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Non-consolidated Financial Results for the Nine Months Ended December 31, 2019 [Japanese GAAP]

January 30, 2020

Company name: CONEXIO Corporation

Stock exchange listing: Tokyo

Code number: 9422

URL: <http://www.conexio.co.jp>

Representative: Hiroo Inoue

President

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Scheduled date of filing quarterly securities report: February 12, 2020

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: No

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

1. Non-consolidated Financial Results for the Nine Months Ended December 31, 2019 (April 01, 2019 to December 31, 2019)

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

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended December 31, 2019	156,653	(18.7)	7,441	1.1	7,618	0.4	5,151	3.5
December 31, 2018	192,801	0.6	7,358	(3.0)	7,584	(1.0)	4,978	(1.6)

	Basic earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended December 31, 2019	115.15		-	
December 31, 2018	111.29		-	

(2) Non-consolidated Financial Position

	Total assets		Net assets		Capital adequacy ratio
	Million yen		Million yen		%
As of December 31, 2019	91,364		44,439		48.6
March 31, 2019	103,506		42,106		40.7

(Reference) Equity: As of December 31, 2019: ¥ 44,439 million

As of March 31, 2019: ¥ 42,106 million

2. Dividends

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

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

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

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	215,000	(18.5)	10,000	(2.7)	10,200	(3.2)	6,900	(0.3)	154.23

(Note) Revision to the financial results forecast announced most recently: Yes

* Notes:

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

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

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

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

3) Changes in accounting estimates: No

4) Retrospective restatement: No

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

1) Total number of issued shares at the end of the period (including treasury shares):

December 31, 2019:	44,737,938 shares	March 31, 2019:	44,737,938 shares
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2) Total number of treasury shares at the end of the period:

December 31, 2019:	122 shares	March 31, 2019:	122 shares
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3) Average number of shares during the period:

Nine months ended December 31, 2019:	44,737,816 shares	Nine months ended December 31, 2018:	44,737,818 shares
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* **This Financial Results is not subject to audit procedures.**

* **Explanation of appropriate use of financial forecasts and other special notes**

- Financial forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the time of preparing this report. The Company does not guarantee that any forecasts would be met. Actual results may vary significantly from the forecasts due to a wide range of factors. For information on assumptions of the financial forecasts and matters to be heeded upon using the financial forecasts, please refer to “(3) Financial Forecasts and Other Forward-Looking Information” on page 3 of the Appendix.

1. Qualitative Information on Quarterly Non-consolidated Financial Results

(1) Analysis of Operating Results

During the nine months ended December 31, 2019, the Japanese economy continued on a moderate recovery trend with improvements in corporate earnings as well as the employment environment. On the other hand, given the concerns about the rising uncertainty in the overseas economies due to the effects of trade issues and the slowdown in personal consumption as a result of the consumption tax hike, the outlook of the Japanese economy needs to be closely watched.

In the mobile phone market in which the Company conducts business activities, the “Telecommunications Business Act” was revised, and simple and easier-to-understand payment plans for mobile phones were realized and discounts offered on the purchase of handsets were properly corrected. As a result, handset unit sales have been undergoing significant fluctuations due to the consumption tax hike, in addition to the rise in handset prices. Meanwhile, in the spring of 2020, the new communications standard “5G (the Fifth-Generation Mobile Communications System)” is set to commence commercial services. With the spread of “5G” going forward, demand for services utilizing various technology and handsets that support “5G” is expected to arise and the market environment has entered an era of great upheaval. Furthermore, with the announcement of the end of “3G (the Third-Generation Mobile Communications System),” currently being offered, demand for replacing feature phones with smartphones is also expected to expand in the future.

In such a business climate, despite the decrease in unit sales of handsets to 1,500,000 (down 18.3% year-on-year) due to the enactment of the revised “Telecommunications Business Act” and the effects of the consumption tax hike, revenue remained strong, thanks to the increase in commission and fees that were not linked to handset unit sales, reinforced sales of peripheral goods of smartphones and the growth of the corporate BPO services.

