nationwide and providing proposals tailored to each customer's lifestyle, working to review the customers' lines of flow by utilizing tablet devices. It is also conducting various other measures, including transitioning to large-scale shops through relocations, expanding the floor space and trial areas, enhancing the lineup of smartphone accessories, and introducing a shop-visit reservation system, and these measures are being developed at each shop individually. In FY3/18, unit sales at carrier-certified shops were 2.159mn (79.4% of companywide unit sales).

**b) Wholesale to major electronics retailers and facilitating their sales**

The Consumer Business also conducts wholesale business of mobile phones to major electronics retailers and facilitates the sale of them. Furthermore, the Company operates service counters inside of the stores of the retailers to provide after-sale services, such as repairing, receiving payments and troubleshooting. In FY3/18, this business sold 438,000 mobile phones and tablet devices (16.1% of companywide unit sales).

Furthermore, the Company's distribution and call center also has advanced processing capability. Specifically, the distribution center's centralized mobile phone receipt and shipment function minimizes sales opportunity losses by rapidly supplying popular and new models to shops. The call center quickly handles processes such as activating mobile phones purchased by customers and registering model changes, thereby helping to improve customer satisfaction.

**(2) Corporate Business**

The Corporate Business includes arrangement of contracts between corporate customers and telecom carriers, the provision of after-sale services, the sale of mobile phones and tablets with various solution services. This business also handles the sale of other products such as prepaid cards to convenience stores, as well as the sales of internet of things (IoT) solutions.

#### Business overview

The Corporate Business derives revenues from three sources: 1) the sale of mobile phones, tablet devices, and peripheral equipment, 2) commission income from telecom carriers or the sale of solution services 3) the sale of prepaid cards. In FY3/18, the business sold ¥6,365mn of goods (32.9% of total Corporate Business sales), received ¥8,496mn of commission income from telecom carriers and the sale of solution services (43.9%), and garnered ¥4,500mn (23.2%) from the sale of prepaid cards. The Corporate Business sold 120,000 mobile phones and tablet devices in FY3/18 (4.4% of companywide unit sales).

#### a) Solution services for corporate customers

In addition to offering mobile BPO services, which includes mobile help desk and handset kitting services, the Company also provides one-stop “mobile biz suite” services to facilitate the use of smartphones for business. The Company’s mobile help desk service, which offers support services necessary to make full use of multifunctional smartphones 24 hours a day and 365 days a year, is growing steadily. The Company mainly provides this service to companies in industries where security is prioritized, such as financial institutions and insurance companies. The Company has roughly 140 operators working at the Company’s call center to provide this service.

#### b) Prepaid card sales

The Company sells prepaid cards at convenience stores all around Japan including at FamilyMart and Poplar Co. Ltd. (7601). It also assists retailers and web service companies nationwide to issue prepaid cards\*.

\* For example, the business assisted Oisix ra daichi Inc. (3182), which sells healthy foods (little or no use of chemicals) through the internet, to issue the Oisix Gift Card for the purchase and exchange of foods. The business also helped OPTIM (3694), which develops and operates IoT platforms, to issue OPTiM prepaid card for the “Tabuho” service enabling the unlimited reading of popular magazines.

#### c) IoT solutions

The Company also provides solutions needed for companies to adopt IoT by providing related devices, telecommunication networks, platforms and assistance in introduction of IoT that involves the accumulation of huge amounts of data remotely collected from machinery, vehicles, and other equipment. Recently, the Company has been focusing on leveraging the Company’s vast store of knowledge related to telecommunications and telecommunications equipment assembly technology gained from years of experience in the Company’s mainstay mobile phone sales agency business to develop IoT modular products. Recently on May 24, 2018, it launched sales of a new service, the Smart Ready IoT Solutions Template, which accelerates and simplifies the construction of IoT systems.

## 2. Strengths and characteristics

### (1) Many years of experience as mobile phone sales agency

A major strength of the Company is the nationwide network of carrier-certified shops that has been built and maintained since the beginning of popularization of the mobile phones in Japan. Furthermore, the Company mutually shares sales strategy with NTT DOCOMO, making the Company the top agency in Japan for NTT DOCOMO. This close relationship with NTT DOCOMO is one of the sources for the Company’s high profitability, and one of the Company’s strengths.

