Non-consolidated Financial Results for the Year Ended March 31, 2021 [Japanese GAAP]

April 30, 2021

Company name: CONEXIO Corporation
Stock exchange listing: Tokyo
Code number: 9422
URL: https://www.conexio.co.jp
Representative: Hiroshi Suguta President
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Scheduled date of Annual General Meeting of Shareholders: June 23, 2021
Scheduled date of commencing dividend payments: June 24, 2021
Scheduled date of filing annual securities report: June 23, 2021
Availability of supplementary briefing material on annual financial results: Yes
Schedule of annual financial results briefing session: Yes

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

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

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

	Net sales		Operating profit		Ordinary profit		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2021	188,795	(9.7)	10,676	3.3	11,075	5.3	7,536	7.6
March 31, 2020	209,005	(20.8)	10,330	0.5	10,515	(0.2)	7,000	1.1

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary profit to total assets ratio	Operating profit to net sales ratio
Fiscal year ended	Yen	Yen	%	%	%
March 31, 2021	168.45	-	15.5	11.0	5.7
March 31, 2020	156.48	-	15.8	10.6	4.9

(Reference) Equity in earnings (losses) of affiliated companies: Fiscal year ended March 31, 2021: ¥ - million
Fiscal year ended March 31, 2020: ¥ - million

(2) Non-consolidated Financial Position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
As of	Million yen	Million yen	%	Yen
March 31, 2021	105,315	51,140	48.6	1,143.13
March 31, 2020	95,757	46,287	48.3	1,034.64

(Reference) Equity: As of March 31, 2021: ¥ 51,140 million
As of March 31, 2020: ¥ 46,287 million

(3) Non-consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
March 31, 2021	5,329	(1,473)	(2,687)	21,665
March 31, 2020	13,118	(1,290)	(2,685)	20,499

2. Dividends

	Annual dividends					Total dividends	Payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
Fiscal year ended	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
March 31, 2020	-	30.00	-	30.00	60.00	2,684	38.3	6.1
March 31, 2021	-	30.00	-	35.00	65.00	2,907	38.6	6.0
Fiscal year ending March 31, 2022(Forecast)	-	35.00	-	35.00	70.00		47.4	

3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2022 (April 01, 2021 to March 31, 2022)

(% 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	190,000	0.6	9,700	(9.1)	9,700	(12.4)	6,600	(12.4)	147.53

* Notes:

(1) 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

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

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

March 31, 2021:	44,737,938	shares
March 31, 2020:	44,737,938	shares

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

March 31, 2021:	153	shares
March 31, 2020:	122	shares

3) Average number of shares during the period:

Fiscal Year ended March 31, 2021:	44,737,788	shares
Fiscal Year ended March 31, 2020:	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 “1. Overview of operating results, etc. (3) Outlook” on page 4 of the Appendix.

1. Overview of operating results, etc.

(1) Overview of operating results for the fiscal year ended March 31, 2021

(i) Operating results for the fiscal year ended March 31, 2021

During the fiscal year ended March 31, 2021, Japan's economy remained largely sluggish due to growing impact of the COVID-19 pandemic, with both consumer spending and employment having slowed. In addition, socioeconomic activities, which had temporarily showed a sign of recovery, have remained severely challenging by several factors, including the resurgence of the COVID-19 cases.

In the mobile phone market where the Company operates business, it shortened business hours, temporarily closed shops and responded only to limited customer requests at its carrier-certified shops nationwide, in response to the state-of-emergency declaration by the Japanese government in April, requests from the Ministry of Internal Affairs and Communications, and policies of telecom carriers, issued amid the COVID-19 pandemic. After the state-of-emergency declaration was lifted, however, its customer footfall and handset unit sales recovered, as the operation of its carrier-certified shops was back to normal. Also, commercial services of the new telecommunication standard 5G (the 5th generation telecommunication system) were launched, and 5G-compliant handsets have become widespread, helped by the roll-out of its popular new models. In addition, telecom carriers announced revamped pricing plans, revitalizing the market into a new phase of competition.

Under such a business environment, our handset unit sales totaled 1.81 million units (down 10.3% year-on-year) due in part to the voluntary restraint on business activities amid the COVID-19 pandemic during the three months ended June 30, 2020. Meanwhile, we achieved an increase in operating profit for the 10th consecutive year and an increase in profit for the 9th consecutive year due to the revenue growth achieved through our own initiatives (such as mobile help desk services for corporate clients) and increased sales of prepaid cards.

As a result, for the fiscal year under review, net sales were 188,795 million yen (down 9.7%), operating profit was 10,676 million yen (up 3.3%), ordinary profit was 11,075 million yen (up 5.3%) and profit was 7,536 million yen (up 7.6%).

