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Non-consolidated Financial Results for the Six Months Ended September 30, 2020 [Japanese GAAP]

October 29, 2020

Company name: CONEXIO Corporation

Stock exchange listing: Tokyo

Code number: 9422

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

Representative: Hiroo Inoue

President

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

Scheduled date of commencing dividend payments: December 07, 2020

Availability of supplementary briefing material on quarterly financial results: Yes

Schedule of quarterly financial results briefing session: Yes (for institutional investors and analysts)

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

1. Non-consolidated Financial Results for the Six Months Ended September 30, 2020 (April 01, 2020 to September 30, 2020)

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

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended September 30, 2020	78,072	(26.3)	4,686	(12.0)	5,004	(8.5)	3,366	(10.3)
September 30, 2019	105,980	(14.6)	5,323	26.0	5,466	24.6	3,752	30.9

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended September 30, 2020	75.25	-
September 30, 2019	83.88	-

(2) Non-consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio
	Million yen	Million yen	%
As of September 30, 2020	88,611	48,312	54.5
March 31, 2020	95,757	46,287	48.3

(Reference) Equity: As of September 30, 2020: ¥ 48,312 Million

As of March 31, 2020: ¥ 46,287 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2020	-	30.00	-	30.00	60.00
Fiscal year ending March 31, 2021	-	30.00	-	-	-
Fiscal year ending March 31, 2021(Forecast)	-	-	-	30.00	60.00

(Note) Revision to the forecast for dividends announced most recently: Yes

3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2021(April 01, 2020 to March 31, 2021)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	170,000	(18.7)	9,600	(7.1)	9,900	(5.9)	6,500	(7.2)	145.29

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

* Notes:

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

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

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

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

3) Changes in accounting estimates: No

4) Retrospective restatement: No

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

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

September 30, 2020: 44,737,938 shares

March 31, 2020: 44,737,938 shares

2) Total number of treasury shares at the end of the period:

September 30, 2020: 153 shares

March 31, 2020: 122 shares

3) Average number of shares during the period:

Six months ended September 30, 2020: 44,737,791 shares

Six months ended September 30, 2019: 44,737,816 shares

*** This Financial Results is not subject to audit procedures.**

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

- Financial forecasts and other forward-looking statements herein are based on information available to the Company and certain assumptions deemed reasonable as at the time of preparing this report. The Company does not guarantee that any forecasts would be met. Actual results may vary significantly from the forecasts due to a wide range of factors. For information on assumptions of the financial forecasts and matters to be heeded upon using the financial forecasts, please refer to “(3) Financial Forecasts and Other Forward-Looking Information” on page 5 of the Appendix.

1. Qualitative Information on Quarterly Non-consolidated Financial Results

(1) Analysis of Operating Results

During the six months ended September 30, 2020, Japan's economy remained largely sluggish due to the widespread impact of the COVID-19 pandemic. Nonetheless, the domestic economy is expected to head for a recovery with gradual expansion in socioeconomic activities and implementation of measures to prevent further spread of the infection.

In the mobile phone market where the Company operates business, it shortened business hours, temporarily closed shops and responded only to limited customer requests, in response to the state-of-emergency declaration by the Japanese government, requests from the Ministry of Internal Affairs and Communications, and policies of telecom carriers, issued amid the COVID-19 pandemic. Since after the state-of-emergency declaration was lifted, however, its customer footfall and handset unit sales have been on the recovery, as the operations of its carrier-certified shops are back to normal with gradual expansion in socioeconomic activities. Also, while commercial services of the new telecommunications standard "5G" (the 5th generation mobile telecommunication system) and 5G-compliant handsets were launched, the public reaction to the launch was tepid due to rising handset prices following the enforcement of the revised "Telecommunications Business Act" last year and the effects of COVID-19.

Under such a business environment, although our handset unit sales had plunged during the three months ended June 30, 2020 (down 46.7% year-on-year) due in part to the self-restraint on business activities amid the COVID-19 pandemic, the sales recovered to 770,000 units (down 25.8% year-on-year) during the six months ended September 30, 2020 as the state-of-emergency declaration was lifted. Further, despite a decrease in profits during the three months ended June 30, 2020 due to COVID-19, the Company recorded increased profits for the three months ended September 30, 2020, backed by the continued growth in demand from people working from home/staying at home, and an increase in revenue from our initiatives including the mobile handset management and operation services in the Corporate Business segment, besides the recovery in handset unit sales.

As a result, for the six months ended September 30, 2020, net sales were 78,072 million yen (down 26.3% year-on-year), operating profit was 4,686 million yen (down 12.0% year-on-year), ordinary profit was 5,004 million yen (down 8.5% year-on-year), and profit was 3,366 million yen (down 10.3% year-on-year).

