Non-consolidated Financial Results for the Year Ended March 31, 2022[Japanese GAAP]

April 27, 2022

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 22, 2022
Scheduled date of commencing dividend payments: June 23, 2022
Scheduled date of filing annual securities report: June 22, 2022
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, 2022 (April 01, 2021 to March 31, 2022)

(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, 2022	193,247	2.4	8,072	(24.4)	8,202	(25.9)	5,618	(25.4)
March 31, 2021	188,795	(9.7)	10,676	3.3	11,075	5.3	7,536	7.6

	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, 2022	125.58	-	10.7	8.0	4.2
March 31, 2021	168.45	-	15.5	11.0	5.7

(Reference) Equity in earnings (losses) of affiliated companies: Fiscal year ended March 31, 2022: ¥ - million
Fiscal year ended March 31, 2021: ¥ - 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, 2022	100,965	53,625	53.1	1,198.66
March 31, 2021	105,315	51,140	48.6	1,143.13

(Reference) Equity: As of March 31, 2022: ¥ 53,625 million
As of March 31, 2021: ¥ 51,140 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, 2022	5,086	(2,078)	(3,132)	21,542
March 31, 2021	5,329	(1,473)	(2,687)	21,665

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, 2021	-	30.00	-	35.00	65.00	2,907	38.6	6.0
March 31, 2022	-	35.00	-	35.00	70.00	3,131	55.7	6.0
Fiscal year ending March 31, 2023 (Forecast)	-	35.00	-	35.00	70.00		54.9	

3. Non-consolidated Financial Results Forecast for the Fiscal Year Ending March 31, 2023 (April 01, 2022 to March 31, 2023)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Net income		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	200,000	3.5	8,600	6.5	8,700	6.1	5,700	1.5	127.41

* 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: Yes
2) Changes in accounting policies other than 1) above: No
3) Changes in accounting estimates: Yes
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, 2022: 44,737,938 shares
March 31, 2021: 44,737,938 shares

2) Total number of treasury shares at the end of the period:
March 31, 2022: 194 shares
March 31, 2021: 153 shares

3) Average number of shares during the period:
Fiscal Year ended March 31, 2022: 44,737,766 shares
Fiscal Year ended March 31, 2021: 44,737,788 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 page8-9 of the Appendix.

1. Overview of operating results, etc.

(1) Overview of operating results for the fiscal year ended March 31, 2022

(i) Operating results for the fiscal year ended March 31, 2022

During the current business year, despite the lingering impact of the COVID-19 pandemic, the Japanese economy showed signs of recovery, as the challenging conditions began to gradually ease. As for its outlook, although expectations are high for economic recovery, we will need to closely watch the resurgence of the infection due to COVID-19 variants and the economic impact of the situation surrounding Ukraine, etc.

In the mobile phone market in which the Company conducts its business activities, we continued operations while taking measures to prevent the spread of infection due to the pandemic and maintaining an environment where customers could visit stores and employees could come to work with peace of mind. The market was revitalized as telecom carriers revamped their pricing plans, promoting price competition among telecom carriers. As a result, handsets compliant with the new telecommunication standard 5G (the 5th generation mobile telecommunication system) have also been gaining popularity. Meanwhile, as information gaps become greater with the progress of digitalization, we have commenced support toward creating a society where all of society can enjoy the benefits of digitalization by taking part in the government's "Project on Digital Utilization Support."

In such a business environment, although our handset sales showed a recovery trend from the previous fiscal year, when we voluntarily restrained business operations amid the spread of COVID-19, sales volume decreased 0.1% from the previous fiscal year to 1.8 million units, mainly due to inventory shortages of our mainstay handset models. Although revenue from our unique services (smartphone coating, "nexi" service packages, managed mobile services, etc.) increased, the industry environment became more severe, and the decline in carrier agency business revenue was greater than expected. With respect to selling, general and administrative expenses, in addition to an increase in personnel expenses due to an increase in operations in reaction to the previous year's voluntary sales restraints due to COVID-19 and a decrease in support grants from telecom carriers, sales promotion expenses also grew due to the strengthening of external sales and marketing.