### (2) Comfortable work environment

For the sales at carrier-certified shops, the mainstay business of the Company, securing and retaining the sales staff are important issues. Therefore, in order to increase employee retention rates and strengthen the Company’s human resources, the Company is actively working on “workstyle reform” including implementation of various measures to provide a comfortable work environment.

Business overview

For example, at carrier-certified shops, the Company has introduced one fixed holiday per month and shortened hours of operation, as well as providing a partially company-sponsored childcare service system, a trial teleworking, while encouraging male employees to take childcare leave, and conducting training aimed at identifying and nurturing women leaders. As a result of these efforts, the Company has received the following awards and recognitions. We believe these efforts have made it easier for the Company to secure human resources and view this as one of the Company's intangible strengths.

|               |   |
|---------------|---|
| October 2016  | "Ikuboss Award 2016" Special Encouragement Award (from the Ministry of Health, Labour and Welfare)  |
| October 2016  | Certification mark "Eruboshi" (highest level) for promoting participation of women (from the Ministry of Health, Labour and Welfare)  |
| November 2016 | "Work-Life Balance Award" award for excellence (from the Japan Productivity Center)   |
| February 2017 | "Work-Life Best Balance Award" (from Shinjuku Ward, Tokyo)<br>Accredited as "White 500" the superior company of health management of 2017" (from the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi)  |
| October 2017  | "PRIDE Index 2017," the LGBT index for workplaces, Silver Prize (from work with Pride)  |
| February 2018 | "Company that Promotes an Excellent Work-life Balance" (from Shinjuku Ward, Tokyo)<br>3rd "White Company Awards" award in the Child-care Support Category and the Ikuboss Category (from JWS (Japan White Spread))<br>8th "Awards for Japanese Companies We Should Value the Most" Minister of Health, Labor and Welfare Grand Prize (from Management Society to Value People and SME Research Institute, Hosei University)<br>Accredited as "White 500" the superior company of health management of 2018" for the second consecutive year (from the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi) |

Source: Prepared by FISCO from the Company's results briefing materials

### 3. Business risks

The biggest risk to the Company is the heavy reliance on carrier-certified shop business. These shops obtain large profit from commission revenue from the telecom carriers, and telecom carriers select sales operators. Thus, the carrier-certified shop business can easily be affected by the sales policy or other management decisions made by the telecom carriers.

Like telecom carriers, the Company can also be impacted by changes in laws and regulations such as the Telecommunications Business Act. Recently in February 2018, 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 and the Guidelines for Consumer Protection Rules for the Telecommunications Business Act.

The Company's heavy reliance on NTT DOCOMO is both the strength and a business risk. If NTT DOCOMO's business foundation were to shrink significantly as a result of competition with other carriers intensifying, the Company's business could be greatly and adversely affected.

## Results trends

**Higher sales were secured from the increase in unit sales, while profitability improved from the review of device prices**  
**In addition, sales of corporate mobile BPO services grew, and the Company achieved the operating profit medium-term target of ¥10bn**

### 1. Summary of FY3/18 results

In the FY3/18 results, net sales increased 1.9% YoY to ¥264,897mn, operating profit rose 2.3% to ¥10,207mn, ordinary profit grew 2.5% to ¥10,293mn, and profit increased 4.2% to ¥6,738mn. Operating profit increased for the seventh consecutive fiscal year for a new record high, and the Company achieved its medium-term target of ¥10bn.