◆Financial results

(Million yen)

Account title	FY2019	FY2020	Year-on-year change (%)
Net sales	209,005	188,795	(9.7)
Operating profit	10,330	10,676	3.3
Ordinary profit	10,515	11,075	5.3
Profit	7,000	7,536	7.6

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, operating profit decreased due to the decline in handset unit sales despite revenue growth through our own initiatives and COVID-19 support grants from telecom carriers, which were insufficient to cover said revenue decrease. The Company continued to serve its customers at its carrier-certified shops, while implementing thoroughgoing measures to avoid 3Cs (closed spaces, crowded places, and close-contact settings) to protect against infection with COVID-19. The Company also expanded the lineup of its unique “nexi” service package, and the membership of the service increased steadily. Further, as a new initiative, the Company made efforts to enhance new contact opportunities with customers by opening a pop-up shops in retail outlets, such as shopping malls.

As a result, the Consumer Business segment recorded net sales of 169,858 million yen (down 11.4% year-on-year) and operating profit of 12,462 million yen (down 5.6% year-on-year).

◆Financial results

(Million yen)

Account title	FY2019	FY2020	Year-on-year change (%)
Net sales	191,810	169,858	(11.4)
Operating profit	13,196	12,462	(5.6)

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, sales of smartphones remained strong, backed by growing demand for telework. With such trend, the number of new contracts of commercial mobile solution services that promote workstyle reforms and the number of such solutions newly introduced increased. As for our mobile help desk service, the number of subscriptions to the service increased, driven by the promotion of telework by existing customers; and the average sales per customer also rose resulting in the achievement of profit growth, helped by an expansion in the scope of service due to a shift to smartphones. As for IoT solutions, the Company, along with its partner companies, participated in Nokia Local 5G Technology Partnership, an industry-wide alliance to accelerate the development of local 5G and private LTE systems. We will continue to promote the development and provision of edge computing gateways compatible with local 5G/private LTE. We will also focus on integration of IoT systems, centered on gateways, to bring IoT system integrated solutions to customers in a wide range of sectors, including manufacturing, transportation, construction, service and public work sectors.

As a result of the above, the Corporate Business segment recorded net sales of 18,937 million yen (up 10.1% year-on-year) and operating profit of 2,758 million yen (up 60.9% year-on-year).

◆Financial results

(Million yen)

Account title	FY2019	FY2020	Year-on-year change (%)
Net sales	17,194	18,937	10.1
Operating profit	1,714	2,758	60.9

(2) Overview of financial position for the fiscal year ended March 31, 2020

(i) Status of assets, liabilities and net assets

(Current assets)

Current assets increased by 10,390 million yen from the end of the previous fiscal year to 85,914 million yen. This is attributable mainly to an increase in accounts receivable-other of 18,976 million yen, an increase in merchandise and finished goods of 1,372 million yen, an increase in cash and deposits of 1,162 million yen, an increase in prepaid expenses of 179 million yen, and a decrease in notes and accounts receivable-trade of 11,342 million yen.

(Non-current assets)

Non-current assets decreased by 832 million yen from the end of the previous fiscal year to 19,401 million yen. This is attributable mainly to a decrease in the right of career shop management of 665 million yen, a decrease in buildings (net) of 241 million yen, a decrease in leasehold and guarantee deposits of 189 million yen, and an increase in deferred tax assets of 395 million yen.

As a result, total assets increased by 9,557 million yen from the end of the previous fiscal year to 105,315 million yen.

(Current liabilities)

Current liabilities increased by 4,483 million yen from the end of the previous fiscal year to 47,583 million yen. This is attributable mainly to an increase in accounts payable-other of 7,631 million yen, an increase in accounts payable-trade of 1,361 million yen, an increase in accrued expenses of 287 million yen, an increase in provision for bonuses of 178 million yen, a decrease in accrued agency commission of 3,757 million yen, a decrease in accrued consumption taxes of 613 million yen, a decrease in income taxes payable of 525 million yen, and a decrease in deposits received of 155 million yen.

(Non-current liabilities)

Non-current liabilities increased by 220 million yen from the end of the previous fiscal year to 6,591 million yen. This is attributable mainly to an increase in provision for retirement benefits of 313 million yen, and a decrease in asset retirement obligations of 72 million yen.

As a result, total liabilities increased by 4,704 million yen from the end of the previous fiscal year to 54,174 million yen.

(Net assets)

Net assets increased by 4,853 million yen from the end of the previous fiscal year to 51,140 million yen. This is attributable mainly to an increase due to the profit recognized in the amount of 7,536 million yen and a decrease due to dividends paid in the amount of 2,684 million yen.

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

(ii) Status of cash flows

Cash and cash equivalents (hereinafter referred to as “Cash”) at the end of the current fiscal year increased by 1,165 million yen from the end of the previous fiscal year to 21,665 million yen.