As a result, for the fiscal year under review, the Company reported net sales of 193,247 million yen (up 2.4% year-on-year), operating profit of 8,072 million yen (down 24.4% year-on-year), ordinary profit of 8,202 million yen (down 25.9% year-on-year), and net income of 5,618 million yen (down 25.4% year-on-year). While the application of the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereafter referred to as the "Accounting Standard for Revenue Recognition"), etc. decreased net sales by 1,165 million yen, this had no impact on operating profit, ordinary profit and net income.

◆Financial results

(Million yen)

Account title	FY2020	FY2021	Year-on-year change (%)
Net sales	188,795	193,247	2.4
Operating profit	10,676	8,072	△24.4
Ordinary profit	11,075	8,202	△25.9
Profit	7,536	5,618	△25.4

The financial results of each business segment were as follows.

Consumer Business

The Consumer Business segment is engaged in contract agency services for mobile phones and other communication services for consumer customers, provision of after-sales services and sales of mobile phone handsets, operation of "nexi Smartphone Support," a unique service offered by the Company to meet the needs of customers using smartphones and thereby strengthen relationships with them, and operation of an insurance agency business ("Hoken-no-Madoguchi").

In the Consumer Business, the environment surrounding the industry was more severe than expected, and carrier agency business revenues in declined significantly. Revenues from our unique services remained strong due to growth in services such as smartphone coating and "nexi" service packages. In addition, we also won contracts under the "Project on Digital Utilization Support Promotion for Users" by the Ministry of Internal Affairs and Communications, and started efforts to eliminate the digital divide (information gap) among our customers. As for selling, general and administrative expenses, in addition to an increase in personnel expenses resulting from an increase in operations in reaction to the previous year's voluntary sales restraints in the wake of COVID-19 and a decrease in support grants from telecommunications carriers, an increase in sales promotion expenses due to strengthened sales to outside customers was a factor that put downward pressure on earnings.

As a result, the financial results of the Consumer Business were 176,887 million yen in net sales (up 4.1% year-on-year) and 9,568 million yen in operating profit (down 23.2%). While net sales decreased by 79 million yen due to the application of the Accounting Standard for Revenue Recognition, etc., the application had no impact on operating profit.

◆Financial results

(Million yen)

Account title	FY2020	FY2021	Year-on-year change (%)
Net sales	169,858	176,887	4.1
Operating profit	12,462	9,568	△23.2

Corporate Business

In the Corporate Business, the Company mainly acts as an intermediary for concluding contracts of mobile phones and other communication services, provides after-sales services and sells mobile phone handsets, etc., targeting at corporate customers. The Company also develops and operates MobileWorkPlace (mobile work-related solutions for corporate customers) and offers IoT solutions and prepaid cards to convenience stores.

In the Corporate Business, despite a decline in the carrier agency business revenue due to the impact of inventory shortages of mainstay models and other factors, the number of subscriptions to managed mobile services increased due to the promotion of telework in the previous year, resulting in growth in independent revenue and an increase in operating income. As for mobile solutions, we entered into a business partnership with system integrator Needs Well Inc. and began providing data coordination solutions to core systems as part of the "Mobile WorkPlace" initiative. In the area of IoT solutions, "CONEXIOBlackBear" was adopted by a partner company to provide a simple monitoring system for rotating machinery, enabling early detection of abnormalities and remote monitoring. We will continue to use IoT technology to support on-site solutions.

As a result, the financial results of the Corporate Business were 16,359 million yen in net sales (down 13.6% year-on-year) and 3,100 million yen in operating profit (up 12.4%). While net sales decreased by 1,086 million yen due to the application of the Accounting Standard for Revenue Recognition, etc., the application had no impact on operating profit.

◆Financial results

(Million yen)

Account title	FY2020	FY2021	Year-on-year change (%)
Net sales	18,937	16,359	△13.6
Operating profit	2,758	3,100	12.4

(2) Overview of financial position for the fiscal year ended March 31, 2022

(i) **Status of assets, liabilities and net assets**

(Current assets)

Current assets decreased by 2,886 million yen from the end of the previous fiscal year to 83,028 million yen. This was mainly due to the decrease in accounts receivable-other of 1,723 million yen, the decrease in accounts receivable-trade of 1,042 million yen, the decrease in prepaid expenses of 128 million yen, the decrease in cash and deposits of 124 million yen, and the increase in merchandise and finished goods of 142 million yen.