As a result, for the nine months ended December 31, 2019, net sales were 156,653 million yen (down 18.7%), operating profit was 7,441 million yen (up 1.1%), ordinary profit was 7,618 million yen (up 0.4%), and profit was 5,151 million yen (up 3.5%), thereby achieving record highs for profit.

◆ Financial results

Account title	(Million yen)		
	Nine months ended December 31, 2018	Nine months ended December 31, 2019	Year-on-year change (%)
Net sales	192,801	156,653	(18.7)
Operating profit	7,358	7,441	1.1
Ordinary profit	7,584	7,618	0.4
Profit	4,978	5,151	3.5

The financial results of each business segment were as follows.

Consumer Business

In the Consumer Business, the Company acts as an intermediary for concluding contracts for mobile phones and other communications services, provides after-sales services and sells handsets, etc., targeting at consumer customers. In addition, the Company provides its unique service “nexiplus” to meet the needs of smartphone users and strengthen the relationship with them.

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

As a result, the financial results of the Consumer Business were 144,133 million yen in net sales (down 19.9%) and 9,578 million yen in operating profit (down 5.9%).

◆ Financial results

(Million yen)			
Account title	Nine months ended December 31, 2018	Nine months ended December 31, 2019	Year-on-year change (%)
Net sales	180,052	144,133	(19.9)
Operating profit	10,177	9,578	(5.9)

Corporate Business

In the Corporate Business, the Company acts as an intermediary for concluding contracts for mobile phones and other communication services, provides after-sales services and sells mobile phone handsets, etc., targeting at corporate customers. The Company also offers mobile BPO services to corporate customers (outsourcing services covering mobile help desk, handset set-up (kitting), etc.), prepaid cards to convenience stores, and IoT solutions.

In the Corporate Business, revenue increased due to the increase in the number of companies adopting the mobile helpdesk and the proactive development of mobile solutions that promote companies’ “work style reforms,” despite the decrease in handset unit sales. As for IoT solutions, the Company has been establishing a track record of tests and 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.”

As a result, the financial results of the Corporate Business were 12,519 million yen in net sales (down 1.8%) and 1,136 million yen in operating profit (up 278.6%).

◆ Financial results

(Million yen)			
Account title	Nine months ended December 31, 2018	Nine months ended December 31, 2019	Year-on-year change (%)
Net sales	12,748	12,519	(1.8)
Operating profit	300	1,136	278.6

(2) Analysis of Financial Position

Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 11,313 million yen from the end of the previous year to 71,281 million yen. This was mainly due to the decrease in notes and accounts receivable-trade by 8,522 million yen, the decrease in accounts receivable-other by 4,694 million yen, the decrease in merchandise and finished goods by 1,295 million yen, and the increase in cash and deposits by 3,210 million yen.

Non-current assets decreased by 828 million yen from the end of the previous fiscal year to 20,083 million yen. This was mainly due to the decrease in the right of carrier shop management by 499 million yen and the decrease in property, plant, and equipment by 247 million yen.

As a result, total assets decreased by 12,142 million yen from the end of the previous fiscal year to 91,364 million yen.

(Liabilities)

Current liabilities decreased by 14,722 million yen from the end of the previous fiscal year to 40,492 million yen. This was mainly due to the decrease in accounts payable-trade by 6,697 million yen, the decrease in accounts payable-other by 5,741 million yen, the decrease in provision for bonuses by 1,438 million yen, the decrease in income taxes payable by 1,175 million yen and the decrease in accrued agency commission by 299 million yen.

Non-current liabilities increased by 297 million yen from the end of the previous fiscal year to 6,432 million yen. This was mainly due to the increase in provision for retirement benefits by 308 million yen.

As a result, total liabilities decreased by 14,474 million yen from the previous fiscal year to 46,925 million yen.

(Net assets)

Net assets increased by 2,332 million yen from the end of the previous fiscal year to 44,439 million yen. This was mainly due to the increase as a result of the recognition of profit of 5,151 million yen and the decrease as a result of the dividend payment of 2,684 million yen.

