

# CONEXIO Corporation

9422

Tokyo Stock Exchange First Section

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## ■ Summary

### **Major mobile phone seller; top seller of NTT DOCOMO phones Forecasts sales decline but profit growth in FY3/18; Operating profit rising to ¥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 Japan. In addition to selling mobile phones, the Company provides solution services using smartphones to corporate customers and sells prepaid cards at convenience stores, as well as providing proprietary internet of things (IoT) products such as IoT gateway devices, IoT solutions and mobile virtual network operator (MVNO) support services.

#### **1. Operating profit and ordinary profit grew YoY in FY3/17 for the sixth straight year, reaching record highs**

In FY3/17, sales declined but profit increased, as net sales declined 7.6% year on year (YoY) to ¥260,016mn, but operating profit rose 8.4% to ¥9,978mn, ordinary profit was up 8.1% to ¥10,046mn, and profit rose 5.2% to ¥6,469mn. Mobile phone unit sales declined 7.2% YoY to 2.677mn as customers held off on purchasing new phones owing to an increase in effective purchase prices of mobile phones due to a correction in excessive discounts offered on new smartphone contracts. However, owing to the settling down of price competition and the sale of optical-fiber broadband services at carrier-certified shops, profit per customer rose and the operating profit margin improved to 3.8% (3.3% in FY3/16), resulting in YoY operating profit growth.

#### **2. Expecting continued operating profit growth in FY3/18 on improved margins**

For FY3/18, the Company projects a 2.9% YoY drop in net sales to ¥252,500mn, a 0.2% rise in operating profit to ¥10,000mn, a 0.5% increase in ordinary profit to ¥10,100mn, and a 0.5% increase in profit to ¥6,500mn. While sales are expected to continue to decline on lower unit sales (down 2.9% to 2.6mn units), continued improvement in profit per customer is expected to result in YoY operating profit growth.

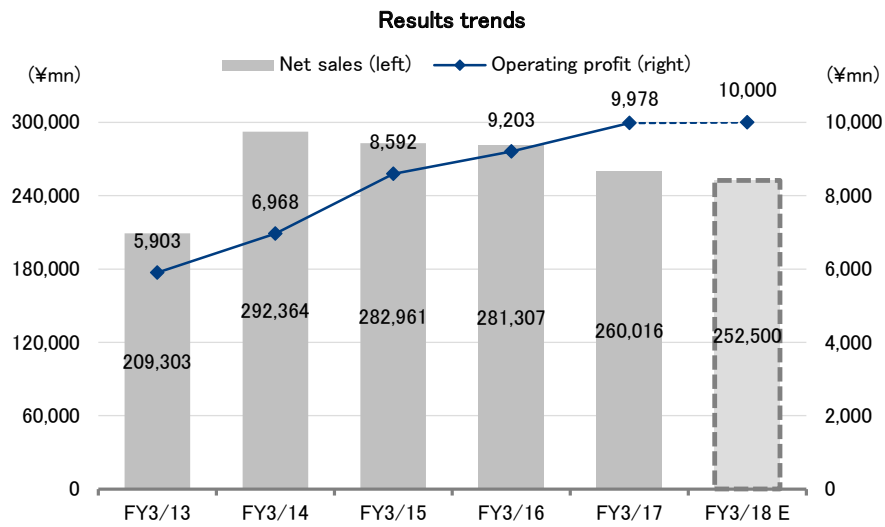
#### **3. Proactively returning value to shareholders; targets FY3/18 dividend payout ratio of 44.7%, plans to increase dividends for fifth consecutive year**

The Company’s basic policy toward shareholder returns is to endeavor to improve financial results so that the Company can consistently pay stable dividends at a payout ratio of 40%. In FY3/17, the Company increased annual dividends to ¥56.0 per share (¥48.0 in FY3/16). In FY3/18, the Company plans to increase dividend distributions for a fifth consecutive year to ¥65.0 per share (dividend payout ratio forecast: 44.7%) including a special dividend of ¥5 per share to commemorate the 20th anniversary of the founding of the Company. In addition, the Company has announced that, on July 3, 2017, the Company plans to cancel all of treasury shares held as of March 31, 2017 (11,185,062 shares, 20% of shares issued). We expect the market to react very favorably to the Company’s very proactive stance regarding returning value to shareholders.