(Non-current assets)

Non-current assets decreased by1,464 million yen from the end of the previous fiscal year to 17,936 million yen. This was due to a 955 million yen decrease in deferred tax assets, a 704 million yen decrease in carrier store operation rights, a 122 million yen decrease in goodwill, and a 394 million yen increase in leasehold and guarantee deposits.

As a result, total assets decreased by 4,350 million yen from the end of the previous fiscal year to 100,965 million yen.

(Current liabilities)

Current liabilities decreased 5,734 million yen from the end of the previous fiscal year to 41,848 million yen. This was mainly due to a decrease of 2,976 million yen in accrued bonuses, a decrease of 1,746 million yen in income taxes payable, a decrease of 1,351 million yen in accounts payable-other, a decrease of 551 million yen in accrued consumption taxes, a decrease of 164 million yen in accrued expenses, an increase of 635 million yen in accounts payable-trade, and an increase of 386 million yen in accrued agency commission.

(Non-current liabilities)

Non-current liabilities decreased by 1,100 million yen from the end of the previous fiscal year to 5,491 million yen. This was mainly due to the decrease in provision for retirement benefits by 2,715 million yen as a result of a partial change in the retirement benefits system and the increase in other items by 1,581 million yen.

As a result, total liabilities decreased by 6,834 million yen from the end of the previous fiscal year to 47,339 million yen.

(Net assets)

Net assets increased by 2,484 million yen from the end of the previous fiscal year to 53,625 million yen. This is attributable mainly to an increase due to the profit recognized in the amount of 5,618 million yen and a decrease due to dividends paid in the amount of 3,131 million yen.

As a result, the Company’s equity ratio was 53.1%.

(ii) **Status of cash flows**

Cash and cash equivalents (hereinafter referred to as “Cash”) at the end of the current fiscal year decreased by ,122 million yen from the end of the previous fiscal year to 21,542 million yen.

(Cash flows from operating activities)

Cash obtained from operating activities was 5,086 million yen (down 242 million yen from the previous fiscal year). This was mainly due to increasing factors such as profit before income taxes of 8,373 million yen, depreciation of 2,069 million yen, an increase of 1,915 million yen in accounts payable-other related to the transition to a defined contribution pension plan, a decrease of 1,723 million yen in accounts receivable-other, an increase of 1,022 million yen in accounts payable-trade and a decrease of 1,020 million yen in trade notes and accounts receivable exceeding the decreasing factors, which included a 3,524 million yen in income taxes paid, a 2,976 million yen decrease in provision for bonuses, a 2,435 million yen decrease in provision for retirement benefits, and a 1,296 million yen decrease in accounts payable-other.

(Cash flows from investing activities)

Cash used for investing activities was 2,078 million yen (up 604 million yen from the previous fiscal year). This was mainly due to expenditures of 1,291 million yen for the acquisition of property, plant and equipment and 585 million yen for payments for lease and guarantee deposits.

(Cash flows from financing activities)

Cash used for financing activities was 3,132 million yen (up 445 million yen from the previous fiscal year). This was due to the dividends paid of 3,132 million yen.

(Reference) Changes in cash flow related indicators

	Year ended March 31, 2018	Year ended March 31, 2019	Year ended March 31, 2020	Year ended March 31, 2021	Year ended March 31, 2022
Equity ratio (%)	38.4	40.7	48.3	48.6	53.1
Market-value equity ratio (%)	102.1	60.3	63.3	59.0	62.3
Cash flow to interest-bearing debt ratio (%)	–	–	–	–	–
Interest coverage ratio (times)	907.8	4,164.6	1,064,150.8	9,019.4	401,717.9

(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 we mainly operate our business activities, we expect the market to become more active and liquid due to price reductions by telecommunications carriers and competition in handset prices, as well as the spread of online-only plans. At carrier-authorized stores, the number of customers is expected to continue to decline due to the spread of these online-only plans and other factors, and it will be necessary to optimize the number of stores and achieve store operations that can be supported by only a small number of staff. Meanwhile, we expect the value of real customer contact points to increase as the information gap widens due to the progress of digitalization, and as mobile phone handsets compatible with 5G (5th generation mobile communication system) become more widespread and related services become more sophisticated. In addition, we expect the change to the era of the “New Normal (new lifestyles)” to continue to accelerate. In the corporate sector, accelerated IT investments to realize DX and work style reforms are expected to expand the scope of utilization of mobile solutions for corporate customers and drive the use of 5G/IoT technologies.