#### FY3/18 financial results

|                           | FY3/17  |            | FY3/18  |            | YoY          |       |
|---------------------------|---------|------------|---------|------------|--------------|-------|
|                           | Results | % of sales | Results | % of sales | Amount/units | Ratio |
| Unit sales (10,000 units) | 267.7   | -          | 271.7   | -          | 3.9          | 1.5%  |
| Net sales                 | 260,016 | 100.0%     | 264,897 | 100.0%     | 4,881        | 1.9%  |
| Gross profit              | 48,260  | 18.6%      | 50,347  | 19.0%      | 2,087        | 4.3%  |
| SG&A expenses             | 38,282  | 14.7%      | 40,139  | 15.2%      | 1,857        | 4.9%  |
| Operating profit          | 9,978   | 3.8%       | 10,207  | 3.9%       | 229          | 2.3%  |
| Ordinary profit           | 10,046  | 3.9%       | 10,293  | 3.9%       | 247          | 2.5%  |
| Profit                    | 6,469   | 2.5%       | 6,738   | 2.5%       | 269          | 4.2%  |
| EBITDA                    | 12,245  | 4.7%       | 12,515  | 4.7%       | 270          | 2.2%  |

Source: Prepared by FISCO from the Company's financial results and results briefing materials

Unit sales increase by 1.5%, from 2.677 million units in the previous fiscal year to 2.717 million units, mainly due to the Company actively promoting purchases of smartphones to replace feature phones and sales of tablets. Net sales rose 1.9% YoY, including because of the increase in the composition ratio of high-priced models.

In addition, the gross profit margin rose 0.4 of a percentage point YoY to 19.0%, such as due to the review of the prices of some devices and the growth in sales of corporate mobile BPO services, and higher gross profit was secured, up 4.3% to ¥50,347mn. On the other hand, SG&A expenses increased 4.9% to ¥40,139mn, as the Company relocated and refurbished shops and strengthened the structure of corporate mobile BPO services. Therefore, the SG&A expenses ratio also rose to 15.2%, up 0.5 of a percentage point on the previous fiscal year, but this was basically within the budgeted range. As a result of the above, the operating profit margin improved by 0.1 of a percentage point to 3.9% and operating profit was ¥10,207mn (up 2.3%), and the Company achieved its medium-term target of ¥10bn.

## Results trends

**2. Status by business**

The status of each business is as shown below.