◆ Financial results

(Million yen)			
Account title	Six months ended September 30, 2019	Six months ended September 30, 2020	Year-on-year change (%)
Net sales	105,980	78,072	(26.3)
Operating profit	5,323	4,686	(12.0)
Ordinary profit	5,466	5,004	(8.5)
Profit	3,752	3,366	(10.3)

The financial results of each business segment were as follows.

Consumer Business

In the Consumer Business, the Company acts as an intermediary for concluding contracts for mobile phones and other communications services, provides after-sales services and sells handsets, etc., targeting at consumer customers. In addition, the Company provides its unique service “nexiplus” to meet the needs of smartphone users and strengthen the relationship with them, and the insurance agency business of “HOKEN NO MADOGUCHI”.

In the Consumer Business segment, we continued to provide services to customers at our carrier-certified shops, while we shortened business hours and responded only to limited customer requests. In providing services to customers at these shops, we placed the utmost emphasis on the safety of our customers and employees, and thus, implemented thoroughgoing safety measures to avoid 3Cs (e.g. closed spaces, crowded places and close contact) and thereby prevented them from infecting with COVID-19. We also made efforts to promote reservation-based operations of the shops, which are better suited to a new way of living in the post COVID-19 world. Moreover, we updated the concept of the Company's unique service "nexiplus" to help its users realize safer and more convenient lifestyles. We also expanded the lineup of the "nexi" package. While revenues linked to handset unit sales declined sharply due to self-restraint on sales activities, the pace of profit decline slowed, backed by COVID-19 support grants from telecom carriers as well as reduction of various costs and expenses. In addition, we newly opened two shops for the "HOKEN NO MADOGUCHI" business launched in the previous fiscal year.

As a result, the Consumer Business segment recorded net sales of 69,339 million yen (down 28.9% year-on-year) and operating profit of 5,511 million yen (down 17.2% year-on-year).

◆ Financial results

(Million yen)			
Account title	Six months ended September 30, 2019	Six months ended September 30, 2020	Year-on-year change (%)
Net sales	97,559	69,339	(28.9)
Operating profit	6,653	5,511	(17.2)

Corporate Business

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

In the Corporate Business segment, we continued sales activities by further promoting the existing telework system that had been introduced since before the COVID-19 outbreak, and using work shift. With regard to handset unit sales, both the number of smartphones newly introduced and the number of new contracts increased in line with surging demand for telework, especially among small- and medium-sized enterprises. Also, both the inquiries about the Company's telework related solutions and the sales of its mobile handset management and operation services grew. As for IoT solutions, we launched "Air Connect for Machine Advisor," a solution developed jointly with a partner company to remotely monitor manufacturing equipment. Moreover, we were involved in joint projects, such as tests related to the "measurement of river levels in response to disasters" jointly with Hadano City, Kanagawa Prefecture; and a "trial experiment for predictive maintenance of pump facilities at a water treatment plant" jointly with Fukuoka City, Fukuoka Prefecture. We will continue to contribute to addressing SDGs related issues going forward, utilizing our IoT technologies.

As a result, the Corporate Business segment recorded net sales of 8,732 million yen (up 3.7% year-on-year) and operating profit of 1,280 million yen (up 54.9% year-on-year).

◆ Financial results

(Million yen)			
Account title	Six months ended September 30, 2019	Six months ended September 30, 2020	Year-on-year change (%)
Net sales	8,420	8,732	3.7
Operating profit	826	1,280	54.9

(2) Analysis of Financial Position

(i) Status of Assets, Liabilities and Net Assets

(Assets)

Current assets decreased by 6,558 million yen from the end of the previous fiscal year to 68,965 million yen. This is attributable mainly to a decrease in notes and accounts receivable-trade of 21,855 million yen, a decrease in merchandise and finished goods of 482 million yen, an increase in accounts receivable-other of 13,896 million yen, and an increase in cash and deposits of 1,726 million yen.

Non-current assets decreased by 587 million yen from the end of the previous fiscal year to 19,646 million yen. This is attributable mainly to a decrease in the right of carrier shop management of 332 million yen and a decrease in property, plant and equipment of 207 million yen.

As a result, total assets decreased by 7,146 million yen from the end of the previous fiscal year to 88,611 million yen.

(Liabilities)

Current liabilities decreased by 9,323 million yen from the end of the previous fiscal year to 33,775 million yen. This is attributable mainly to a decrease in accrued agency commission of 5,704 million yen, a decrease in accounts payable-trade of 4,200 million yen, a decrease in provision for bonuses of 833 million yen, a decrease in income taxes payable of 551 million yen, and an increase in accounts payable-other of 3,676 million yen.

Non-current liabilities increased by 152 million yen from the end of the previous fiscal year to 6,523 million yen. This is attributable mainly to an increase in provision for retirement benefits of 233 million yen.

As a result, total liabilities decreased by 9,171 million yen from the end of the previous fiscal year to 40,298 million yen.