As a result, the Company's equity ratio was 48.6%

(3) Financial Forecasts and Other Forward-Looking Information

In the first half of the current fiscal year, major telecom carriers took the lead and introduced new payment plans that completely separated communication charges from handset fees. As a result, communication charges were lowered while handset prices went up, resulting in significant fluctuations in handset unit sales. Following the enactment of the revised "Telecommunications Business Act" in October, handset prices continued to rise and with the consumption tax hike, handset unit sales continued to decline. Consequently, net sales are expected to fall short of the previous fiscal year.

In terms of profits, despite the effects of the decline in handset unit sales, efforts were made to secure revenue that was not linked to handset unit sales, and accordingly, profit comparable to the previous year is expected.

During the nine months ended December 31, 2019, the following percentages of forecasts were met: 72.9% of net sales; 74.4% operating profit; 74.7% of ordinary profit; and 74.7% of profit. The Company will properly disclose any change made to the forecasts in the future.

4. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheets

(Million yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	11,086	14,296
Notes and accounts receivable - trade	49,285	40,732
Merchandise and finished goods	8,221	6,926
Accounts receivable - other	12,914	8,219
Deposits paid	273	133
Other	818	977
Allowance for doubtful accounts	(6)	(5)
Total current assets	82,594	71,281
Non-current assets		
Property, plant and equipment	4,804	4,557
Intangible assets		
Goodwill	1,499	1,421
The right of career shop management	8,985	8,485
Other	355	363
Total intangible assets	10,839	10,270
Investments and other assets	5,267	5,255
Total non-current assets	20,911	20,083
Total assets	103,506	91,364
Liabilities		
Current liabilities		
Accounts payable - trade	20,275	13,578
Accrued agency commission	11,607	11,308
Accounts payable - other	12,387	6,645
Income taxes payable	2,095	919
Provision for bonuses	3,800	2,361
Provision for bonuses for directors (and other officers)	23	20
Other	5,074	5,658
Total current liabilities	55,264	40,492
Non-current liabilities		
Provision for bonuses	24	43
Provision for directors' bonuses	11	21
Provision for retirement benefits	5,252	5,561
Asset retirement obligations	669	665
Other	176	140
Total non-current liabilities	6,135	6,432
Total liabilities	61,400	46,925

(Million yen)

	As of March 31,2019	As of December 31,2019
Net assets		
Shareholders' equity		
Share capital	2,778	2,778
Capital surplus	585	585
Retained earnings	38,606	41,073
Treasury shares	(0)	(0)
Total shareholders' equity	41,970	44,437
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	136	1
Total valuation and translation adjustments	136	1
Total net assets	42,106	44,439
Total liabilities and net assets	103,506	91,364

(2) Non-consolidated Statements of Income

(Million yen)

	For the nine months ended December 31, 2018	For the nine months ended December 31, 2019
Net sales	192,801	156,653
Cost of sales	154,983	118,483
Gross profit	37,817	38,169
Selling, general and administrative expenses	30,459	30,728
Operating profit	7,358	7,441
Non-operating income		
Interest income	0	0
Dividend income	4	4
Support money of store move etc income	116	110
Reversal of allowance for doubtful accounts	0	3
Gain on sales of goods	116	-
Other	38	68
Total non-operating income	276	187
Non-operating expenses		
Interest expenses	0	0
Loss on sales and retirement of non-current assets	37	4
Rental expenses on real estate	3	1
Loss on cancellation of contracts	6	3
Other	2	1
Total non-operating expenses	50	10
Ordinary profit	7,584	7,618
Extraordinary income		
Gain on sales of non-current assets	6	-
Gain on sales of investment securities	0	174
Other	0	-
Total extraordinary income	6	174
Extraordinary losses		
Loss on sales and retirement of non-current assets	59	14
Impairment loss	54	69
Loss on store closings	52	40
Other	4	0
Total extraordinary losses	170	124
Profit before income taxes	7,420	7,668
Income taxes - current	2,628	2,657
Income taxes - deferred	(187)	(140)
Total income taxes	2,441	2,517
Profit	4,978	5,151