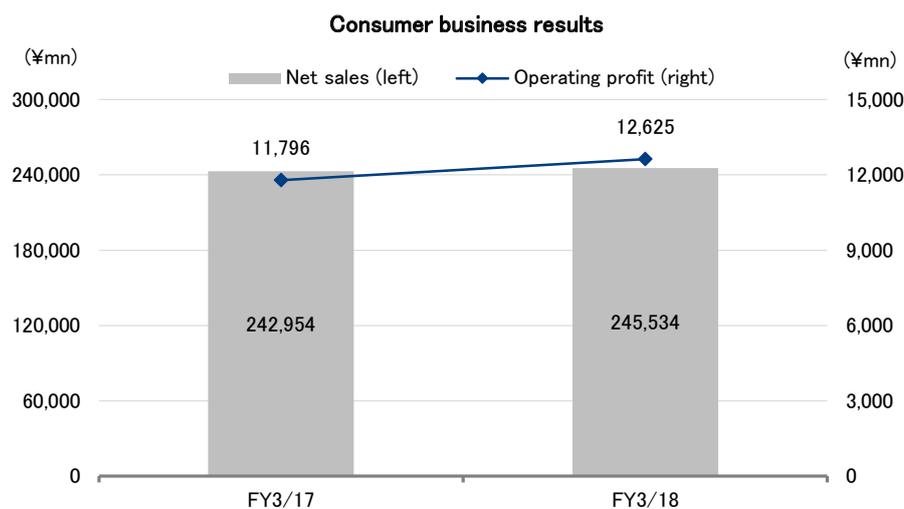
**Results by business**

|                            | FY3/17  |            | FY3/18  |            | YoY    |          |
|----------------------------|---------|------------|---------|------------|--------|----------|
|                            | Results | % of total | Results | % of total | Amount | % change |
| Net sales                  | 260,016 | 100.0%     | 264,897 | 100.0%     | 4,881  | 1.9%     |
| Consumer Business          | 242,954 | 93.4%      | 245,534 | 92.7%      | 2,580  | 1.1%     |
| Product sales              | 180,884 | 69.6%      | 183,032 | 69.1%      | 2,148  | 1.2%     |
| Commission income          | 62,070  | 23.9%      | 62,501  | 23.6%      | 431    | 0.7%     |
| Corporate Business         | 17,061  | 6.6%       | 19,362  | 7.3%       | 2,301  | 13.5%    |
| Product sales              | 5,115   | 2.0%       | 6,365   | 2.4%       | 1,250  | 24.4%    |
| Commission income          | 7,347   | 2.8%       | 8,496   | 3.2%       | 1,149  | 15.6%    |
| Prepaid card sales         | 4,598   | 1.8%       | 4,500   | 1.7%       | -98    | -2.1%    |
| Operating profit           | 9,978   | 3.8%       | 10,207  | 3.9%       | 229    | 2.3%     |
| Consumer Business          | 11,796  | -          | 12,625  | -          | 829    | 7.0%     |
| Corporate Business         | 2,115   | -          | 1,591   | -          | -524   | -24.8%   |
| (intercompany elimination) | -3,933  | -          | -4,009  | -          | -      | -        |

Source: Prepared by FISCO from the Company's financial results, results briefing materials and data sheet

**(1) Consumer Business**

Net sales increased 1.1% YoY to ¥245,534mn. Breaking this down, unit sales rose from the Company promoting sales of tablets and purchases to replace feature phones with smartphones, so product sales rose 1.2% to ¥183,032mn and commission income grew 0.7% to ¥62,501mn. Costs increased, for the Company made efforts such as extending smartphone lessons at directly-managed shops nationwide, as well as enlarging the shops to expand the waiting area and experience corners, in order to realize attractive shops that customers love to visit again and again. However, the review of the prices of some devices contributed to improving profitability, and as a result, the operating profit margin improved and segment operating profit increased 7.0% to ¥12,625mn.

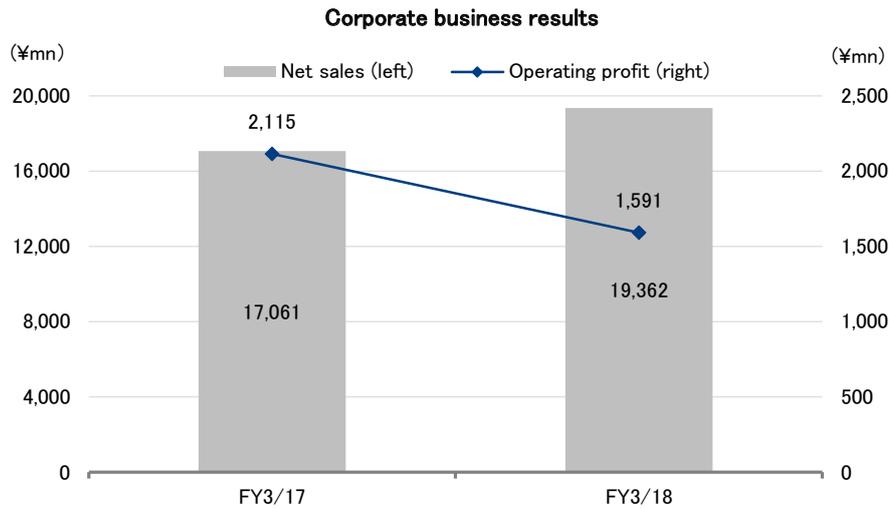


Source: Prepared by FISCO from the Company's results briefing materials

Results trends

**(2) Corporate Business**

Net sales increased 13.5% YoY to ¥19,362mn, including because the introduction of smartphones by companies began to expand and sales of corporate BPO services, including mobile help desks and kitting, grew. Breaking down this increase, product sales rose 24.4% to ¥6,365mn, commission income climbed 15.6% to ¥8,496mn, and sales of prepaid cards decreased 2.1% to ¥4,500mn. Although net sales increased greatly, segment operating profit decreased 24.8% to ¥1,591mn, mainly due to the rise in costs and the review of transaction conditions for sales of prepaid cards.