(ii) **Withdrawal of the Medium-Term Management Plan**

The Company has formulated a medium-term management plan that concludes in the fiscal year ending March 31, 2024, and has been promoting initiatives based on three basic strategies in anticipation of the widening information gap caused by the progress of digitalization and the advancement of related services due to the spread of 5G handsets.

In the fiscal year ending March 31, 2022, efforts to "expand unique services and solutions," one of the basic strategies, made steady progress and earnings from unique services and solutions grew steadily. In addition, significant improvements in "productivity innovation" have been achieved through the promotion of DX in storefront and core operations. On the other hand, our core carrier agency business experienced a significant deterioration in earnings over a short period of time. Although we had factored in a certain amount of decrease in agency commissions due to intensifying competition in telecommunications carrier rates in our medium-term management plan, the speed and magnitude of the deterioration in conditions were beyond our expectations. Furthermore, a number of telecommunications carriers have begun discussions regarding a review of the way carrier stores should operate. In such a business environment, we have made the decision to withdraw the relevant medium-term management plan since it is necessary to formulate a new strategy after confirming the medium- to long-term policies of telecommunications carriers and the direction of their agent strategies.

In the fiscal year ending March 31, 2023, we will work on making drastic improvements in the profitability of the carrier store business as a single-year plan, and at the same time, make strategic moves to secure new sources of business revenue. The new medium-term management plan is scheduled to be disclosed in the fiscal year ending March 31, 2024 as its first year.

(iii) **Initiatives for the fiscal year ending March 31, 2023**

<Consumer Business>

・Carrier Agency Business

We will strive to restructure store operations by promoting store elimination and consolidation, downsizing, and implementation of operational reforms. In addition, we will strive to improve profitability by strengthening sales through exploring new methods of on-site and external sales, which will lead to an increase in sales volume and improvement in carrier indices.

・Unique Services Business

We will broaden our customer base and expand into the digital support business by enhancing our classroom-related business centered on smartphone classrooms for daily life, as well as through the “Digital Utilization Support Promotion Project” implemented by the Ministry of Internal Affairs and Communications/local government, and by collaborating with companies that have senior customer contact points.

<Corporate Business>

・Carrier Agency Business

We will secure profits by restructuring the sales structure and upgrading sales methods.

・Unique Services Business

Amid the trend toward the expansion of telework and the promotion of DX, the Company will accelerate DX proposals primarily to small and midsize companies by digitizing customer contact points and standardizing products and services. In addition, the Company will promote the practical application of IoT solutions to customer segments such as manufacturing and construction sites, and in the field of 5G utilization.

<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. 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, 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.

<SDGs management>

To achieve the SDGs, we will contribute to the sustainable growth of society through our core business/areas of expertise by addressing the following five key materialities:

(1) Eliminating the information gap and realizing a prosperous information society

(2) Promoting digital transformation in business society

(3) Contributing to the prevention of incidents and accidents and the creation of a society resistant to natural disasters

(4) Initiatives for environmental issues

(5) Promotion of diversity and inclusion

(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 70 yen per share (interim at 35 yen, year-end at 35 yen).

For the next fiscal year, the Company aims to pay a consistently stable dividend, taking into consideration its overall business performance and promotion of growth investments. The annual dividend is forecasted to be 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 Breaches of personal information and cyber-attacks, 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. In the event of a large-scale cyber-attack, not only could such information be leaked, but the operation of our systems could also be impaired.

