

CONEXIO Corporation

9422

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Note : This report is covering the 1H Financial Result (six months ended September 30, 2019). The latest Financial Result (nine months ended December 31, 2019) and the Financial Results Forecasts for FY3/20 disclosed on January 30, 2020 have been posted on the website below: https://www.conexio.co.jp/en/ir/library/earning/2019/financialreport_FY19Q3.pdf

Summary

ITOCHU Corporation-affiliated major mobile phone sales agency that is top in sales for NTT DOCOMO **While unit sales fell, operating profit reached a record high in FY3/20 1H**

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. While unit sales in FY3/20 1H fell 14.9%, operating profit reached a record high on improvement in gross margin.

In FY3/20 1H results, net sales fell 14.6% year on year (YoY) to ¥105,980mn, operating profit rose 26.0% to ¥5,323mn, ordinary profit grew 24.6% to ¥5,466mn and profit rose 30.9% to ¥3,752mn. Unit sales fell 14.9% YoY to 1,047,000, due in part to last year's change in some product distribution channels, and in conjunction with the start of DOCOMO's split plans (separating communications charges from handset fees) in June 2019. Still, with an increase in commission income not linked to unit sales, stronger sales of smartphone accessories and growth in corporate mobile BPO services, gross profit rose 4.0% YoY to ¥25,630mn. In addition, with SG&A expenses kept to ¥20,306mn, a decrease of 0.5%, operating and other profits grew significantly, each recording new record highs.

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

Due to the impact of the enactment of revisions to the Telecommunications Business Act in October 2019 (the complete separation of communications charges and handset fees, remedying of excessive hoarding of customers through binding contract terms, introduction of a notification system for sales agents, etc.), conditions in the mobile market are facing a time of enormous change. A rise in device prices brought on by optimization of device purchase subsidies, combined with the hike in the consumption tax, has had a significant impact on the Company's unit sales. It is uncertain what that impact will be in the second half of the fiscal year, and as a result, the Company has not at this point disclosed a full-year forecast for FY3/20*, although it has said that it will provide such disclosure as soon as reasonable calculations can be completed. Note that the Company is steadily continuing with the medium-term management plan “CONEXIO Plan 2020” announced in May, 2018, and intends to move forward with the five business strategies it has established in anticipation of the arrival of 5G.

* This report is covering the 1H Financial Result (six months ended September 30, 2019). The latest Financial Result (nine months ended December 31, 2019) and the Financial Results Forecasts for FY3/20 disclosed on January 30, 2020 have been posted on the website below: https://www.conexio.co.jp/en/ir/library/earning/2019/financialreport_FY19Q3.pdf

Summary

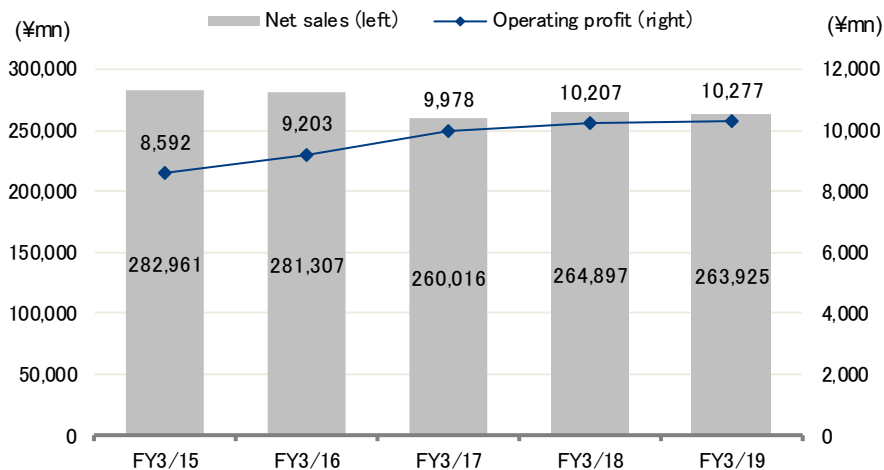
3. Actively returns profits to shareholders. The Company declared that it will pay an annual dividend of ¥60 per share in FY3/20

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.

Key Points

- Major mobile phone sales agency, largest in terms of sales of mobile phones for NTT DOCOMO
- Unit sales decreased in 1H FY3/20, but operating profit, ordinary profit and profit all reached record highs
- 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 2,516,000 and the Company had 437 carrier-certified shops as of September 30, 2019.