Summary

Key Points

- Major mobile phone sales agency, largest in terms of sales of mobile phones for NTT DOCOMO
- Expect lower sales, higher profit in FY3/18, operating profit to increase to ¥10bn
- Proactive on shareholder returns: targets FY3/18 dividend payout ratio of 44.7%, 5th consecutive year of dividend hikes, plans to cancel 20% of treasury shares



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

## ■ Company profile

### Major mobile phone sales agency, top in sales of mobile phones for NTT DOCOMO, subsidiary of ITOCHU Corporation

#### 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 solution services using smartphones to corporate customers and selling prepaid cards at convenience stores. Based on the philosophy statement of “the Company is to connect people and values”, the Company holds up a 10-year vision of “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 customers love to visit again and again. In FY3/17, unit sales were 2.67mn and the Company had 421 carrier-certified shops as of March 31, 2017.

#### 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 Company's 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.”

Company profile

History

Major event	
August 1997	Established in Kita Aoyama, Minato Ward, Tokyo, as ITC NETWORKS CORPORATION as a subcontractor for ITOCHU Corporation
October 1997	Established a wholly-owned subsidiary, Tokai Networks Co.
November 1999	Moved the head office to Kamiochiai, Shinjuku Ward, Tokyo
October 2000	United the distribution facilities of Greater Tokyo Area
April 2002	Succeeded to the position of the primary sales agency of mobile phones from ITOCHU Corporation
May 2002	Moved the head office to Kamimeguro, Meguro Ward, Tokyo
May 2002	Established ITC Networks Service Co. as a wholly-owned subsidiary
July 2002	Merged a subsidiary Tokai Network Co.
August 2004	Obtained the certification of the Conformity Assessment Scheme (Version 2.0) for rating Information Security Management Systems as the first company in the industry of distributing and selling mobile communication equipment
February 2005	Moved the head office to Ebisu, Shibuya Ward, Tokyo
March 2006	Listed shares on the Second Section of the Tokyo Stock Exchange
July 2006	Merged ITC Networks Service Co.
August 2006	Bought Idomco Communications Co. and made it a wholly-owned subsidiary
April 2007	Merged Idomco Communications Co.
December 2007	Shares were elevated to the First Section of the Tokyo Stock Exchange
July 2008	ITC Mobile Co., a wholly-owned subsidiary of the Company, succeeded to the mobile communications business of Hitachi Mobile Co.
July 2008	Merged ITC Mobile Co.
October 2012	Merged Panasonic Telecom Co.
October 2013	Changed the company name to CONEXIO Corporation
July 2014	Moved the head office to Nishi Shinjuku, Shinjuku Ward, Tokyo
December 2014	Participated in the establishment of the National Association of Mobile-phone Distributors and served as vice-chair member company

Source: Prepared by FISCO from the Company website

## Business overview

### Mainly operates carrier-certified shops for individual customers, but also aggressively expanding corporate solutions services 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 aftersales services. And this business consists of the consumer business and the corporate business. In FY3/17, the consumer business accounted for 93.4% of total non-consolidated sales (84.8% of total unadjusted segment profit), while the corporate business provided 6.6% of sales and 15.2% of unadjusted segment profit.

\* 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", a portal site\* service 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 FY3/17, sales of goods amounted to ¥180,884mn (74.5% of total sales by the consumer business), while commission income came to ¥62,070mn (25.5% of total sales by the business).

\* Convenient smartphone services including providing daily information such as weather, fortune telling, and online search functions.

**a) Carrier-certified shops**

At the end of FY3/17, the Company had 423 carrier-certified shops\*, and 274 of which were operated directly by the Company. Of the 423 shops, 369 were docomo Shops (241 directly operated, 128 outsourced), 47 were au shops (26 directly operated, 21 outsourced), 5 were SoftBank shops (all operated directly), and 2 were other shops (both 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 149 outsourced shops.