(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

Telecommunications carrier sales agency operations are subject to legal restrictions that include the Telecommunications Business Act, the Anti-Monopoly Act (Act on Prohibition of Private Monopolization and Maintenance of Fair Trade), the Act Against Delay in Payment of Subcontract Proceeds, etc. to Subcontractors, the Representations and Premiums Act (Act against Unjustifiable Premiums and Misleading Representations), the Personal Information Protection Act, the Mobile Phone Improper Use Prevention Act (Act for Identification, etc. by Mobile Voice Communications Carriers of Their Subscribers, etc. and for 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 (Act on Establishment of Enhanced Environment for Youth's Safe and Secure Internet Use), the Guidelines on Consumer Protection Rules of the Telecommunications Business Law, the Guidelines Concerning Protection of Personal Information in Telecommunications Businesses, and the “Ethical Guidelines for Business Activities of Agents” set forth 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 301 stores in addition to 139 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 2021 (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, 2021		Year ended March 31, 2022	
	Net sales (million yen)	Component ratio (%)	Net sales (million yen)	Component ratio (%)
Commission income (NTT DOCOMO, INC.)	54,624	74.4	52,661	72.8
Total commission income	73,393	100.0	72,312	100.0

[Cost of purchased goods]

	Year ended March 31, 2021		Year ended March 31, 2022	
	Purchase of goods (million yen)	Component ratio (%)	Purchase of goods (million yen)	Component ratio (%)
Cost of purchased goods (NTT DOCOMO, INC.)	98,667	88.1	104,632	89.8
Total cost of purchased goods	111,993	100.0	116,494	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, in the event that we are unable to secure store sales staff and other employees as planned, or if the retention rate deteriorates, the Company's business performance may be affected.

<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.

With regard to climate change, in October 2021, we expressed our support for the recommendations made by the Task Force on Climate-related Financial Disclosure (TCFD) and joined the TCFD Consortium, which consists of companies and financial institutions that support the recommendations. We will further strengthen our analysis and response to the risks and opportunities posed by climate change to our business and will promote information disclosure.

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 60.36% 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.

The telecommunications service contract agency business is based on agency contracts with telecommunications carriers (NTT DoCoMo, Inc., KDDI Corporation, Softbank Corporation, Rakuten Mobile, Inc. etc.), and acts as an agent for telecommunications services provided by the carriers to consumer and corporate customers. The Company receives commissions from telecommunications carriers when contracts are concluded or when specified conditions are met. The Company also receives commissions relating to various after-sales services for customers at carrier-certified shops (such as docomo shops, au 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 “nexi smartphone support” 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 corporates business, the Company mainly acts as an intermediary for concluding contracts of mobile phone and other communication services for corporate customers, provides after-sales services, and sells mobile phone handsets, etc. In addition, the Company develops and operates Mobile WorkPlace (mobile work-related solutions developed for corporate customers), and provides IoT solutions and prepaid cards to convenience stores.

3． Non-consolidated Financial Statements

（1） Non-consolidated Balance Sheets

(Million yen)

	As of March 31,2021	As of March 31,2022
Assets		
Current assets		
Cash and deposits	21,550	21,425
Accounts receivable - trade	29,038	27,996
Merchandise and finished goods	6,295	6,437
Raw materials and supplies	62	52
Prepaid expenses	1,056	927
Accounts receivable - other	27,788	26,065
Deposits paid	114	117
Other	12	12
Allowance for doubtful accounts	(5)	(6)
Total current assets	85,914	83,028
Non-current assets		
Property, plant and equipment		
Buildings	5,769	5,987
Accumulated depreciation	(3,359)	(3,614)
Buildings, net	2,410	2,373
Structures	374	375
Accumulated depreciation	(152)	(174)
Structures, net	221	201
Machinery and equipment	9	9
Accumulated depreciation	(4)	(5)
Machinery and equipment, net	4	4
Tools, furniture and fixtures	4,708	4,850
Accumulated depreciation	(3,454)	(3,509)
Tools, furniture and fixtures, net	1,253	1,341
Land	52	52
Leased assets	3	8
Accumulated depreciation	(0)	(1)
Leased assets, net	2	7
Construction in progress	69	0
Total property, plant and equipment	4,014	3,979
Intangible assets		
Goodwill	1,306	1,183
Software	426	518
Software in progress	15	23
The right of career shop management	7,654	6,949
Other	8	8
Total intangible assets	9,410	8,683
Investments and other assets		
Investment securities	217	213
Shares of subsidiaries and associates	13	13
Long-term prepaid expenses	178	118
Deferred tax assets	1,805	850
Leasehold and guarantee deposits	3,637	4,032
Other	162	81
Allowance for doubtful accounts	(39)	(35)