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 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.

(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) 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 mobile devices, 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 September 2019, the Company had 437 carrier-certified shops*, and 294 of which were operated directly by the Company. Of the 437 shops, 363 were docomo shops (238 directly operated, 125 outsourced), 46 were au shops (28 directly operated including 2 UQ Spots, 18 outsourced), 6 were SoftBank shops (all operated directly), and 22 were Rakuten Mobile 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 143 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 peripheral equipment for mobile devices, 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 1,993,000 (79.2% of companywide unit sales).

Business overview

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 receiving payments, repairing, 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.

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 device 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.

b) Prepaid card sales

The Company sells prepaid cards at convenience stores all around Japan including at FamilyMart (8028) and Poplar Co. Ltd. (7601). It also assists retailers and web service companies nationwide to issue prepaid cards*.

* In one example, the business assisted Oisix ra daichi Inc. (3182), which sells healthy foods (little or no use of chemicals) through an online supermarket, in issuing the Oisix Gift Card, which can be exchanged for food purchases.

Business overview

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 began providing the AI-compatible, high-performance "edge computing gateway," CONEXIOBlackBear, which is shock- and vibration-resistant and can be used overseas and mounted in automobiles, as well as an "AR equipment maintenance solution" linking an AR solution from a partner company with the Company's IoT services.

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.

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" (January 2019) and "'White 500' the superior company of health management of 2019" (February 2019, for a third consecutive year) 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.

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.

Business overview

Like telecom carriers, the Company can also be impacted by changes in laws and regulations such as the Telecommunications Business Act. Recently, with the enactment of revisions to the Telecommunications Business Act in October 2019, it has become mandatory to completely separate communications charges and handset fees 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

Unit sales fell on the shift to split plans, but gross profit grew on an increase in commission income and others.
Operating profit reached a new record high on reduced SG&A expenses

1. Summary of FY3/20 1H results

In the FY3/20 1H results, net sales decreased 14.6% YoY to ¥105,980mn, operating profit rose 26.0% to ¥5,323mn, ordinary profit grew 24.6% to ¥5,466mn, and profit increased 30.9% to ¥3,752mn.

Unit sales fell 14.9% YoY to 1,047,000 due to the impact of a NTT DOCOMO's split plans beginning in June 2019, and net sales fell as a result. Meanwhile, capturing of commission income not linked to unit sales, strong sales of smartphone accessories and growth in corporate mobile BPO services pushed gross profit to ¥25,630mn (+4.0%). Of gross profit, the Company's independent earnings, not related to its carrier business, rose by about 20% YoY, pushing up gross profit. Those independent earnings—including from the Company's proprietary services, corporate mobile BPO services, other mobile solutions, IoT solutions and others—have risen steadily as a percentage of total earnings. The Company also held SG&A expenses to ¥20,306mn, down 0.5% YoY, operating and other profits grew significantly, each recording new highs.

FY3/20 1H financial results

	FY3/19 1H		FY3/20 1H		YoY	
	Results	% of sales	Results	% of sales	Amount/units	Ratio
Unit sales (10,000 units)	123.0	-	104.7	-	-18.3	-14.9%
Net sales	124,083	100.0%	105,980	100.0%	-18,103	-14.6%
Gross profit	24,633	19.9%	25,630	24.2%	997	4.0%
SG&A expenses	20,407	16.4%	20,306	19.2%	-101	-0.5%
Operating profit	4,226	3.4%	5,323	5.0%	1,097	26.0%
Ordinary profit	4,388	3.5%	5,466	5.2%	1,078	24.6%
Profit	2,866	2.3%	3,752	3.5%	886	30.9%
EBITDA	5,362	4.3%	6,485	6.1%	1,123	20.9%

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

Results trends

2. Status by business

Results by business

	FY3/19 1H		FY3/20 1H		YoY	
	Results	% of total	Results	% of total	Amount	% change
Net sales	124,083	100.0%	105,980	100.0%	-18,103	-14.6%
Consumer Business	115,766	93.3%	97,559	92.1%	-18,207	-15.7%
Product sales	85,149	68.6%	68,101	64.3%	-17,048	-20.0%
Commission income	30,616	24.7%	29,458	27.8%	-1,158	-3.8%
Corporate Business	8,317	6.7%	8,420	7.9%	103	1.2%
Product sales	2,490	2.0%	2,287	2.2%	-203	-8.2%
Commission income	3,978	3.2%	4,259	4.0%	281	7.1%
Prepaid card sales	1,847	1.5%	1,873	1.8%	26	1.4%
Operating profit	4,226	3.4%	5,323	5.0%	1,097	26.0%
Consumer Business	6,172	-	6,653	-	481	7.8%
Corporate Business	171	-	826	-	655	382.2%
(intercompany elimination)	-2,117	-	-2,156	-	-39	-