(Cash flows from operating activities)

Cash obtained from operating activities was 5,329 million yen (down 7,789 million yen from the previous fiscal year). This was mainly because the increasing factors, including a decrease in trade receivables of 11,381 million yen, the recognition of profit before income taxes of 10,832 million yen, an increase in accounts payable-other of 7,639 million yen, and the recognition of depreciation of 1,932 million yen, exceeded the decreasing factors, including an increase in accounts receivable-other of 18,976 million yen, income taxes payable of 4,160 million yen, and a decrease in trade payables of 2,395 million yen, and an increase in inventories of 1,345 million yen.

(Cash flows from investing activities)

Cash used for investing activities was 1,473 million yen (up 183 million yen from the previous fiscal year). This was mainly due to the expenditure of 943 million yen for the purchase of property, plant and equipment and the expenditure of 268 million yen for the purchase of intangible assets.

(Cash flows from financing activities)

Cash used for financing activities was 2,687 million yen (up 1 million yen from the previous fiscal year). This was due to the dividends paid of 2,685 million yen.

(Reference) Changes in cash flow related indicators

	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2021
Equity ratio (%)	36.3	38.4	40.7	48.3	48.6
Market-value equity ratio (%)	81.4	102.1	60.3	63.3	59.0
Cash flow to interest-bearing debt ratio (%)	–	–	–	–	–
Interest coverage ratio (times)	716.3	907.8	4,164.6	1,064,150.8	9,019.4

(Note) 1. Equity ratio: Equity / total assets
2. Market-value equity ratio: market capitalization / total assets
*Market capitalization is calculated by multiplying the stock's closing price at the term end by the number of outstanding shares at term end.
3. Ratio of interest-bearing liabilities to cash flow: Interest-bearing liabilities/cash flows from operating activities
*The Company had no interest-bearing debt. Accordingly, the cash flow to interest-bearing debt ratio is not stated.
4. Interest coverage ratio: Cash flows from operating activities/interest payments

(3) Outlook

(i) Perception of the business environment

In the mobile phone market in which the Company mainly conducts its business activities, the market is foreseen to experience the revitalization and liquidation due to the reduction of prices by telecom carriers, and the popularity of online only plans over the next three years. On the other hand, the value of real contact opportunities with customers is expected to increase with greater information gaps due to the progress of digitalization, the wide spread availability of mobile handsets compatible with “5G” (the 5th generation mobile telecommunication system) and the advancement of related services. In addition, the shift into the new normal (new lifestyle) era is likely to accelerate continuously. In the corporate market, IT investment by companies to realize DX and workstyle reforms will accelerate, raising expectation for the expansion of the scope of usage of mobile solutions for corporations and promotion of the use of IoT and 5G technologies.

Based on such business environment, the Company formulated a medium-term management plan which extends until the fiscal year ending March 31, 2024.

(ii) Basic policy of the medium-term management plan (from fiscal year ending March 31, 2022 to fiscal year ending March 31, 2024)

CONEXIO Plan 2023

Create New Services and Solutions by Grasping the Needs of Digital Society, and Contribute to the Enrichment of Living and Businesses

In societies that are changing dramatically into the new normal (new lifestyle) era, we will contribute to enrich living and businesses by connecting people with new services in recognition of our role as a company responsible for contact with customers and social infrastructure.

(iii) Five Basic Strategies

The Company has formulated five basic strategies to realize the basic policy of this Plan as follows:

[Five Basic Strategies]

1. Evolve the shop business in response to changes of customer needs
2. Expand the Company’s unique services and solutions
3. Innovate productivity mainly through the pursuit of digitalization
4. Reinforce the management base
 ・Capital/governance strategy: Dividend payout ratio of about 40%, annual dividend of 70 yen or more, and ROE of 12% or more
 ・Investment strategy: Active investment in fields supporting business over the long term and new businesses
 ・Human capital strategy: Workstyle that responds to environmental changes and challenges to new initiatives
 ・Compliance strategy: Build a system in which the continuous check and control function is performed
5. SDGs management

<1. Evolve the shop business in response to changes of customer needs>

We will pursue a new shop style that responds to customer needs and support them in improving their quality of life.

<2. Expand the Company’s unique services and solutions>

In addition to greater freedom of the Company’s unique services and solutions, we will expand our services with higher added value by grasping major environmental changes as opportunities.

<3. Innovate productivity mainly through the pursuit of digitalization>

We will restructure the business process and increase the productivity by improving the network environment and promoting DX in our core businesses.

<4. Reinforce the management base>

・Capital/governance strategy

We will pay stable and consistent dividends at a payout ratio of about 40% with the aim of sustainably enhancing financial soundness and shareholder value. In the period of the CONEXIO Plan 2023, we strive to pay a stable dividend of 70 yen or more per year in order to further enhance shareholder returns, taking into account the overall performance and promotion of growth investment. We will also continue to strengthen our corporate governance structure.