(Million yen)

	As of March 31,2021	As of March 31,2022
Total investments and other assets	5,976	5,274
Total non-current assets	19,401	17,936
Total assets	105,315	100,965

(Million yen)

	As of March 31,2021	As of March 31,2022
Liabilities		
Current liabilities		
Accounts payable - trade	14,756	15,391
Accrued agency commission	6,370	6,757
Accounts payable - other	14,505	13,154
Accrued expenses	3,267	3,103
Income taxes payable	2,022	275
Accrued consumption taxes	876	325
Advances received	49	27
Deposits received	804	825
Provision for bonuses	4,829	1,852
Provision for bonuses for directors (and other officers)	81	5
Lease liabilities	0	1
Other	18	126
Total current liabilities	47,583	41,848
Non-current liabilities		
Provision for retirement benefits	5,894	3,178
Asset retirement obligations	595	624
Lease liabilities	1	5
Other	100	1,682
Total non-current liabilities	6,591	5,491
Total liabilities	54,174	47,339
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	45,190	47,677
Total retained earnings	47,774	50,260
Treasury shares	(0)	(0)
Total shareholders' equity	51,138	53,624
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	2	0
Total valuation and translation adjustments	2	0
Total net assets	51,140	53,625
Total liabilities and net assets	105,315	100,965

（２） Non-consolidated Statements of Income

(Million yen)

	For the fiscal year ended March 31,2021	For the fiscal year ended March 31,2022
Net sales		
Net sales of goods	115,402	120,934
Commission income	73,393	72,312
Total net sales	188,795	193,247
Cost of sales		
Beginning merchandise inventory	4,922	6,295
Cost of purchased goods	111,993	116,494
Total	116,916	122,789
Ending merchandise inventory	6,136	6,470
Valuation loss on goods	(158)	13
Cost of goods sold	110,621	116,333
Agent fee	25,166	25,396
Total cost of sales	135,788	141,729
Gross profit	53,007	51,518
Selling, general and administrative expenses		
Remuneration for directors (and other officers)	189	206
Salaries and allowances	10,813	13,397
Bonuses	2,003	2,890
Provision for bonuses	4,829	1,852
Provision for bonuses for directors (and other officers)	81	5
Retirement benefit expenses	613	755
Legal welfare expenses	4,011	3,738
Temporary staffing expense	1,936	2,309
Packing and delivery expenses	389	393
Promotion expenses	2,447	2,872
Communication expenses	618	614
Rent expenses on land and buildings	4,543	4,716
Repair and maintenance expenses	1,620	1,789
Outsourcing expenses	1,178	1,085
Rent expenses	169	180
Depreciation	1,932	2,069
Amortization of goodwill	131	123
Provision of allowance for doubtful accounts	0	1
Other	4,821	4,439
Total selling, general and administrative expenses	42,331	43,445
Operating profit	10,676	8,072

(Million yen)

	For the fiscal year ended March 31,2021	For the fiscal year ended March 31,2022
Non-operating income		
Interest income	0	0
Dividend income	0	0
Support money of store move etc income	146	58
Subsidies for employment adjustment	259	-
Surrender value of insurance policies	-	31
Other	48	47
Total non-operating income	455	137
Non-operating expenses		
Interest expenses	0	0
Loss on sale and retirement of non-current assets	11	-
Loss on cancellation of contracts	35	0
Loss on investments in investment partnerships	-	1
Other	8	5
Total non-operating expenses	56	7
Ordinary profit	11,075	8,202
Extraordinary income		
Gain on sale of non-current assets	24	-
Gain on sale of investment securities	-	46
Compensation for forced relocation	-	430
Gain on revision of retirement benefit plan	-	280
Other	0	13
Total extraordinary income	25	769
Extraordinary losses		
Head office relocation expenses	-	167
Loss on store closings	36	139
Loss on sale and retirement of non-current assets	43	35
Impairment losses	181	257
Other	5	-
Total extraordinary losses	268	599
Profit before income taxes	10,832	8,373
Income taxes - current	3,672	1,794
Income taxes - deferred	(375)	960
Total income taxes	3,296	2,755
Profit	7,536	5,618