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

(1) Consumer Business

Affected by the shift to split plans, a 14.8% YoY drop in unit sales, to 1,005,000, factored into a 15.7% YoY decrease in segment sales to ¥97,559mn. This included ¥68,101mn in product sales (down 20.0%), but commission income also stalled at ¥29,458mn (down 3.8%).

Meanwhile, profit margins improved significantly on stronger sales of smartphone accessories (include nexiplus and nexi packages, etc.), commission income not linked to unit sales, and stabilization of device prices with the shift to split plans (including curbs on discounts), with segment profit increasing 7.8% YoY to ¥6,653mn.

(2) Corporate Business

Net sales rose 1.2% YoY to ¥8,420mn. Unit sales fell to 42,000 (down 16.0%), resulting in an 8.2% decrease in product sales, to ¥2,287mn, but commission income rose 7.1% to ¥4,259mn on growth in mobile BPO services and other factors. Sales of prepaid cards rose 1.4% to ¥1,873mn. Continued growth in help desk and other mobile BPO services, and a major one-stop solution deal captured in 1Q, were among the factors resulting in significant improvement in profit margin, with segment profit growing 3.8 times YoY to ¥826mn.

Results trends

Debt-free with a strong financial position

3. Financial condition

Balance sheets

	As of March 31, 2019	As of September 30, 2019	Change
	(¥mn)		
Cash and deposits	11,086	17,235	6,148
Notes and accounts receivable-trade	49,285	37,992	-11,292
Accounts receivable - other	12,914	8,955	-3,959
Total current assets	82,594	69,177	-13,417
Property, plant and equipment	4,804	4,733	-70
Intangible assets	10,839	10,464	-375
Investments and other assets	5,267	5,296	29
Total non-current assets	20,911	20,494	-416
Total assets	103,506	89,671	-13,834
Accounts payable – trade	20,275	13,055	-7,220
Accrued agency commission	11,607	9,049	-2,557
Accounts payable – other	12,387	6,988	-5,399
Total current liabilities	55,264	38,920	-16,344
Provision for retirement benefits	5,252	5,488	235
Total non-current liabilities	6,135	6,369	234
Total liabilities	61,400	45,290	-16,109
Total net assets	42,106	44,381	2,275
Total liabilities and net assets	103,506	89,671	-13,835

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

At the end of FY3/20 1H, total assets had decreased ¥13,834mn from the end of the previous fiscal year to ¥89,671mn. Current assets decreased ¥13,417mn, which was mainly due to decreases in notes and accounts receivable-trade of ¥11,292mn and in accounts receivable-other of ¥3,959mn, partly offset by an increase in cash and deposits of ¥6,148mn. Non-current assets decreased ¥416mn, primarily because of a ¥70mn decrease in property, plant and equipment and a ¥375mn decrease in intangible assets (mainly in the rights of carrier shop management), partly offset by a ¥29mn increase in investment and other assets.

Total liabilities were down ¥16,109mn YoY to ¥45,290mn. Current liabilities decreased ¥16,344mn, with the main factors being decreases in accounts payable-trade of ¥7,220mn, accrued agency commission of ¥2,557mn and accounts payable-other of ¥5,399mn. Non-current liabilities grew ¥234mn, primarily because the provision for retirement benefits increased ¥235mn. Net assets were up ¥2,275mn to ¥44,381mn, mainly due to the increase in retained earnings of ¥2,410mn following the recording of profit.

4. Status of cash flows

In FY3/20 1H, cash provided by operating activities was ¥8,160mn. The main sources of income were the recording of profit before income taxes of ¥5,573mn, decreases in trade receivables of ¥11,296mn and accounts receivable-other of ¥3,959mn, while the main expenditures were a decrease in notes and accounts payable-trade of ¥9,778mn. Cash used in investing activities was ¥772mn, mainly due to expenditure of ¥559mn for purchase property, plant and equipment. Cash used in financing activities was ¥1,342mn, 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 ¥6,045mn from the end of the previous fiscal year to ¥17,405mn.