The Company aims to offer attractive high-value-added carrier-certified shops that customers love to visit again and again and has recently been proactively improving the Company's shops by remodeling and changing locations. In addition, the Company has implemented many measures to improve the Company's shops such as strengthening the lineup of mobile-phone-related products such as accessories, introducing a reservation system for customers visiting the Company's shops, and holding smartphone lessons for senior citizens. In FY3/17, unit sales at carrier-certified shops were 2.165mn (80.9% 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 these retailers. Furthermore, the Company operates service corners inside of the stores of the retailers to provide after-sale services, such as repairing, receiving payments and consulting. In FY3/17, this business sold 398,000 mobile phones and tablet devices (14.8% of all the mobile phones and tablet devices sold by the Company).

Furthermore, the Company's distribution and call center also has advanced processing capability. Specifically, the distribution center's centralized mobile phone reception 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 at 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 FY3/17, the business sold ¥5,115mn of goods (30.0% of total corporate business sales), received ¥7,347mn of commission income from telecom carriers and the sale of solution services (43.1%), and garnered ¥4,598mn (27.0%) from the sale of prepaid cards. The corporate business sold 114,000 mobile phones and tablet devices in FY3/17 (4.3% of all the mobile phones and tablet devices sold by the Company).

#### a) Solution services for corporate customers

In addition to offering outsourced smartphone operation management services to corporate customers including business process outsourcing services such as preset default settings and helpdesk services, the Company also provides one-stop “mobile biz suite” services to facilitate the use of smartphones for business. The Company's 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 mission critical such as financial institutions and insurance companies. The Company has roughly 100 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 UNY Holdings Co., Ltd. (8028), Three F Co., Ltd. (7544), and Poplar Co. Ltd. (7601). It also assists retailers and web service companies nationwide to issue prepaid cards\*.

\* For example, the business assisted Oisix 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 working 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 modular IoT products.

## 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 is an important issue. 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 home-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.

September 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) Accredited as "White 500" the superior company of health management of 2017" (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 the operators of the shops are strongly subject to the telecom carriers. 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. In January 2017, the Ministry of Internal Affairs and Communications issued "Guidelines for provision of mobile services and mobile phones" and amended 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. In FY3/17, commission income from telecom carriers accounted for 27.9% of total sales (26.1% in FY3/16), and NTT DOCOMO supplied 76.7% of the Company's total commission income in FY3/17 (76.2% in FY3/16). In cost of purchased goods of the Company in FY3/17, that of NTT DOCOMO accounts for 89.6% (90.2% in FY3/16).

The Company's unit sales of mobile phones could be adversely affected by the recent spread of low-priced smartphones of mobile virtual network operators (MVNOs). Besides that smartphones and tablet devices are becoming functionally more complex, telecom carriers started to strength the loyalty services and to offer non-telecom services such as electricity and insurance. Under these conditions, high performance of sales staff is required. As a result, it is increasingly important and difficult to secure skilled sales staff.

## Results trends

### Operating profit up on improved margins despite sales decline on lower unit sales

#### 1. Summary of FY3/17 results

##### ● Earnings

In FY3/17, sales declined but profit increased, as non-consolidated net sales declined 7.6% YoY to ¥260,016mn, but operating profit rose 8.4% to ¥9,978mn, ordinary profit was up 8.1% to ¥10,046mn, and profit rose 5.2% to ¥6,469mn.

#### FY3/17 financial results

	FY3/16		FY3/17		YoY	
	Results	% of sales	Results	% of sales	Amount / unit	Ratio
Unit sales (10,000 units)	288.0	-	267.7	-	-20.3	-7.2%
Net sales	281,307	100.0%	260,016	100.0%	-21,291	-7.6%
Gross profit	46,214	16.4%	48,260	18.6%	2,046	4.4%
SG&A expenses	37,011	13.2%	38,282	14.7%	1,271	3.4%
Operating profit	9,203	3.3%	9,978	3.8%	775	8.4%
Ordinary profit	9,294	3.3%	10,046	3.9%	752	8.1%
Profit	6,149	2.2%	6,469	2.5%	320	5.2%
EBITDA	11,386	4.0%	12,245	4.7%	859	7.5%