・Investment strategy

Taking into account the strategic significance and economic rationality, we will actively invest in fields supporting business over the long term and new businesses.

・Human resources strategy

We will enhance employee engagement by providing them with workstyle that responds to environmental changes and opportunities to tackle new initiatives. We will also accelerate our efforts centered on the Diversity Promotion Committee, which was established in October 2020, with the aim of becoming a company in which diverse human resources are able to perform their highest capabilities.

・Compliance strategy

In recognition of compliance as a paramount priority issue, we will continue to build a system that performs the check and control function of business activities, including intentional acts and negligence.

<5. SDGs management>

In order to contribute to the sustainable growth of society, we will implement SDGs management through our main business and specialized fields, with the following five important issues:

(1) Contribute to the development of communication society through ICT utilization

(2) Solve business issues by providing the latest technologies such as 5G/AI/IoT

(3) Improve the ability of local communities to deal with cybercrime and contribute to disaster prevention and mitigation by utilizing IoT technology

(4) Reduce CO2 emissions and promote resource recycling

(5) Develop a comfortable work environment in which diverse human resources can play an active role

(4) Basic Policy on Profit Allocation, and Dividend Payment for the Current and Next Terms

The Company recognizes the return of profit to shareholders as one of the key issues of management and it is our basic profit appropriation policy to endeavor to improve financial results so that we can pay stable dividends at a payout ratio of about 40% consistently over period.

Based on this policy, after considering various factors including the financial results for the fiscal year under review and the stability of dividends, the Company plans to pay a year-end ordinary dividend of 35 yen per share. As a result, the full-year dividend will be 65 yen per share (interim at 30 yen, year-end at 35 yen).

In addition, in the period of the CONEXIO Plan 2023, which will start in the next fiscal year, we strive to pay a stable dividend of 70 yen or more per year in order to further enhance shareholder returns, taking into account the overall performance and promotion of growth investment. For the next fiscal year, we plan to pay an annual dividend of 70.0 yen per share (interim: 35.0 yen, year-end: 35.0 yen).

(5) Business Risks

Risks that may impact the operating results and the financial condition of the Company are stated below. Items that do not fall under the category of business risks are also included from the viewpoint of proactive disclosure if an item is deemed significant in terms of investment decision-making by investors. The Company recognizes the potential for these risks, and then endeavors to avoid their occurrence, as well as to localize and minimize the impact, should the risks materialize. The decision to invest in the Company, however, must ultimately lie with the measured judgment and self-responsibility of the investor. Items concerning the future in the text below have been recognized by the Company as of the filing date.

< Social, economic and regulatory risks>

① Personal information leakage, etc.

We handle the personal information disclosed by customers to the telecom carrier under situations including the conclusion of contracts, etc. We also collect personal information in other services provided by the Company. We follow the strict rules and manuals of telecom carriers upon the conclusion of contracts and strive to enhance employee education and business partner management, including other services handled by the Company. We have developed thorough management systems that enable us to prevent unexpected incidents, including the ISO 27001 certification (Note 2) obtained especially for the business areas (Note 1) where personal information is collected. The unlikely event of information leakage would make our group liable to our business partners, hinder our reputation and have a significant impact on our group's performance.

(Note) 1. Certified scope of work:

- Acting as an intermediary for concluding mobile phone contracts in Call Center, Distribution Center
- Network solution service, Mobile solution service
- Acting as an intermediary for concluding mobile phone contracts, providing after-sales services to subscribers, and selling mobile phone handsets for corporate customers in the Head Office, branch offices and business centers

2. International Standards for information security management systems

② Laws and regulations

The agency business for telecom carriers, etc. is subject to various laws and regulations including the Telecommunications Business Act, the Antimonopoly Act (Act on Prohibition of Private Monopolization and Maintenance of Fair Trade), the Act against Unjustifiable Premiums and Misleading Representations, the Act on the Protection of Personal Information, the Act on Identification, etc. by Mobile Voice Communications Carriers of their Subscribers, etc. and for the Prevention of Improper Use of Mobile Voice Communications Services, the Act on Development of an Environment that Provides Safe and Secure Internet Use for Young People, the Guidelines for Consumer Protection Rules for the Telecommunications Business Act, the Guidelines on the Protection of Personal Information in the Telecommunications Business and the Code of Ethics in Sales Activities of Agents prescribed by the Telecommunications Carriers Association. In addition to the above, the insurance agency business launched in March 2020 is subject to legal restrictions such as the "Insurance Business Act" and the "Order for Enforcement of the Insurance Business Act."The Company makes efforts to strengthen the internal management system including the employee education to comply with these laws and regulations. However, if there is a violation of these laws and regulations, the Company may be subject to claims for compensation for damages, cancellation of agency contracts, suspension of operation, etc. This may significantly impact the financial results of the Company.