Business outlook

Pursuing the business strategies of the medium-term management plan “CONEXIO Plan 2020”

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.” This policy remains unchanged, and the Company continues to promote it in the current fiscal year. Specifically, it aims to strengthen touch points with customers by working closely with them as an optimal partner that can contribute to providing secure, reliable services aimed at the age of 5G, and to enhance productivity under a harsher employment environment through reviewing existing businesses and proactively adopting IT systems and investments in human capital.

2. Key efforts in FY3/20 2H (Consumer Business)

(1) Enhance the value of smartphone classes and strengthen customer touch points

To enhance the added value provided by its shops—the real-life touch point with customers—the Company is working to add to its smartphone classes and expand the range of participating customers. In FY3/20 1H, an average of about 50,000 people participated each month (a YoY increase of 1.8 times), and the Company plans to actively increase the number of participants. In September 2019, it also opened a new type of store, the “d school Fuchu R20 branch” based on the concept of a learning space. A unique feature of the store is that it offers collaborations with other companies—including lessons on using Mercari (a popular e-commerce app), as well as lessons on programming for children, with other new services being rolled out in anticipation of more diversified needs.

(2) Moving forward with improvements in shop operations to enhance customer satisfaction levels and streamline operations

The Company is working on a horizontal rollout of an expansion in shop reservation times while establishing operational expertise in managing the reservation system. Using nearby facilities with more room, it will offer expanded smartphone classes, allowing even more customers to participate. As it works to shorten wait times further and improve customer satisfaction, the Company is also moving forward in creating stores that customers will want to visit on a continuous basis.

(3) Deployment of a system for streamlining shop operations

The Company is working to enhance shop management productivity by deploying a variety of tools, including: A reservation management tool that streamlines store management by providing real-time, centralized management of reservation status, staff shifts and operations; an intake aggregation tool that digitizes management of customer and contract numbers and allows staff to share their actual progress; and a shift creation support tool that simplifies the task of creating shift schedules and reduces working hours.

3. Key efforts in FY3/20 2H (Corporate Business)

(1) Further expansion of the mobile BPO service, as well as enhancements to solutions utilizing mobile.

The number of companies deploying the help desk service rose 20% YoY in FY3/20 1H, but the Company continues working to increase that number. Meanwhile, it is aggressively rolling out mobile solutions that promote corporate workstyle reforms. Examples include LINE WORKS (LINE for business); SmartVisca (a business card and contact app integrated with Salesforce), Lookout (malware and virus detection), and CLOMO (a multi-OS remote unified management system). Using these services, the Company will enhance its added value as a mobile solution provider.

(2) Working to roll out IoT/5G solutions built around edge computing

In anticipation of the arrival next-generation 5G telecommunications standards, the Company has developed CONEXIOBlackBear, its own IoT-compatible edge computing gateway evolved from its existing IoT gateway, and plans an aggressive roll out of IoT/5G solutions centered on this technology. It has already released solutions such as AR equipment maintenance and meter-reading, but going forward it plans to expand these solutions into manufacturing (IoT for plant equipment) and construction (installation on special vehicles such as large bulldozers, etc.). At the same time, it will work to build a solution sales channel by accumulating a track record of implementations and developing sales partners.

(3) Capital and business alliance with Sunbridge

In September 2019, CONEXIO underwrote a third-party allotment of shares by Sunbridge, and announced a capital and business alliance with the company. Sunbridge is a Platinum Consulting Partner of CRM leader Salesforce, and an IoT firm that also sells SmartVisca—a contact management app—and other tools through its specialization in business card management and cloud solutions. CONEXIO, meanwhile, specializes in mobile solutions, and working together, the two companies aim to build the foundation for an integrated service business combining mobile, cloud computing and IoT.

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

Due to the impact of the October 2019 enactment of revisions to the Telecommunications Business Act, conditions in the mobile market are facing a time of enormous change. A rise in device prices brought on by optimization of device purchase subsidies and the impact of a hike in the consumption tax continue to cause major fluctuations in the Company's unit sales. It is uncertain what impact these changes will have on the Company's results, and the Company has thus not yet disclosed a forecast for FY3/20, although it has said it will provide such disclosure as soon as "reasonable calculations" can be completed.

■ 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.

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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