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

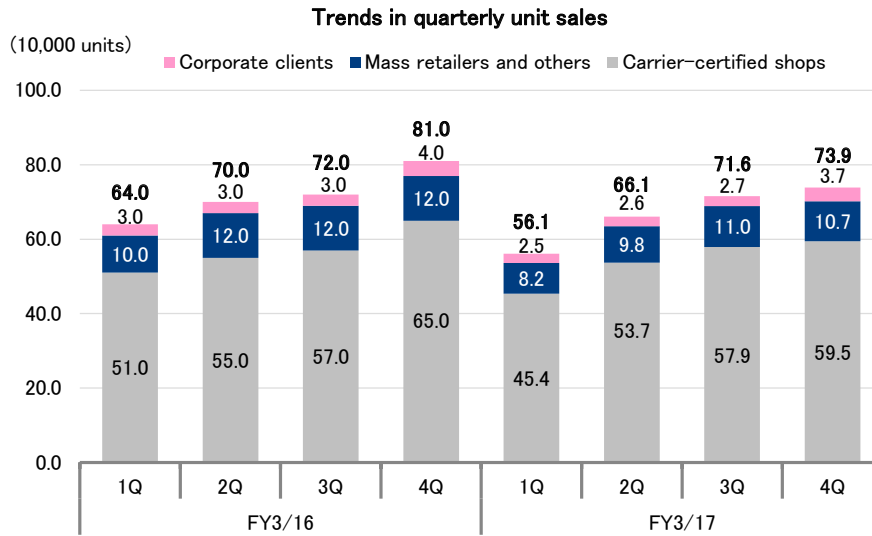
Mobile phone unit sales declined 7.2% YoY to 2.677mn from 2.88mn in FY3/16 as customers held off on purchasing new phones owing to an increase in effective purchase prices of mobile phones due to rectification of excessive preferential treatment of new subscribers. However, owing to the settling down of price competition and the sale of optical-fiber broadband services at carrier-certified shops and sales of tablets, profit per customer rose and gross profit rose slightly by 4.4% YoY to ¥48,260mn and gross profit margin also improved by 2.2 percentage points to 18.6%. However, SG&A expenses rose by 3.4% YoY to ¥38,282mn on an increase in labor costs owing to measures to improve the treatment of sales staff and an increase in factor-based taxation. This resulted in the SG&A expense ratio rising by 1.5 percentage points YoY to 14.7%. As a result of the above factors, the operating profit margin improved by 0.5 percentage points to 3.8% and operating profit rose 8.4% YoY to ¥9,978mn.

Results trends

2. Quarterly trends

(1) Trends in unit sales

Q4 FY3/17 unit sales declined 9.2% YoY to 739,000 units. This was attributable to a reactive decline owing to rush demand in the previous fiscal year (FY3/16) ahead of the increase in effective purchase prices, which resulted in YoY declines in unit sales in all four quarters of FY3/17.

