

CONEXIO Corporation

9422

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■ Summary

ITOCHU Corporation-affiliated major mobile phone sales agency that is top in sales for NTT DOCOMO In FY3/19, the Company achieved an increase in profit for the seventh consecutive term

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 FY3/19, secured higher operating profit despite the decline in unit sales, and achieved increase in profit for seventh consecutive term

In FY3/19, net sales declined 0.4% year on year (YoY) to ¥263,925mn, operating profit increased 0.7% to ¥10,277mn, ordinary profit grew 2.4% to ¥10,539mn, and profit increased 2.7% to ¥6,921mn. Net sales declined as a result of the 7.4% dip in unit sales due to the change in some product distribution channels, but the Company secured an increase in profit as gross profit increased 3.0% YoY due to the revision of device prices and the expansion of the Company’s unique services for smartphones, along with other efforts. The Company absorbed the increase in selling, general and administrative expenses due to investments targeting new revenues, including securing smartphone lesson instructors and strengthening the structure of mobile BPO services for corporate customers, and was able to post an increase in profit for the seventh consecutive term.

2. The Company has not disclosed results forecasts for FY3/20, but is continuing with the medium-term management plan “CONEXIO Plan 2020”

The Telecommunications Business Act was amended in May 2019, and it is expected that from this fall communications charges and handset fees will be completely separated from one another. With this, communications charges are expected to go down while device prices are expected to increase. It is unclear what impact this will have on the Company, so the Company is planning to announce results forecasts for FY3/20 as soon as it can reasonably calculate them. The Company will continue the medium-term management plan “CONEXIO Plan 2020” which it announced in May 2018, and plans to advance the five business strategies that look towards the age of 5G (details on Page 12).

3. Actively returns profits to shareholders. The Company declared that it will pay an annual dividend of ¥60 per share in FY3/20

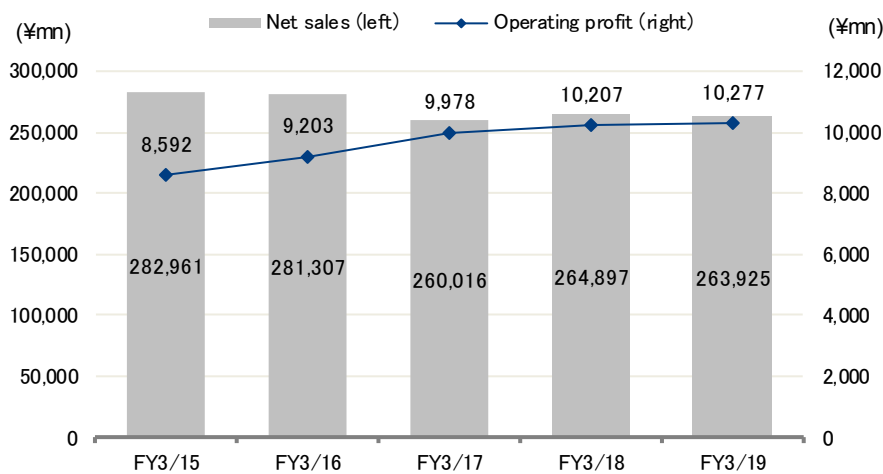
The Company’s basic policy for distributing profits is to work to improve financial results so it can continuously and stably pay dividends, targeting a dividend payout ratio of 40%. In FY3/19, it paid an annual dividend of ¥60 (dividend payout ratio 38.8%) in accordance with this policy. The company declared to maintain at least ¥60 for annual dividend for FY3/20. 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
- Achieved increase in profit in FY3/19 for the seventh consecutive term
- Proactive shareholder returns: The Company declared that it will maintain an annual dividend of ¥60 per share in FY3/20

Results trends



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 FY3/19, unit sales were 2.516 mn and the Company had 435 carrier-certified shops as of March 31, 2019.

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 is also aggressively expanding corporate business to maximize profit going forward

1. Engages in the Consumer Business and the Corporate Business, centered on the mobile phone sales agency 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 FY3/19, 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 their own service "nexiplus,"* to strengthen relations and accommodate customer demands for smartphone use. 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 FY3/19, sales of goods amounted to ¥178,432mn (73.0% of total sales by the Consumer Business), while commission income came to ¥66,154mn (27.0% of total sales by the business).