③ Effect of changes in the rules proposed by the Ministry of Internal Affairs and Communications

In January 2019, "Urgent Proposals for Optimization of Mobile Services, etc." was announced by the Ministry of Internal Affairs and Communications, followed by the enforcement of the revised "Telecommunications Business Act" in October 2019. In addition, the "Guidelines for Consumer Protection Rules of the Telecommunications Business Act" was revised in March 2020. In spite of the regular efforts made by the Company, as a mobile phone agency, to execute appropriate operations, any future amendment of laws and regulations relating to these developments may affect the strategies of telecom carriers as well as the entire mobile phone market and may also affect the business and financial results of the Company.

<Risks concerning business strategy>

④ Concentration on mobile phone agency business

The sales of the Company are largely from the mobile phone agency business. Steady demand is expected in the mobile phone market, particularly from replacement needs. However, if mobile phone services and products themselves lose their appeal or substitute services/products are commercialized, their sales may significantly contract and this may impact the financial results of the Company.

⑤ Business expansion through business acquisitions, etc.

The Company may, among other things, expand its business or distribution network through business transfer or merger involving other companies in the industry in the future. Goodwill emerging as a result of such merger may impact the financial position and the financial results of the Company. Depending on the market conditions or economic environment, there is no guarantee that such merger, etc. will produce results that had been initially expected and this may impact the financial results of the Company. Similarly, goodwill, etc. resulting from the merger with Panasonic Telecom Co. on October 1, 2012 may also impact the financial results of the Company.

< Risks relating to the market and competition >

⑥ Impact of telecom carriers' business policies

The Company obtains commissions from telecom carriers for selling mobile phone handsets, concluding mobile phone contracts, and after-sales service. The commission system is different for each telecom carrier, and the type, unit price, subject period, subject customers and contents of the service for commission payment, the ratio against the communications fees paid, etc., may be reviewed accordingly depending on each telecom carrier's performance and sales policy. Furthermore, it is required in the agency contract with the telecom carrier that if a user who has entered into a contract via the Company cancels the contract within a certain period, the Company must return part of the commission which was paid to the Company from the telecom carrier at the time of the contract. Agency contracts with telecom carriers that underline these transactions are usually renewed automatically every year, although the contract can be dissolved either by the telecom carrier or the Company by advance notice. Such business policies and changes in the contracts may significantly impact the financial results of the Company.

⑦ Constraints in store development

The Company has carrier-certified shops across the country based on the service agreement which is attached to the agency agreement with the telecom carrier (the Company owns or rents 296 stores in addition to 142 stores of which operation the Company contracts out to secondary agencies), and the Company intends to continue its opening of new stores and its review of locations from the viewpoint of profitability. However, the entity operating a carrier-certified shop is selected by the telecom carrier, and there are many carrier-certified stores that already exist in the market, with limited room for new stores, and thus things may not go according to plan. In cases where operation is contracted out to a secondary agency, the management policy of the secondary agency may affect the service quality of the Company's network of stores, and thus the financial results of the Company may be affected.

⑧ Concentration of sales and purchases on NTT DOCOMO, INC.

The main business of the Company is the agency business for NTT DOCOMO, INC. NTT DOCOMO, INC. is the leading company in the industry with about a 44% share of mobile phone subscribers as of the end of December 2020 (source: Telecommunications Carriers Association). The Company has shared marketing strategies with NTT DOCOMO, INC. from the earliest days of the mobile phone market, and has invested management resources in expanding docomo shops and developing strong sales channels such as major electronics retailers, which together contribute considerably to the Company's high profitability. However, if a situation occurs such as the customer base of NTT DOCOMO, INC. contracts drastically due, for example, to competition among telecom carriers, this may impact the financial results of the Company.

[Commission income]

	Year ended March 31, 2020		Year ended March 31, 2021	
	Net sales (million yen)	Component ratio (%)	Net sales (million yen)	Component ratio (%)
Commission income (NTT DOCOMO, INC.)	53,287	74.4	54,624	74.4
Total commission income	71,596	100.0	73,393	100.0

[Cost of purchased goods]

	Year ended March 31, 2020		Year ended March 31, 2021	
	Purchase of goods (million yen)	Component ratio (%)	Purchase of goods (million yen)	Component ratio (%)
Cost of purchased goods (NTT DOCOMO, INC.)	111,942	86.9	98, 667	88. 1
Total cost of purchased goods	128,757	100.0	111,993	100.0

<Risks relating to human resources>

⑨ Securing necessary personnel

In the labor market, there has been a serious shortage in the youthful workforce year after year as a result of the declining birthrate, and the stable securing of necessary human capital is expected to become even more difficult. In the mobile phone sales business in which the Company conducts business activities, the increasingly diverse service offerings and the long hours of serving customers in addition to further sophistication of the functions of the smartphones, tablet devices, etc. have become a burden on the shop sales staff, and securing a stable workforce and enhancing the retention rate have become issues of increasing importance. We have achieved an enhanced work-life balance of employees and improved productivity up until now as a result of our continuous efforts to “improve workstyles,” such as reducing total working hours and urging the taking of long vacations. We have also endeavored to improve the treatment of store sales staff through the implementation of the personnel systems to support the equal pay for equal work regime on April 1, 2020. Going forward, we will continue to actively invest in human resources and endeavor to promote diversity-conscious management by further promoting human resources development through the promotion of “CONEXIO College,” our company-wide education system and centered on the Diversity Promotion Committee, which was established in October 2020.