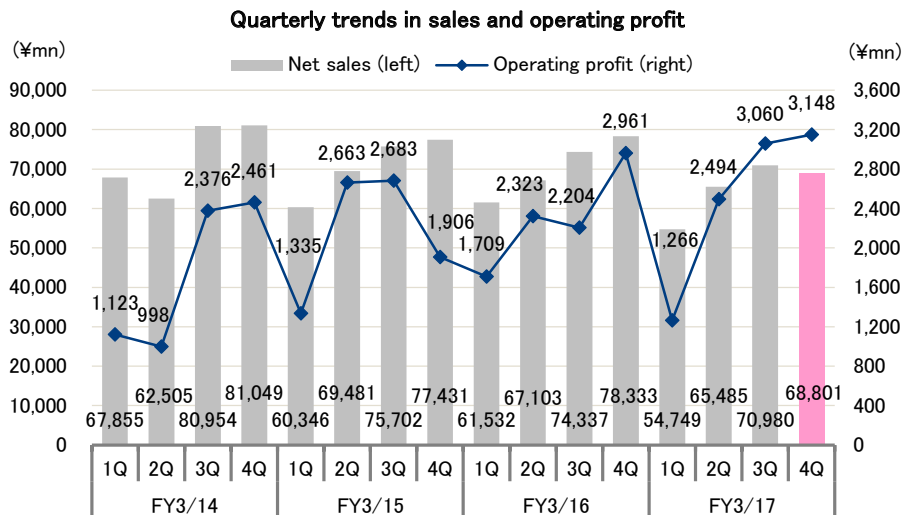


Source: Prepared by FISCO from the Company's results briefing materials

## Results trends

**(2) Trends in sales and operating profit**

Trends in sales and operating profit are as shown below. While sales fell YoY owing to a decline in unit sales, operating profit increased YoY starting in Q2 owing to improved margins. In Q4, operating profit reached a record high of ¥3,148mn (up 6.3% YoY).



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

**3. Status by business**

The status of each business is as shown below.

**Results by business**

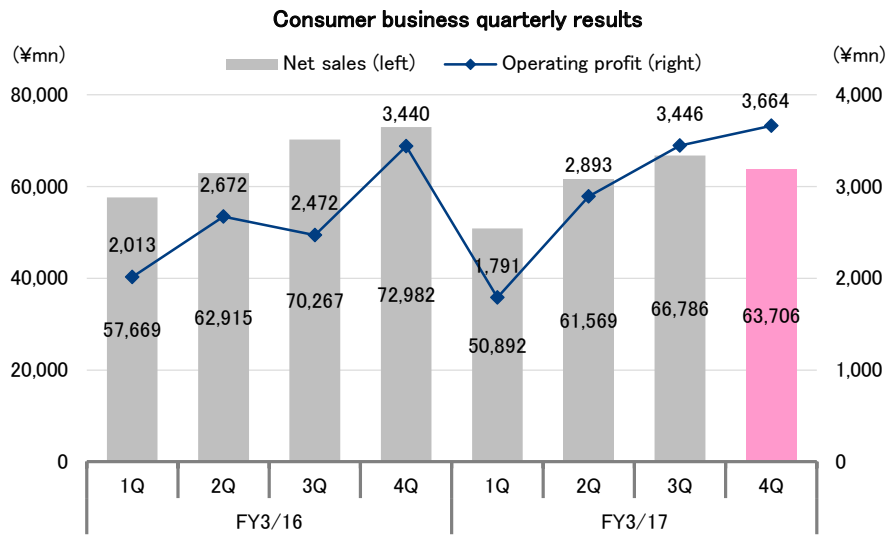
	FY3/16		FY3/17		YoY	
	Results	% of total	Results	% of total	Amount	% change
<b>Net sales</b>	281,307	100.0%	260,016	100.0%	-21,291	-7.6%
Consumer business	263,834	93.8%	242,954	93.4%	-20,889	-7.9%
Product sales	200,334	71.2%	180,884	69.6%	-19,450	-9.7%
Commission income	63,500	22.6%	62,070	23.9%	-1,430	-2.3%
Corporate business	17,472	6.2%	17,061	6.6%	-411	-2.4%
Product sales	6,007	2.1%	5,115	2.0%	-892	-14.8%
Commission income	7,552	2.7%	7,347	2.8%	-205	-2.7%
Prepaid card sales	3,913	1.4%	4,598	1.8%	685	17.5%
<b>Operating profit</b>	9,203	100.0%	9,978	100.0%	775	8.4%
Consumer business	10,598	-	11,796	-	1,198	11.3%
Corporate business	2,154	-	2,115	-	-39	-1.8%
Adjustments	-3,550	-	-3,933	-	-383	-

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

Results trends

(1) Consumer business

In the consumer business, sales declined 7.9% YoY to ¥242,954mn because the effective purchase price of devices increased and unit sales declined. Product sales declined by 9.7% to ¥180,884mn and commission income received from telecom carriers declined by 2.3% to ¥62,070mn, with both categories declining. However, profit per customer increased owing to efforts such as the strengthening of tablet device and optical fiber broadband service sales, encouragement of customers to switch from feature phones to smartphones, and efforts to improve customer satisfaction by holding smartphone lessons. As a result, the operating profit margin improved and consumer business operating profit increased 11.3% YoY to ¥11,796mn.