* "nexiplus" is a unique service of the Company that provides convenient and beneficial contents, including coupons, health and love consultations over the phone, and ticket sales to members

a) Carrier-certified shops

At the end of FY3/19, the Company had 435 carrier-certified shops*, and 289 of which were operated directly by the Company. Of the 435 shops, 364 were docomo Shops (238 directly operated, 126 outsourced), 47 were au shops (27 directly operated including 2 UQ Spots, 20 outsourced), 6 were SoftBank shops (all operated directly), and 18 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 146 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 expanded reservation capacity, and these measures are being developed at each shop individually. In FY3/19, unit sales at carrier-certified shops were 1.993mn (79.2% 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 FY3/19, this business sold 418,000 mobile phones and tablet devices (16.6% 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 IoT product, 2) commission income from telecom carriers or the sale of solution services 3) the sale of prepaid cards. In FY3/19, the business sold ¥6,526mn of goods (33.7% of total Corporate Business sales), received ¥8,853 mn of commission incomes (45.8%), and garnered ¥3,956mn (20.5%) from the sale of prepaid cards. The Corporate Business sold 105,000 mobile phones and tablet devices in FY3/19 (4.2% 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. Among these, the Company utilizes its strengths in administration of mobile devices for its 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. Also, in FY3/19 Q2, the Company relocated and expanded the floor space of the mobile BPO center, and significantly improved the kitting processing capacity and quality. This has contributed to the increase in the number of kitting processing.

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.

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. In FY3/19, starting with the launch of a new service, the Smart Ready IoT Solutions Template, which accelerates and simplifies the construction of IoT systems, the Company released security functions for IoT equipment and meter-reading functions. Most recently, the Company started receiving orders for the AI-compatible, high-performance “edge computing gateway CONEXIOBlackBear,” which is shock-resistant and vibration-resistant, and can be used overseas and mounted in automobiles.

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.

Business overview

(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.

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, introducing a flex-time 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 including the Grand Prize in the Tokyo Metropolitan Government's "Women's Participation Promotion Award" (February 2019) and "'White 500' the superior company of health management of 2019" among other 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.

Lists of awards received (over the past two fiscal years)

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)
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) 3rd "White Company Awards" award in the Child-care Support Category and the Ikuboss Category (from JWS (Japan White Spread)) 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) 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)
July 2018	Recognized as an excellent "company that supports child rearing," received "Platinum Kurumin" (from the Ministry of Health, Labour and Welfare)
November 2018	Innovation Award in the "Good Career Company Awards 2018" (from the Ministry of Health, Labour and Welfare)
January 2019	"Grand Prize" in Tokyo Metropolitan Government's "Women's Participation Promotion Award" (from the Tokyo Metropolitan Government)
February 2019	Accredited as "'White 500' the superior company of health management of 2019" (from the Ministry of Economy, Trade and Industry and Nippon Kenko Kaigi) for three consecutive years.

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 May 2019, the Telecommunications Business Act was amended, and from this fall communications charges and handset fees are expected to be completely separated from one another.

The Company's heavy reliance on NTT DOCOMO in comparison to other companies in the industry is both a strength and 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 gross profit was secured following efforts to expand unique services for smartphones, while operating profit was a record high as the increases in personnel costs and other costs were absorbed

1. Summary of FY3/19 results

In the FY3/19 results, net sales decreased 0.4% YoY to ¥263,925mn, operating profit rose 0.7% to ¥10,277mn, ordinary profit grew 2.4% to ¥10,539mn, and profit increased 2.7% to ¥6,921mn.

Despite stable sales of smartphones, unit sales fell 7.4% YoY to 2,516,000, due to the change in some of the product distribution flows. Consequently, net sales declined YoY, but gross profit increased 3.0% YoY due to the revision of device prices and the expansion of the Company's unique services for smartphones. In terms of expenses, the Company saw a 3.6% increase in selling, general and administrative expenses, centered on personnel costs, as a result of the hiring of smartphone class instructors and the bolstering of corporate mobile BPO services, but with the increase in gross profit, operating profit increased YoY and marked a new record high.