However, if the Company is unable to secure employees including sales staff as planned and the retention rate deteriorates, this may destabilize the financial results of the Company.

<Matters concerning disasters, infectious diseases, etc.>

⑩ Impact of disasters, infectious diseases, etc.

The Company is committed to risk management, including the formulation of a business continuity plan (BCP), the implementation of disaster prevention measures/disaster prevention drills, the development of communication systems under the disaster management headquarters and property and casualty insurance coverage, in preparation for the occurrence of (and in an effort to minimize the surge of losses upon their occurrence) natural disasters including earthquakes, typhoons/heavy rain, floods/immersions, heavy snowfalls, tsunamis and lightning, human disasters including blackouts, traffic interruptions, fires and explosions, the spread of highly-infectious epidemics such as influenza, and employees infected with highly-toxic influenza or highly-infectious new diseases. Especially for COVID-19, our store operations may be restricted based on the policy of the telecom carrier in response to the government's declaration of a state of emergency and requests from the Ministry of Internal Affairs and Communications. In addition, we proactively promote telework and shift work from the perspective of preventing infections inside and outside the Company and ensuring employee safety. At carrier-certified shops, we also make efforts such as shortening the customer service time and ensuring social distancing by keeping intervals between waiting seats as much as possible.

Our business performance and financial position may be affected if the aforementioned disasters or infectious diseases occur.

<Risks relating to the parent company>

⑪ Relationship with the parent company

As of the filing date, ITOCHU Corporation is the parent company and owns 60.35% of voting rights of the Company. However, the business and human relationships, etc. are limited. As a result, if the capital relationship with the parent company were to change, the impact on the business would be minor.

2. Corporate Group

The corporate group consists of the Company and CONEXIO WITH Corporation (a wholly-owned subsidiary to promote the employment of people with disabilities, unconsolidated). The Group's core business is to serve as a sales agency, which involves acting as an intermediary for concluding contracts of communication services such as mobile phones, providing after-sales services to subscribers, and selling mobile phone handsets, etc.

"Intermediary for concluding contracts of communication services" refers to acting as an intermediary based on agency agreements with telecom carriers (such as NTT DOCOMO, INC., KDDI Corp., Softbank Corp., Rakuten Mobile, Inc., etc.) to conclude contracts of telecommunications services provided by the telecom carriers for consumer and corporate customers. The Company receives commissions from the telecom carriers at the time of conclusion of contract and during certain subsequent periods. The Company also receives commissions relating to various after-sales services for customers at carrier-certified shops (such as docomo shops, au shops, Softbank shops, and Rakuten Mobile shops). The "sale of mobile phone handsets" refers to sale of mobile communication terminals such as mobile phones purchased from telecom carriers, etc., to consumer and corporate customers.

The Company carries out these business activities at carrier-certified shops and major electronics retailers, as well as in the corporate business departments.

(1) Consumer Business

In the Consumer Business, the Company mainly 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. The Company has two main sales channels: carrier-certified shops and major electronics retailers. The Company does not operate small shops that specialize in the sale of mobile phone handsets without contracted after-sales services. 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".

(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 clients (outsourcing services covering mobile help desk, handset set-up, etc.) and provides prepaid cards to convenience stores and IoT solutions (such as technology for the automated mutual collection of information, management and control between networked machines).

3. Non-consolidated Financial Statements

(1) Non-consolidated Balance Sheets

(Million yen)