(Net assets)

Net assets increased by 2,025 million yen from the end of the previous fiscal year to 48,312 million yen. This is attributable mainly to profit recognized in the amount of 3,366 million yen and dividends paid in the amount of 1,342 million yen.

As a result, the Company's equity ratio reached 54.5%.

(ii) Status of cash flows

Cash and cash equivalents (hereinafter "cash") at the end of the second quarter of the current fiscal year increased by 1,749 million yen from the end of the previous fiscal year to 22,249 million yen.

(Cash flows from operating activities)

Cash flows from operating activities resulted in a net inflow of 3,682 million yen (down 4,478 million yen year-on-year). This is mainly because increasing factors, such as a decrease in trade receivables of 21,863 million yen, the recognition of profit before income taxes of 5,010 million yen, and an increase in accounts payable-other of 3,752 million yen, more than offset decreasing factors, such as an increase in accounts receivable-other of 13,896 million yen, a decrease in trade payables of 9,904 million yen, and income taxes paid of 2,271 million yen.

(Cash flows from investing activities)

Cash flows from investing activities resulted in a net outflow of 585 million yen (down 186 million yen year-on-year). This is attributable mainly to purchase of property, plant and equipment of 360 million yen, purchase of intangible assets of 152 million yen, and proceeds from refund of leasehold and guarantee deposits of 195 million yen.

(Cash flows from financing activities)

Cash flows from financing activities resulted in a net outflow of 1,344 million yen (up 1 million yen year-on-year). This is attributable mainly to dividends paid of 1,342 million yen.

(3) Financial Forecasts and Other Forward-Looking Information

(i) Financial forecasts

We had decided not to disclose financial forecasts for the current fiscal year as the business outlook was uncertain due to the influence of the COVID-19 pandemic. We, however, have decided to disclose the Company's financial forecasts for the current fiscal year since we obtained some conviction about the outlook based on information and estimates currently available.

During the first half of the current fiscal year, the Company shortened its business hours, temporarily closed its shops and responded only to limited customer requests, in response to the state-of-emergency declaration by the Japanese government, requests from the Ministry of Internal Affairs and Communications, and policies of telecom carriers, issued amid the COVID-19 pandemic. As a result, the Company recorded decreased profits, with both its customer footfall and handset unit sales having plunged during the period. After the state-of-emergency declaration was lifted, however, the customer footfall and handset unit sales have been on the recovery as the operations of its carrier-certified shops are back to normal with gradual recovery of socioeconomic activities. Nevertheless, we believe we still need to continue to watch future developments carefully.

In the second half, the Company's handset unit sales are expected to recover, helped by the launch of popular models and enhancement of 5G-compliant models, although the competitive environment outlook for telecom carriers is unclear. Revenues for the second half of the current fiscal year are expected to remain roughly unchanged from the same period last year, like in the three months ended September 30, 2020. However, for the full year, the Company forecasts that it will record year-on-year decreases in both revenues and profits, as the chances are good that it will fail to fully offset the decrease in profit during the three months ended June 30, 2020.

(ii) Dividend forecast

The Non-consolidated Financial Results for the Three Months Ended June 30, 2020 states that the dividends for the current fiscal year are undecided. This is because we had chosen not to disclose financial forecasts for the current fiscal year due to lingering uncertainty over the COVID-19 when the results were released. However, we have decided to disclose our dividends forecast based on the financial forecasts currently available.

We recognize the return of profits to shareholders as an important management agenda. With regard to distribution of profits, we will strive to continue to pay stable dividends, at a target payout ratio of 40%, through efforts to improve our operating performance.

Based on the policy above, we have decided to pay an ordinary dividend of 60 yen per share (30 yen for the interim and 30 yen for the year end) for the fiscal year ending March 2021, taking into account comprehensive factors including stable dividend payment, although both revenue and profit are forecast to decline year-on-year for the current fiscal year.

2. Quarterly Non-consolidated Financial Statements

(1) Quarterly Non-consolidated Balance Sheets

(Million yen)

	As of March 31,2020	As of September 30,2020
Assets		
Current assets		
Cash and deposits	20,387	22,114
Notes and accounts receivable - trade	40,380	18,525
Merchandise and finished goods	4,922	4,440
Accounts receivable - other	8,812	22,708
Deposits paid	111	135
Other	914	1,047
Allowance for doubtful accounts	(5)	(4)
Total current assets	75,524	68,965
Non-current assets		
Property, plant and equipment	4,262	4,055
Intangible assets		
Goodwill	1,390	1,359
The right of career shop management	8,319	7,986
Other	436	441
Total intangible assets	10,146	9,787
Investments and other assets	5,824	5,802
Total non-current assets	20,233	19,646
Total assets	95,757	88,611
Liabilities		
Current liabilities		
Accounts payable - trade	13,394	9,194
Accrued agency commission	10,128	4,424
Accounts payable - other	6,874	10,550
Income taxes payable	2,547	1,996
Provision for bonuses	4,651	3,817
Provision for bonuses for directors (and other officers)	34	11
Other	5,467	3,780
Total current liabilities	43,099	33,775
Non-current liabilities		
Provision for retirement benefits	5,580	5,814
Asset retirement obligations	668	595
Other	122	113
Total non-current liabilities	6,371	6,523
Total liabilities	49,470	40,298