Source: Prepared by FISCO from the Company's results briefing materials

## Results trends

## Debt free after repaying all short-term loans Financial position is strong

### 3. Financial condition

#### 3. Financial condition Balance sheets

|   | As of March<br>31, 2017 | As of March<br>31, 2018 | Change       |
|---|-------------------------|-------------------------|--------------|
|   |                         |                         | (¥mn)        |
| Cash and deposits                       | 4,879                   | 7,606                   | 2,726        |
| Accounts receivable - trade             | 45,343                  | 48,934                  | 3,590        |
| Accounts receivable - other             | 13,325                  | 12,188                  | -1,136       |
| <b>Total current assets</b>             | <b>74,275</b>           | <b>80,239</b>           | <b>5,964</b> |
| Property, plant and equipment           | 4,170                   | 4,368                   | 198          |
| Intangible assets                       | 12,472                  | 11,626                  | -846         |
| Investments and other assets            | 4,335                   | 4,541                   | 205          |
| <b>Total non-current assets</b>         | <b>20,978</b>           | <b>20,536</b>           | <b>-442</b>  |
| <b>Total assets</b>                     | <b>95,254</b>           | <b>100,776</b>          | <b>5,522</b> |
| Accounts payable - trade                | 24,280                  | 22,441                  | -1,838       |
| Accrued agency commission               | 8,395                   | 9,673                   | 1,278        |
| Accounts payable - other                | 11,558                  | 12,100                  | 542          |
| <b>Total current liabilities</b>        | <b>54,322</b>           | <b>55,640</b>           | <b>1,317</b> |
| Provision for retirement benefits       | 4,554                   | 4,888                   | 333          |
| <b>Total non-current liabilities</b>    | <b>6,914</b>            | <b>6,961</b>            | <b>46</b>    |
| <b>Total liabilities</b>                | <b>61,237</b>           | <b>62,601</b>           | <b>1,364</b> |
| <b>Total net assets</b>                 | <b>34,016</b>           | <b>38,174</b>           | <b>4,158</b> |
| <b>Total liabilities and net assets</b> | <b>95,254</b>           | <b>100,776</b>          | <b>5,522</b> |

Source: Prepared by FISCO from the Company's financial results

At the end of FY3/18, total assets had increased ¥5,522mn on the end of the previous fiscal year to ¥100,776mn. Current assets rose ¥5,964mn, which was mainly due to increases in cash and deposits of ¥2,726mn and accounts receivable-trade of ¥3,590mn, and a decrease in accounts receivable-other of ¥1,136mn. Non-current assets declined ¥442mn, primarily because of a ¥675mn decrease in rights of carrier shop management (intangible non-current assets).

Total liabilities were up ¥1,364mn on the end of the previous fiscal year to ¥62,601mn. Current liabilities rose ¥1,317mn, with the main factors being a decrease in accounts payable-trade of ¥1,838mn and increases in accrued agency commission of ¥1,278mn and accounts payable-other of ¥542mn. Non-current liabilities grew ¥46mn, primarily because the provision for retirement benefits increased ¥333mn. The Company has no interest-bearing debt, as it repaid its short-term borrowing in FY3/17.

Net assets were up ¥4,158mn on the previous fiscal year to ¥38,174mn, mainly due to the increase in retained earnings of ¥4,054mn following the recording of profit.

## Results trends

## 4. Status of cash flows

## Cash flows

|  | (¥mn)  |        |
|--|--------|--------|
|  | FY3/17 | FY3/18 |
| Cash flows from operating activities                         | 8,635  | 7,574  |
| Profit before income taxes                                   | 9,716  | 10,076 |
| Increase (decrease) in notes and accounts payable – trade    | -2,711 | -560   |
| Decrease (increase) in notes and accounts receivable – trade | 616    | -3,593 |
| Cash flows from investing activities                         | -1,904 | -2,079 |
| Cash flows from financing activities                         | -4,805 | -2,685 |
| Net increase (decrease) in cash and cash equivalents         | 1,924  | 2,807  |
| Cash and cash equivalents at end of period                   | 5,013  | 7,821  |

Source: Prepared by FISCO from the Company's financial results

In FY3/18, cash provided by operating activities was ¥7,574mn. The main sources of income were the recording of profit before income taxes of ¥10,076mn and depreciation expenses of ¥2,033mn, while the main expenditures were an increase in notes and accounts receivable-trade of ¥3,593mn and a decrease in notes and accounts payable-trade of ¥560mn. Cash used in investing activities was ¥2,079mn, mainly due to expenditure of ¥1,448mn to the purchase acquire property, plant and equipment. Cash used in financing activities was ¥2,685mn, primarily because of the payment of dividends.