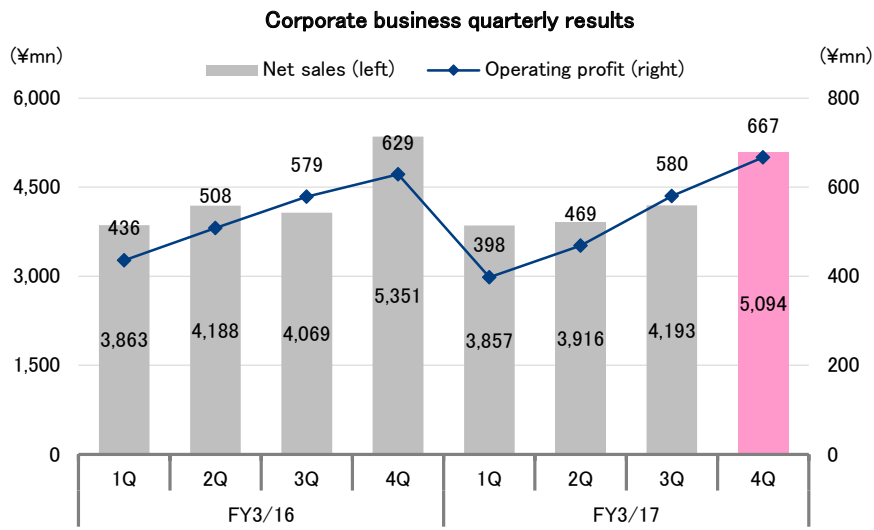


Source: Prepared by FISCO from the Company's results briefing materials

Results trends

(2) Corporate business

In the corporate business, sales fell 2.4% YoY in FY3/17 to ¥17,061mn, but the Company achieved a growth in contracts for solution services to corporate customers such as mobile help desk services and sales of prepaid cards remained firm, resulting in improved overall margins. As a result, operating profit held basically steady YoY, declining only 1.8% to ¥2,115mn. Looking at Q4, we see signs of improvement, as operating profit rose by 6.0% YoY to ¥667mn.



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

### 4. Financial condition

#### Non-consolidated balance sheets

	FY3/16	FY3/17	Change
	(¥mn)		
Cash and deposits	2,958	4,879	1,920
Accounts receivable - trade	46,020	45,343	-677
Accounts receivable - other	14,809	13,325	-1,483
<b>Total current assets</b>	<b>75,018</b>	<b>74,275</b>	<b>-743</b>
Property, plant and equipment	4,186	4,170	-16
Intangible assets	13,436	12,472	-964
Investments and other assets	4,270	4,335	65
<b>Total non-current assets</b>	<b>21,894</b>	<b>20,978</b>	<b>-915</b>
<b>Total assets</b>	<b>96,912</b>	<b>95,254</b>	<b>-1,658</b>
Accounts payable - trade	24,808	24,280	-527
Short-term loans payable	2,500	-	-2,500
Accrued agency commission	10,579	8,395	-2,183
Accounts payable - other	13,402	11,558	-1,843
<b>Total current liabilities</b>	<b>59,990</b>	<b>54,322</b>	<b>-5,667</b>
Provision for retirement benefits	4,109	4,554	445
<b>Total non-current liabilities</b>	<b>7,072</b>	<b>6,914</b>	<b>-157</b>
<b>Total liabilities</b>	<b>67,062</b>	<b>61,237</b>	<b>-5,824</b>
<b>Total net assets</b>	<b>29,850</b>	<b>34,016</b>	<b>4,166</b>
<b>Total liabilities and net assets</b>	<b>96,912</b>	<b>95,254</b>	<b>-1,658</b>

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

At the end of FY3/17, assets totaled ¥95,254mn, which was ¥1,658mn less than a year earlier, reflecting a ¥743mn YoY drop in current assets. The fall in current assets was due mainly to a ¥1,483mn drop in accounts receivable-other, a ¥855mn decline in deferred tax assets, a ¥677mn fall in accounts receivable-trade, a ¥1,920mn increase in cash and deposits, and ¥315mn rise in merchandise and finished goods. Non-current assets also declined by ¥915mn. The main factors contributing to the decline in non-current assets were a ¥776mn fall in rights of carrier shop management, a ¥153mn decline in tools, furniture and fixtures, a ¥103mn decrease in software, and a ¥134mn increase in buildings.