	As of March 31,2020	As of March 31,2021
Assets		
Current assets		
Cash and deposits	20,387	21,550
Notes and accounts receivable - trade	40,380	29,038
Merchandise and finished goods	4,922	6,295
Raw materials and supplies	36	62
Prepaid expenses	877	1,056
Accounts receivable - other	8,812	27,788
Deposits paid	111	114
Other	-	12
Allowance for doubtful accounts	(5)	(5)
Total current assets	75,524	85,914
Non-current assets		
Property, plant and equipment		
Buildings	5,705	5,769
Accumulated depreciation	(3,053)	(3,359)
Buildings, net	2,651	2,410
Structures	356	374
Accumulated depreciation	(134)	(152)
Structures, net	222	221
Machinery and equipment	9	9
Accumulated depreciation	(4)	(4)
Machinery and equipment, net	5	4
Tools, furniture and fixtures	4,581	4,708
Accumulated depreciation	(3,256)	(3,454)
Tools, furniture and fixtures, net	1,325	1,253
Land	52	52
Leased assets	-	3
Accumulated depreciation	-	(0)
Leased assets, net	-	2
Construction in progress	6	69
Total property, plant and equipment	4,262	4,014
Intangible assets		
Goodwill	1,390	1,306
Software	407	426
Software in progress	18	15
The right of career shop management	8,319	7,654
Other	9	8
Total intangible assets	10,146	9,410
Investments and other assets		
Investment securities	189	217
Shares of subsidiaries and associates	13	13
Long-term prepaid expenses	276	178
Deferred tax assets	1,410	1,805
Leasehold and guarantee deposits	3,827	3,637
Other	149	162
Allowance for doubtful accounts	(42)	(39)
Total investments and other assets	5,824	5,976
Total non-current assets	20,233	19,401
Total assets	95,757	105,315

(Million yen)

	As of March 31,2020	As of March 31,2021
Liabilities		
Current liabilities		
Accounts payable - trade	13,394	14,756
Accrued agency commission	10,128	6,370
Accounts payable - other	6,874	14,505
Accrued expenses	2,980	3,267
Income taxes payable	2,547	2,022
Accrued consumption taxes	1,490	876
Advances received	10	49
Deposits received	959	804
Provision for bonuses	4,651	4,829
Provision for bonuses for directors (and other officers)	34	81
Lease obligations	-	0
Other	27	18
Total current liabilities	43,099	47,583
Non-current liabilities		
Provision for retirement benefits	5,580	5,894
Asset retirement obligations	668	595
Lease obligations	-	1
Other	122	100
Total non-current liabilities	6,371	6,591
Total liabilities	49,470	54,174
Net assets		
Shareholders' equity		
Share capital	2,778	2,778
Capital surplus		
Legal capital surplus	580	580
Other capital surplus	4	4
Total capital surplus	585	585
Retained earnings		
Legal retained earnings	113	113
Other retained earnings		
General reserve	2,469	2,469
Retained earnings brought forward	40,339	45,190
Total retained earnings	42,922	47,774
Treasury shares	(0)	(0)
Total shareholders' equity	46,286	51,138
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	0	2
Total valuation and translation adjustments	0	2
Total net assets	46,287	51,140
Total liabilities and net assets	95,757	105,315

(2) Non-consolidated Statements of Income

(Million yen)

	For the fiscal year ended March 31,2020	For the fiscal year ended March 31,2021
Net sales		
Net sales of goods	137,409	115,402
Commission income	71,596	73,393
Total net sales	209,005	188,795
Cost of sales		
Beginning merchandise inventory	8,221	4,922
Cost of purchased goods	128,757	111,993
Total	136,979	116,916
Ending merchandise inventory	5,092	6,136
Valuation loss on goods	169	(158)
Cost of goods sold	132,056	110,621
Agent fee	24,703	25,166
Total cost of sales	156,760	135,788
Gross profit	52,245	53,007
Selling, general and administrative expenses		
Remuneration for directors (and other officers)	179	189
Salaries and allowances	11,087	10,813
Bonuses	1,356	2,003
Provision for bonuses	4,651	4,829
Provision for bonuses for directors (and other officers)	34	81
Retirement benefit expenses	553	613
Legal welfare expenses	3,891	4,011
Temporary staffing expense	2,029	1,936
Packing and delivery expenses	382	389
Promotion expenses	2,439	2,447
Communication expenses	554	618
Rent expenses on land and buildings	4,518	4,543
Repair and maintenance expenses	1,364	1,620
Outsourcing expenses	1,086	1,178
Rent expenses	173	169
Depreciation	2,032	1,932
Amortization of goodwill	125	131
Provision of allowance for doubtful accounts	-	0
Other	5,452	4,821
Total selling, general and administrative expenses	41,914	42,331
Operating profit	10,330	10,676

(Million yen)

	For the fiscal year ended March 31,2020	For the fiscal year ended March 31,2021
Non-operating income		
Interest income	0	0
Dividend income	4	0
Support money of store move etc. income	148	146
Subsidies for employment adjustment	-	259
Other	45	48
Total non-operating income	199	455
Non-operating expenses		
Interest expenses	0	0
Loss on sale and retirement of non-current assets	4	11
Rental expenses on real estate	2	-
Loss on cancellation of contracts	3	35
Other	4	8
Total non-operating expenses	14	56
Ordinary profit	10,515	11,075
Extraordinary income		
Gain on sale of non-current assets	-	24
Gain on sale of investment securities	174	-
Other	11	0
Total extraordinary income	186	25
Extraordinary losses		
Loss on store closings	48	36
Loss on sale and retirement of non-current assets	18	43
Impairment losses	244	181
Other	2	5
Total extraordinary losses	314	268
Profit before income taxes	10,386	10,832
Income taxes - current	4,130	3,672
Income taxes - deferred	(744)	(375)
Total income taxes	3,386	3,296
Profit	7,000	7,536