As a result, cash and cash equivalents at the end of the fiscal year under review increased by ¥2,807mn from the end of the previous fiscal year to ¥7,821mn.

## Business outlook

### Announced the new medium-term management plan, CONEXIO Plan 2020 Aiming for operating profit of ¥11bn in FY3/21

#### 1. The basic policy of CONEXIO Plan 2020, the new medium-term management plan

The Company has announced its new medium-term management plan, CONEXIO Plan 2020, with FY3/19 as its first fiscal year and FY3/21 as its final fiscal year. The basic policy it sets out in the plan is “Strengthening Touch Points with Customers and Enhancing Productivity toward Achieving a Smart Society Pioneered by 5G.”

Strengthening touch points with customers:

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

Enhancing productivity:

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.

## 2. Five business strategies

To achieve the basic policy of the plan, the Company is promoting five business strategies as follows.

### (1) Build a long-term relationship with customers (Consumer Business)

The Company is aiming to increase the added value of its brick and mortar shops and to become “the No. 1 shop in the community that will stand the test of time.” In terms of the specific measures, it will propose services that prioritize continued use, provide connection points for customer experiences at shops, and support for customers who bring their children with them. In addition, it will construct new touch points with customers, including by holding sales events outside of shops and smartphone lessons, by using SNS, and by implementing follow-up calls. Moreover, the Company will continuously deepen its relations with customers through nexiplus, which is its own portal site for smartphones.

### (2) Achieve highly productive shop operations (Consumer Business)

The Company is evolving its operations, aiming for shops that do not keep customers waiting. Specifically, it is working to expand the user group by holding “smartphone lessons,” and strengthening the shop visit reservation service (including by expanding the reservation slots and reducing waiting times), as well as evolving customer services through proactive contact on shop floors (providing optimal proposals for each individual customer). It also actively invests in improvement of backyard operations for labor savings (IT systems investment and improving operational efficiency).

### (3) Evolve into a mobile solutions provider (Corporate Business)

As the first step, the Company is establishing the management foundations for mobile BPO services. Toward this, it is advancing measures including to improve operational efficiency, to invest in systems, to expand scale, and to train and develop human resources. As the second step, it is increasing added value as a mobile solutions provider by providing integrated solutions for applications, security, and systems that promote the utilization of mobile devices by companies.

### (4) Enhance IoT/5G solutions (Corporate Business)

Going forward, the Company will expand the cloud services domain. For devices, the Company is developing the next-generation IoT gateway devices, and for connection lines and the internet, it is enhancing its Smart Ready IoT service that supports the introduction of IoT systems. Moreover, by vertically integrating these elements, it is developing cloud services and creating a stock-type business model.

### (5) Reinforce the management base

As its Company-wide strategy, it will implement the following four strategies.

#### a) Capital strategy

It will work to improve results so it can stably pay dividends, targeting a dividend payout ratio of 40%. It will also aim for ROE of 15%.

#### b) Investment strategy

It will steadily conduct strategic investment that will lead to growth in the future. In terms of strategic investment, in the Consumer Business it is aiming to expand its market share through M&A and other methods. In the Corporate Business, it also has in sight M&A and capital alliances to strengthen transaction relations and to enhance functions in the corporate solutions and IoT business areas.

Business outlook

As growth investment, the Company will invest in directly-managed shops, with the aim of being the No. 1 shop in the community with high levels of customer satisfaction. It will also strengthen the functions of IT systems, which will enhance productivity and labor saving at shops.