FY3/19 financial results

	FY3/18		FY3/19		YoY	
	Results	% of sales	Results	% of sales	Amount/units	Ratio
Unit sales (10,000 units)	271.7	-	251.6	-	-20.1	-7.4%
Net sales	264,897	100.0%	263,925	100.0%	-972	-0.4%
Gross profit	50,347	19.0%	51,880	19.7%	1,533	3.0%
SG&A expenses	40,139	15.2%	41,602	15.8%	1,463	3.6%
Operating profit	10,207	3.9%	10,277	3.9%	70	0.7%
Ordinary profit	10,293	3.9%	10,539	4.0%	246	2.4%
Profit	6,738	2.5%	6,921	2.6%	183	2.7%
EBITDA	12,515	4.7%	12,601	4.8%	86	0.7%

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

Results trends

2. Status by business

The status of each business is as shown below.

Results by business

	FY3/18		FY3/19		YoY	
	Results	% of total	Results	% of total	Amount	% change
Net sales	264,897	100.0%	263,925	100.0%	-972	-0.4%
Consumer Business	245,534	92.7%	244,587	92.7%	-947	-0.4%
Product sales	183,032	69.1%	178,432	67.6%	-4,600	-2.5%
Commission income	62,501	23.6%	66,154	25.1%	3,653	5.8%
Corporate Business	19,362	7.3%	19,337	7.3%	-25	-0.1%
Product sales	6,365	2.4%	6,526	2.5%	161	2.5%
Commission income	8,496	3.2%	8,853	3.4%	357	4.2%
Prepaid card sales	4,500	1.7%	3,956	1.5%	-544	-12.1%
Operating profit	10,207	3.9%	10,277	3.9%	70	0.7%
Consumer Business	12,625	-	13,566	-	941	7.5%
Corporate Business	1,591	-	977	-	-614	-38.6%
(intercompany elimination)	-4,009	-	-4,266	-	-257	-

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

(1) Consumer Business

Unit sales fell 7.2% YoY to 2,411,000 units due to the change in some of the product distribution flows, but as a result of the revision of the price of some devices and efforts to expand accessories for smartphones as well as the Company's unique smartphone services, product sales declined 2.5% YoY to ¥178,432mn, while commission income increased 5.8% YoY to ¥66,154mn. As a result, net sales in the Consumer Business declined 0.4% YoY to ¥244,587mn. Meanwhile, segment operating profit increased 7.5% YoY to ¥13,566mn, despite the increase in personnel costs to secure smartphone lesson instructors and other factors. The ability to post an increase in operating profit despite the decline in net sales was due to the fact that the following strategies of the Company have started to yield positive results.

a) Holding smartphone lessons

The Company has developed lessons that meet the needs of customers, and has further increased the number of lessons held. As a result, approximately 390,000 people attended lessons throughout the fiscal year, roughly 2.2x as many as in the previous fiscal year.

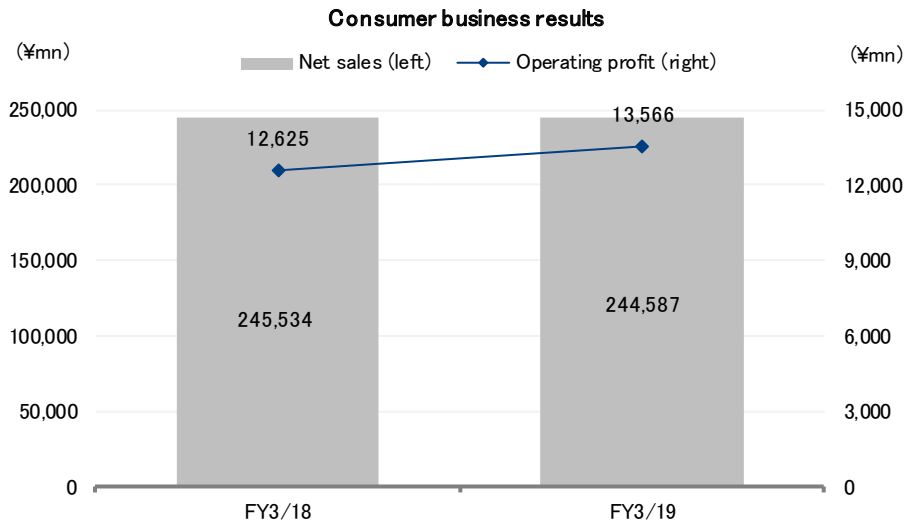
b) Introduction of shop-visit reservation system