(3) Non-consolidated Statements of Changes in Net Assets

For the fiscal year ended March 31,2020

(Million yen)

	Shareholders' equity							
		Capital surplus			Retained earnings			
						Other retained earnings		
	Share capital	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of period	2,778	580	4	585	113	2,469	36,022	38,606
Changes during period								
Dividends of surplus							(2,684)	(2,684)
Profit							7,000	7,000
Purchase of treasury shares								
Net changes in items other than shareholders' equity								
Total changes during period	-	-	-	-	-	-	4,316	4,316
Balance at end of period	2,778	580	4	585	113	2,469	40,339	42,922

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	(0)	41,970	136	136	42,106
Changes during period					
Dividends of surplus		(2,684)			(2,684)
Profit		7,000			7,000
Purchase of treasury shares		-			-
Net changes in items other than shareholders' equity			(135)	(135)	(135)
Total changes during period	-	4,316	(135)	(135)	4,181
Balance at end of period	(0)	46,286	0	0	46,287

For the fiscal year ended March 31,2021

(Million yen)

	Shareholders' equity							
		Capital surplus			Retained earnings			
						Other retained earnings		
	Share capital	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	General reserve	Retained earnings brought forward	Total retained earnings
Balance at beginning of period	2,778	580	4	585	113	2,469	40,339	42,922
Changes during period								
Dividends of surplus							(2,684)	(2,684)
Profit							7,536	7,536
Purchase of treasury shares								
Net changes in items other than shareholders' equity								
Total changes during period	-	-	-	-	-	-	4,851	4,851
Balance at end of period	2,778	580	4	585	113	2,469	45,190	47,774

	Shareholders' equity		Valuation and translation adjustments		Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	
Balance at beginning of period	(0)	46,286	0	0	46,287
Changes during period					
Dividends of surplus		(2,684)			(2,684)
Profit		7,536			7,536
Purchase of treasury shares	(0)	(0)			(0)
Net changes in items other than shareholders' equity			1	1	1
Total changes during period	(0)	4,851	1	1	4,853
Balance at end of period	(0)	51,138	2	2	51,140

(4) Non-consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended March 31,2020	For the fiscal year ended March 31,2021
Cash flows from operating activities		
Profit before income taxes	10,386	10,832
Depreciation	2,032	1,932
Amortization of goodwill	125	131
Impairment losses	244	181
Increase (decrease) in allowance for doubtful accounts	(2)	(2)
Increase (decrease) in provision for bonuses	826	178
Increase (decrease) in provision for bonuses for directors (and other officers)	0	46
Increase (decrease) in provision for retirement benefits	328	313
Interest and dividend income	(4)	(0)
Interest expenses	0	0
Subsidies for employment adjustment	-	(259)
Foreign exchange losses (gains)	3	2
Loss (gain) on sale of investment securities	(174)	-
Decrease (increase) in trade receivables	8,901	11,381
Decrease (increase) in accounts receivable - other	4,102	(18,976)
Decrease (increase) in inventories	3,293	(1,345)
Increase (decrease) in trade payables	(8,360)	(2,395)
Increase (decrease) in accounts payable - other	(5,468)	7,639
Increase (decrease) in accrued consumption taxes	723	(613)
Other, net	(283)	61
Subtotal	16,673	9,106
Interest and dividends received	4	0
Interest paid	(0)	(0)
Subsidies for employment adjustment received	-	259
Income taxes refund (paid)	(3,700)	(4,160)
Other, net	140	123
Net cash provided by (used in) operating activities	13,118	5,329
Cash flows from investing activities		
Purchase of property, plant and equipment	(902)	(943)
Purchase of intangible assets	(208)	(268)
Proceeds from sale of investment securities	242	-
Purchase of investment securities	(157)	(30)
Payments of leasehold and guarantee deposits	(192)	(175)
Proceeds from refund of leasehold and guarantee deposits	80	198
Purchase of long-term prepaid expenses	(82)	(77)
Other, net	(69)	(177)
Net cash provided by (used in) investing activities	(1,290)	(1,473)
Cash flows from financing activities		
Purchase of treasury shares	-	(0)
Dividends paid	(2,685)	(2,685)
Other, net	-	(1)
Net cash provided by (used in) financing activities	(2,685)	(2,687)
Effect of exchange rate change on cash and cash equivalents	(3)	(2)
Net increase (decrease) in cash and cash equivalents	9,139	1,165
Cash and cash equivalents at beginning of period	11,360	20,499
Cash and cash equivalents at end of period	20,499	21,665