**c) Human capital strategy**

The Company will strengthen investment in the human resources who support the Company. Up to the present time, it has made full-time employees of sales staff in shops and continuously worked on “workstyle reforms” and on enhancing the work-life balance of its employees. In addition, going forward it will actively invest in human resources with the aim of further improving motivation (such as reviewing the human resources system, including improving working conditions for shop sales staff, and improving the employee-retention rate). Also, in terms of strengthening the training of human resources, it is promoting the development of employees’ abilities and the facilitating active role of working women (targeting 10% of management positions and 25% of supervisory positions to be held by women).

**d) ESG/CSR management**

For the environment, the Company will work to reduce the environmental load from its business processes (including by collecting used mobile phones and reducing the amount of electricity used). For society, it will provide high quality services that completely satisfy customers and continuously conduct education activities toward the safe and secure use of the internet. For governance, it will thoroughly ensure compliance and information security, further strengthen the oversight functions of the Board of Directors, and introduce medium-to-long-term incentives for directors and executives. In such ways, the Company is committed to improving enterprise value over the medium to long term.

**3. Company forecasts for FY3/19**

FY3/19 is the first fiscal year of the new medium-term management plan, CONEXIO Plan 2020, and the full fiscal year results forecasts are for unit sales to decrease to 2.65 million units (down 2.5% YoY), net sales to increase 1.9% to ¥270,000mn, and each of the profit items of operating profit, ordinary profit, and profit, to be unchanged YoY at ¥10,210mn, ¥10,295mn, and ¥6,740mn, respectively.

**Company forecasts for FY3/19**

|                           | FY3/18  |            | FY3/19   |            | YoY          |          |
|---------------------------|---------|------------|----------|------------|--------------|----------|
|                           | Results | % of sales | Forecast | % of sales | Amount/units | % change |
| Unit sales (10,000 units) | 271.7   | -          | 265.0    | -          | -6.7         | -2.5%    |
| Net sales                 | 264,897 | 100.0%     | 270,000  | 100.0%     | 5,103        | 1.9%     |
| Operating profit          | 10,207  | 3.9%       | 10,210   | 3.8%       | 3            | 0.0%     |
| Consumer Business         | 12,625  | -          | 13,350   | -          | 725          | 5.7%     |
| Corporate Business        | 1,591   | -          | 1,000    | -          | -591         | -37.2%   |
| (Company-wide expenses)   | -4,009  | -          | -4,140   | -          | -            | -        |
| Ordinary profit           | 10,293  | 3.9%       | 10,295   | 3.8%       | 2            | 0.0%     |
| Profit                    | 6,738   | 2.5%       | 6,740    | 2.5%       | 2            | 0.0%     |

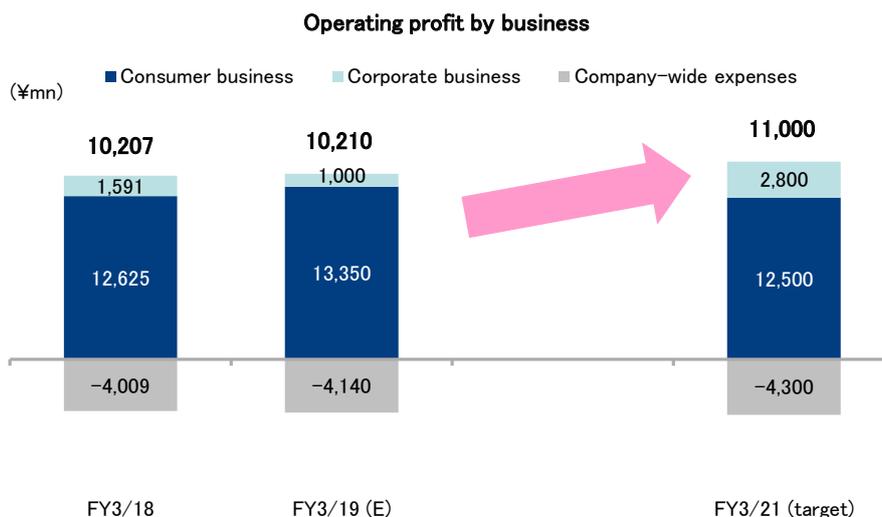
Source: Prepared by FISCO from the Company’s results briefing materials

Business outlook

In the existing businesses, unit sales are expected to decrease YoY, but net sales are still forecast to rise due to the improved earnings from the review of devices prices, the proposal of services that prioritize continuous use, and the growth in sales of nexiplus. But operating profit is forecast to be unchanged YoY because of a decline in profits from prepaid card in the corporate segment and an increase in Company-wide costs for systems investment toward improving productivity. By segment, in the Consumer Business, operating profit is forecast to increase to ¥13,350mn (up 5.7%), and in the Corporate Business, it is forecast to decrease to ¥1,000mn (down 37.2%).