Total liabilities declined by ¥5,824mn during FY3/17 to ¥61,237mn at the end of the fiscal year. Current liabilities decreased by 5,667mn during FY3/17, due to factors such as a ¥2,500mn downturn in short-term loans payable, a fall of ¥2,183mn in accrued agency commissions, a decline of ¥1,843mn in accounts payable-other, a ¥527mn fall in accounts payable-trade, and a ¥1,600mn increase in income taxes payable. Non-current liabilities decreased by ¥157mn during FY3/17, reflecting such factors as a ¥444mn decline in deferred tax liabilities, a ¥149mn decrease in other non-current liabilities, and a ¥445mn rise in provisions for retirement benefits. The Company repaid all of the Company's short-term debt and therefore now has no interest-bearing debt.

Net assets grew by ¥4,166mn YoY during FY3/17 to ¥34,016mn at the end of the fiscal year, due mainly to an increase as a result of the recognition of profit of ¥6,469mn and a decrease as the result of dividend payments of ¥2,304mn.

## Results trends

## 5. Status of cash flows

## Cash flows

	(¥mn)	
	FY3/16	FY3/17
Cash flows from operating activities	8,392	8,635
Profit before income taxes	9,390	9,716
Increase (decrease) in notes and accounts payable - trade	1,316	-2,711
Decrease (increase) in notes and accounts receivable - trade	2,615	616
Cash flows from investing activities	-1,811	-1,904
Cash flows from financing activities	-7,490	-4,805
Net increase (decrease) in cash and cash equivalents	-908	1,924
Cash and cash equivalents at end of period	3,088	5,013

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

Cash flows from operating activities resulted in a net inflow of ¥8,635mn in FY3/17. This was attributable mainly to the net effect of the total cash inflow due to the recognition of profit before income taxes of ¥9,716mn, depreciation of ¥1,992mn, the decrease in accounts receivable-other by ¥1,483mn, etc., and the total cash outflow due to the decrease in notes and accounts payable-trade by ¥2,711mn, the decrease in accounts payable-other by ¥1,837mn, income taxes paid of ¥1,417mn, etc. Cash flows from investing activities resulted in a net outflow of ¥1,904mn. This was attributable mainly to the purchase of property, plant and equipment (¥1,170mn). Cash flows from financing activities resulted in a net outflow of ¥4,805mn. This was attributable to the net decrease in short-term loans payable (¥2,500mn) and cash dividends paid (¥2,305mn).

As a result of the above, cash and cash equivalents at the end of the fiscal year under review increased by ¥1,924mn from the end of the previous fiscal year to ¥5,013mn.

## Business outlook

### Medium-term business plan target (operating profit of ¥10bn) within reach

#### 1. Company forecast for FY3/18

For FY3/18, the Company projects unit sales will continue to decline to 2.6mn units (down 2.9% YoY) and sales will decline 2.9% to ¥252,500mn, but profit will increase, with operating profit of ¥10,000mn (up 0.2%), ordinary profit of ¥10,100mn (up 0.5%) and profit of ¥6,500mn (up 0.5%).



## Business outlook

## Company forecast for FY3/18

	FY3/17		FY3/18 E		YoY	
	Results	% of sales	Forecast	% of sales	Value/units	% change
Unit sales (10,000 units)	267.7	-	260.0	-	-7.7	-2.9%
Net sales	260,016	100.0%	252,500	100.0	-7516	-2.9%
Operating profit	9,978	3.8%	10,000	4.0	22	0.2%
Ordinary profit	10,046	3.9%	10,100	4.0	54	0.5%
Profit	6,469	2.5%	6,500	2.6	31	0.5%

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

While the Company expects continued decline in unit sales in existing businesses, it expects to achieve profit growth through higher unit prices (improved margins) and growth in corporate solutions services. The Company also targets profit growth through the creation of new revenue sources, such as the development of new retail businesses and expansion of the IoT solutions business. However, the Company plans to make investments to prepare for the Company's next step forward (mainly in corporate solutions services and the building of new revenue sources) and also expects labor costs to increase owing to further efforts to implement changes in work style. The Company therefore expects only slight growth in operating profit.