The Company has expanded the number of shops that use a shop-visit reservation system, with the aim of keeping wait times to a minimum, and also started to expand the reservation slots.

c) Enhancing the Company's unique "nexiplus" service and expanding smartphone accessories

As for "nexiplus," the Company has added new content, including ticket sales exclusively for members as well as local coupons, and has also released an iOS version of its app. Furthermore, the Company started offering virus protection software as a peripheral product.

Results trends



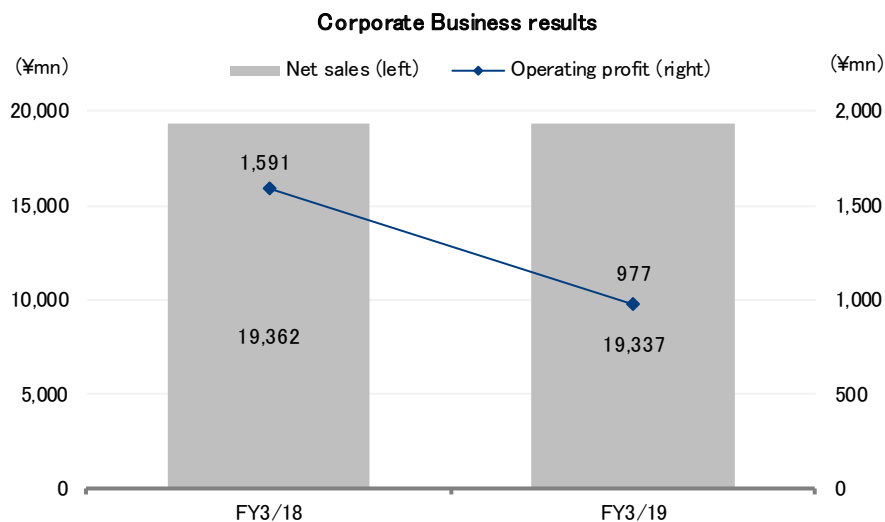
Source: Prepared by FISCO from the Company's financial results

(2) Corporate Business

Net sales decreased 0.1% YoY to ¥19,337mn. Breaking this down, product sales increased 2.5% to ¥6,526mn, commission income climbed 4.2% to ¥8,853mn, while sales of prepaid cards declined 12.1% to ¥3,956mn. Segment operating profit declined 38.6% to ¥977mn due to upfront investments, including the relocation and floor space expansion of the mobile BPO center, and the impact of the revision of transaction terms of the sale of prepaid cards started from November 2017.

Segment operating profit declined for the full fiscal year, but the impact from the revision of transaction terms of the sale of prepaid cards ended by the middle of Q3, and a recovery was seen from Q4. Furthermore, in order to raise profitability going forward, the Company bolstered the mobile BPO service platform (mobile BPO center relocation and floor space expansion, improvement of kitting processing capacity and quality), introduced a new type of prepaid card fixture, and expanded IoT solutions.

Results trends



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

Debt-free with a strong financial position

3. Financial condition

Balance sheets

	(¥mn)		
	As of March 31, 2018	As of March 31, 2019	Change
Cash and deposits	7,606	11,086	3,480
Notes and accounts receivable-trade	48,934	49,285	351
Accounts receivable - other	12,188	12,914	725
Total current assets	78,694	82,594	3,900
Property, plant and equipment	4,368	4,804	435
Intangible assets	11,626	10,839	-787
Investments and other assets	4,717	5,267	550
Total non-current assets	20,713	20,911	198
Total assets	99,407	103,506	4,098
Accounts payable - trade	22,441	20,275	-2,165
Accrued agency commission	9,673	11,607	1,933
Accounts payable - other	12,100	12,387	286
Total current liabilities	55,640	55,264	-375
Provision for retirement benefits	4,888	5,252	364
Total non-current liabilities	5,592	6,135	542
Total liabilities	61,233	61,400	167
Total net assets	38,174	42,106	3,931
Total liabilities and net assets	99,407	103,506	4,098