**4. The image to be achieved by FY3/21**

By 2020 (FY3/21), which is the final fiscal year of CONEXIO Plan 2020, the Company is aiming to achieve operating profit of ¥11,000mn. This assumes unit sales of 2.7 million units (down 0.1 of a percentage point compared to FY3/18), while in terms of policies, it assumes expanding long-term customers, strengthening mobile solutions and IoT/5G solutions, realizing improved productivity, and reviewing the personnel system (even though it will lead to higher personnel expenses). As a result, the targets by segment are for operating profit of ¥12,500mn in the Consumer Business and of ¥2,800mn in the Corporate Business, and Company-wide costs of ¥4,300mn. Profits are forecast to decline in the Consumer Business, mainly due to the increase in personnel costs, and to increase in the Corporate Business, expecting the expansion of the corporate solutions business.

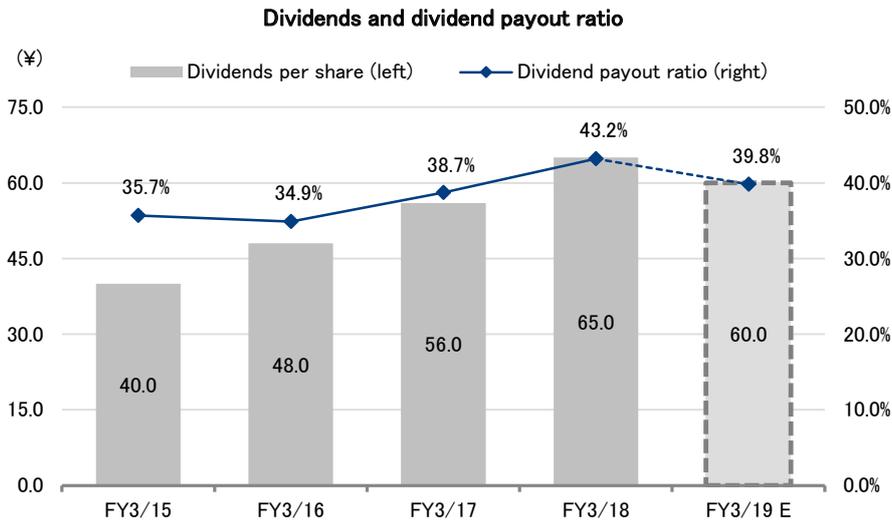


Source: Prepared by FISCO from the Company's results briefing materials

## Shareholder return policy

**The FY3/19 forecast dividend payout ratio is 39.8%, although there is room for the dividend to be increased, depending on upcoming results**

The Company’s basic policy for returning profits to shareholders is to “endeavor to improve financial results so that we can pay stable dividends at a payout ratio of 40% consistently over period.” Based on this, in FY3/18 it paid an annual dividend of ¥65, which included a commemorative dividend of ¥5 on the 20th anniversary of its establishment. But for FY3/19, at the current stage it is forecasting an ordinary annual dividend of ¥60, for a dividend payout ratio of 39.8%. Although only slight, this is below the dividend payout ratio of 40%, so it seems possible that it may increase the dividend, depending on the upcoming results.



Source: Prepared by FISCO from the Company's financial results

In addition, on July 3, 2017, the Company canceled all of treasury shares held as of March 31, 2017 (11,185,062 shares). This reduced the number of shares issued as of March 31, 2018, to 44,737,938, 20% lower than the number of shares issued as of March 31, 2017. We believe this will be accretive to the value of existing shareholders’ equity. It would seem that the Company can be highly evaluated on this point, for actively returning profits to shareholders in such ways.



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