(Million yen)

	As of March 31,2020	As of September 30,2020
Net assets		
Shareholders' equity		
Share capital	2,778	2,778
Capital surplus	585	585
Retained earnings	42,922	44,947
Treasury shares	(0)	(0)
Total shareholders' equity	46,286	48,311
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	0	1
Total valuation and translation adjustments	0	1
Total net assets	46,287	48,312
Total liabilities and net assets	95,757	88,611

(2) Quarterly Non-consolidated Statements of Income

(Million yen)

	For the six months ended September 30, 2019	For the six months ended September 30, 2020
Net sales	105,980	78,072
Cost of sales	80,350	54,459
Gross profit	25,630	23,613
Selling, general and administrative expenses	20,306	18,926
Operating profit	5,323	4,686
Non-operating income		
Interest income	0	0
Dividend income	2	0
Support money of store move etc income	98	36
Reversal of allowance for doubtful accounts	1	0
Subsidies for employment adjustment	-	259
Other	45	26
Total non-operating income	148	323
Non-operating expenses		
Interest expenses	0	0
Loss on sales and retirement of non-current assets	4	-
Loss on investments in investment partnerships	-	3
Other	1	2
Total non-operating expenses	5	5
Ordinary profit	5,466	5,004
Extraordinary income		
Gain on sales of non-current assets	-	24
Gain on sales of investment securities	174	-
Other	-	0
Total extraordinary income	174	25
Extraordinary losses		
Loss on sales and retirement of non-current assets	4	11
Impairment loss	37	1
Loss on store closings	25	5
Total extraordinary losses	68	19
Profit before income taxes	5,573	5,010
Income taxes - current	1,915	1,738
Income taxes - deferred	(95)	(95)
Total income taxes	1,820	1,643
Profit	3,752	3,366

(3) Quarterly Non-consolidated Statements of Cash Flows

(Million yen)

	For the six months ended September 30, 2019	For the six months ended September 30, 2020
Cash flows from operating activities		
Profit before income taxes	5,573	5,010
Depreciation	1,021	963
Amortization of goodwill	62	65
Impairment loss	37	1
Increase (decrease) in allowance for doubtful accounts	(1)	(0)
Increase (decrease) in provision for bonuses	(204)	(833)
Increase (decrease) in provision for bonuses for directors (and other officers)	(6)	(23)
Increase (decrease) in provision for retirement benefits	235	233
Interest and dividend income	(2)	(0)
Interest expenses	0	0
Subsidies for employment adjustment	-	(259)
Foreign exchange losses (gains)	0	2
Loss (gain) on sales of investment securities	(174)	-
Decrease (increase) in trade receivables	11,296	21,863
Decrease (increase) in accounts receivable - other	3,959	(13,896)
Decrease (increase) in inventories	4,343	516
Increase (decrease) in trade payables	(9,778)	(9,904)
Increase (decrease) in accounts payable - other	(5,340)	3,752
Increase (decrease) in accrued consumption taxes	(60)	(751)
Other, net	(1,086)	(1,096)
Subtotal	9,873	5,644
Interest and dividends received	2	0
Interest paid	(0)	(0)
Subsidies for employment adjustment received	-	259
Income taxes (paid) refund	(1,836)	(2,271)
Other, net	120	50
Net cash provided by (used in) operating activities	8,160	3,682
Cash flows from investing activities		
Purchase of property, plant and equipment	(559)	(360)
Purchase of intangible assets	(127)	(152)
Proceeds from sales of investment securities	242	-
Purchase of investment securities	(157)	(20)
Payments of leasehold and guarantee deposits	(113)	(91)
Proceeds from refund of leasehold and guarantee deposits	32	195
Purchase of long-term prepaid expenses	(53)	(40)
Other, net	(37)	(116)
Net cash provided by (used in) investing activities	(772)	(585)
Cash flows from financing activities		
Purchase of treasury shares	-	(0)
Dividends paid	(1,342)	(1,342)
Other, net	-	(1)
Net cash provided by (used in) financing activities	(1,342)	(1,344)
Effect of exchange rate change on cash and cash equivalents	(0)	(2)
Net increase (decrease) in cash and cash equivalents	6,045	1,749
Cash and cash equivalents at beginning of period	11,360	20,499
Cash and cash equivalents at end of period	17,405	22,249