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

Results trends

At the end of FY3/19, total assets had increased ¥4,098mn on the end of the previous fiscal year to ¥103,506mn. Current assets rose ¥3,900mn, which was mainly due to increases in cash and deposits of ¥3,480mn and notes and accounts receivable-trade of ¥351mn, and an increase in accounts receivable-other of ¥725mn. Non-current assets increased ¥198mn, primarily because of a ¥435mn increase in property, plant and equipment, a ¥787mn decrease in intangible assets (mainly in the rights of carrier shop management), and a ¥550mn increase in investment and other assets.

Total liabilities were up ¥167mn on the end of the previous fiscal year to ¥61,400mn. Current liabilities decreased ¥375mn, with the main factors being a decrease in accounts payable-trade of ¥2,165mn and increases in accrued agency commission of ¥1,933mn and accounts payable-other of ¥286mn. Non-current liabilities grew ¥542mn, primarily because the provision for retirement benefits increased ¥364mn.

Net assets were up ¥3,931mn on the end of the previous fiscal year to ¥42,106mn, mainly due to the increase in retained earnings of ¥4,013mn following the recording of profit.

4. Status of cash flows

Cash flows

	(¥mn)	
	FY3/18	FY3/19
Cash flows from operating activities	7,574	8,558
Profit before income taxes	10,076	10,302
Decrease (increase) in notes and accounts receivable - trade	-3,593	-351
Decrease (increase) in accounts receivable - other	1,132	-725
Increase (decrease) in notes and accounts payable - trade	-560	-231
Cash flows from investing activities	-2,079	-2,108
Cash flows from financing activities	-2,685	-2,909
Net increase (decrease) in cash and cash equivalents	2,807	3,538
Cash and cash equivalents at end of period	7,821	11,360

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

In FY3/19, cash provided by operating activities was ¥8,558mn. The main sources of income were the recording of profit before income taxes of ¥10,302mn and depreciation expenses of ¥2,086mn, while the main expenditures were an increase in notes and accounts receivable-trade of ¥351mn, an increase in account receivable-other of ¥725mn and a decrease in notes and accounts payable-trade of ¥231mn. Cash used in investing activities was ¥2,108mn, mainly due to expenditure of ¥1,462mn for purchase property, plant and equipment. Cash used in financing activities was ¥2,909mn, 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 ¥3,538mn from the end of the previous fiscal year to ¥11,360mn.

Business outlook

Second year of the medium-term management plan “CONEXIO Plan 2020”

Pursuing the five business strategies

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

The Company has announced its 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.”

(1) Strengthening touch points with customers

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

(2) 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 “CONEXIO Plan 2020,” the Company is working on the following five business strategies. In FY3/20, the second year of the plan, the Company will focus on the following activities.

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

The Company will aim to increase the added value of its shops as real customer contact points and become “the No. 1 shop in the community that will stand the test of time.” To this end, the Company will propose products and services that prioritize continued use, increase and enhance smartphone lessons and widen the range of students, and provide services meeting the needs of customers and matching communities they live in by personalizing “nexiplus.”

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

The Company will continue to evolve operations, aiming for shops that do not keep customers waiting. Specifically, the Company will strengthen the shop-visit reservation service (introduce it at more shops and increase the reservation slots), reduce service times by revising the customer service process, make shop operations more efficient by promoting the use of IT (improve the shop-visit reservation system, revise internal administrative work at shops and inventory management operations), along with other initiatives.

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

The Company will enhance its profitability in its mobile BPO services by offering services that meet diverse customer needs and further improving operational efficiency. Additionally, the Company will increase its added value as a mobile solutions provider by further providing mobile solutions, centered on mobile solutions that support work style reform and telecommuting.