## Continuing to establish foothold toward future growth

### 2. Working toward medium-term target (¥10bn in operating profit)

We believe the Company's medium-term business plan target of operating profit of ¥10bn in FY3/18 is within reach. The Company has characterized FY3/18 as a "foothold toward future growth", in preparation for changes in the business environment going forward and plans to proactively carry out the following measures and investments.

#### (1) Seeking profit by responding to changes in the environment

##### a) Consumer business

The Company plans to work on the standardization of shop operation quality at higher levels, aiming to offer attractive shops that customers love to visit again and again. In addition to the improvement of customer satisfaction through the provision of smartphone lessons, the Company plans to push forward with the improvement of operations of the shops.

##### b) Corporate business

In the corporate business, the Company plans to aggressively promote solution services to corporate customers in order to encourage them to expand the use of smartphones. For example, the Company plans to continue to cultivate mobile help desk customers and strengthen ties with the partner companies.

#### (2) Developing new revenue sources

The Company plans to implement the following measures.

- a) The portal site "nexi" for smartphone users was upgraded to "nexi plus" on April 1, 2017 in order to allow the provision of more attractive services and a reservation system for customers visiting carrier-certified shops.
- b) Accelerate development of new retail businesses and strategically secure retail space.
- c) The Company will secure orders of IoT gateways, for which proof of concept is underway, with mass production.

Business outlook

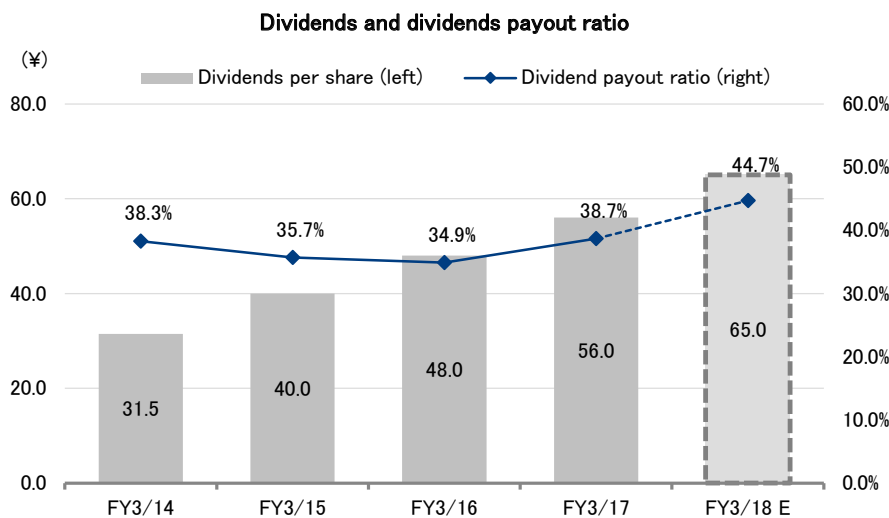
**(3) Securing talent and strengthening control**

The Company plans to continue to increase employee retention rates, strengthen recruitment, develop human resources, and strengthen internal controls.

## Shareholder return policy

### Targets FY3/18 dividend payout ratio of 44.7% and plans to cancel 20% of treasury shares

The Company's basic policy toward shareholder returns is to endeavor to improve financial results so that the Company can consistently pay stable dividends at a payout ratio of 40%. In FY3/17, the Company increased annual dividends by ¥4.0 per share versus the Company's initial forecast to ¥56.0 per share (up ¥8.0 per share YoY). In FY3/18, the Company plans to increase dividend distributions for a fifth consecutive year to ¥65.0 per share (dividend payout ratio forecast: 44.7%) including a special dividend of ¥5 per share to commemorate the 20th anniversary of the founding of the Company.



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

In addition, the Company has announced that, on July 3, 2017, the Company plans to cancel all of treasury shares held as of March 31, 2017 (11,185,062 shares). This will reduce the number of shares issued 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.

We expect the market to react very favorably to the Company's very proactive stance regarding returning value to shareholders.



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