Business outlook

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

Ahead of the arrival of 5G, the next-generation telecommunications standard, the Company continued with the in-house development of the IoT edge computing gateway that takes the conventional IoT gateway to the next level, and started receiving orders on June 5, 2019. The Company has positioned this edge computing gateway as the core device of its IoT solutions, and will try using it to enter new markets, such as factory automation and special vehicles. Furthermore, the Company will aim to create 5G solutions with edge computing at the core by progressing with the development of the edge computing gateway for 5G and by developing solution services based on edge computing for new markets.

(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 operating results so it can stably pay dividends, targeting a dividend payout ratio of 40%.

b) Investment strategy

The Company will steadily conduct strategic investment that will lead to future growth, while at the same time make investments in directly-owned shops, as well as growth investments such as reinforcing the functions of IT systems to enhance the productivity and the energy-saving properties of shops.

c) Human capital strategy

While the Company has been carrying out measures including converting shop sales staff into regular employees, work style reform, and improving the work-life balance of its employees, it will make further investments in human capital by reforming the personnel system for shop sales staff (including improving pay and benefits) and increasing the retention rate.

d) ESG/CSR management

The Company will upgrade its initiatives in the fields of the environment, society and governance in order to meet the expectations of its stakeholders. For the environment, the Company will work to reduce the environmental load from its business processes (including the collection of used mobile phones and reducing the amount of electricity used). For society, the Company will provide high-quality services that completely satisfy customers and continuously engage in educational activities targeting the safe and secure use of the Internet. For governance, the Company recognizes compliance and information security to be its highest priority CSR tasks, and will continue to make efforts to establish a more effective control system and to enhance education and training for employees. With respect to corporate governance, the Company is committed to further strengthening the supervisory function of the Board of Directors, while at the same time introducing new medium- to long-term incentives for its directors and executive offers conditional upon achieving the goals of the medium-term management plan, and enhancing the Company's corporate value over the medium to long term.

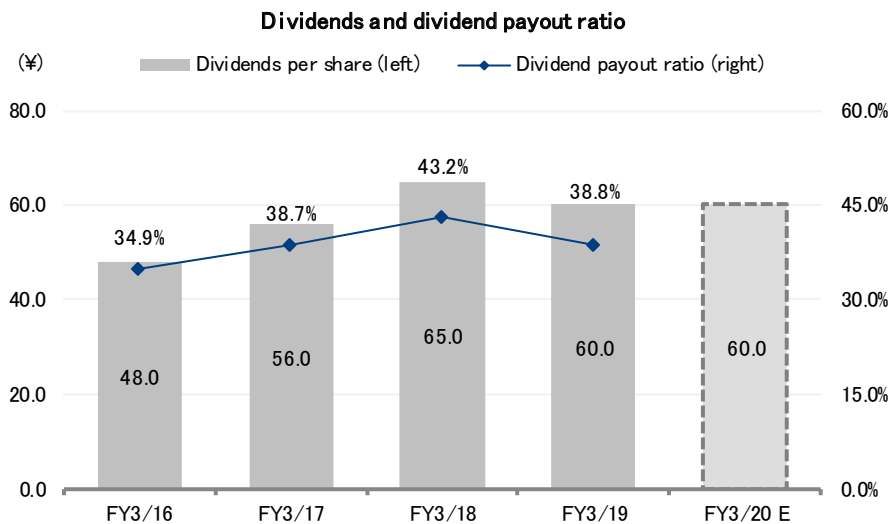
3. The Company has not currently disclosed operating results forecasts for FY3/20

The Telecommunications Business Act was amended in May 2019, and it is expected that from this fall communications charges and device fees will be completely separated. With this, communications charges are expected to go down while handset prices are expected to increase. It is unclear what impact this will have on the Company, so the Company is planning to announce results forecasts for FY3/20 as soon as it can reasonably calculate them.

Shareholder return policy

The Company declared that it will pay an annual dividend of ¥60 per share in FY3/20

The Company's basic policy on profit allocation is to endeavor to improve operating results so that it can continue to pay stable dividends at a payout ratio of approximately 40%. In line with this policy, in FY3/19 the Company paid an annual dividend of ¥60 (payout ratio = 38.8%). For FY3/20, the Company has declared that it will at least maintain an annual dividend of ¥60.



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, 2019, 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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