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

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		
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Total valuation and translation adjustments	Total net assets
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

For the fiscal year ended March 31,2022

(Million yen)

	Shareholders' equity							
	Share capital	Capital surplus			Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings		Total retained earnings
						General reserve	Retained earnings brought forward	
Balance at beginning of period	2,778	580	4	585	113	2,469	45,190	47,774
Changes during period								
Dividends of surplus							(3,131)	(3,131)
Profit							5,618	5,618
Purchase of treasury shares								
Net changes in items other than shareholders' equity								
Total changes during period	-	-	-	-	-	-	2,486	2,486
Balance at end of period	2,778	580	4	585	113	2,469	47,677	50,260

	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)	51,138	2	2	51,140
Changes during period					
Dividends of surplus		(3,131)			(3,131)
Profit		5,618			5,618
Purchase of treasury shares	(0)	(0)			(0)
Net changes in items other than shareholders' equity			(2)	(2)	(2)
Total changes during period	(0)	2,486	(2)	(2)	2,484
Balance at end of period	(0)	53,624	0	0	53,625

（4） Non-consolidated Statements of Cash Flows

(Million yen)

	For the fiscal year ended March 31,2021	For the fiscal year ended March 31,2022
Cash flows from operating activities		
Profit before income taxes	10,832	8,373
Depreciation	1,932	2,069
Amortization of goodwill	131	123
Impairment losses	181	257
Increase (decrease) in allowance for doubtful accounts	(2)	(2)
Increase (decrease) in provision for bonuses	178	(2,976)
Increase (decrease) in provision for bonuses for directors (and other officers)	46	(75)
Increase (decrease) in provision for retirement benefits	313	(2,435)
Gain on revision of retirement benefit plan	-	(280)
Interest and dividend income	(0)	(0)
Interest expenses	0	0
Subsidies for employment adjustment	(259)	-
Compensation for forced relocation	-	(430)
Head office relocation expenses	-	167
Foreign exchange losses (gains)	2	(1)
Loss (gain) on sale of investment securities	-	(46)
Decrease (increase) in trade receivables	11,381	1,020
Decrease (increase) in accounts receivable - other	(18,976)	1,723
Decrease (increase) in inventories	(1,345)	(109)
Increase (decrease) in trade payables	(2,395)	1,022
Increase (decrease) in accounts payable - other	7,639	(1,296)
Increase (decrease) in accrued consumption taxes	(613)	(551)
Increase (decrease) in accounts payable relating to introduction of defined-contribution pension plan	-	1,915
Other, net	61	(165)
Subtotal	9,106	8,301
Interest and dividends received	0	0
Interest paid	(0)	(0)
Subsidies for employment adjustment received	259	-
Proceeds from compensation for forced relocation	-	430
Income taxes refund (paid)	(4,160)	(3,524)
Other, net	123	(120)
Net cash provided by (used in) operating activities	5,329	5,086
Cash flows from investing activities		
Purchase of property, plant and equipment	(943)	(1,291)
Purchase of intangible assets	(268)	(239)
Proceeds from sale of investment securities	-	71
Purchase of investment securities	(30)	(30)
Payments of leasehold and guarantee deposits	(175)	(585)
Proceeds from refund of leasehold and guarantee deposits	198	221
Purchase of long-term prepaid expenses	(77)	(57)
Other, net	(177)	(165)
Net cash provided by (used in) investing activities	(1,473)	(2,078)
Cash flows from financing activities		
Purchase of treasury shares	(0)	(0)
Dividends paid	(2,685)	(3,132)
Other, net	(1)	(0)

(Million yen)

	For the fiscal year ended March 31,2021	For the fiscal year ended March 31,2022
Net cash provided by (used in) financing activities	(2,687)	(3,132)
Effect of exchange rate change on cash and cash equivalents	(2)	1
Net increase (decrease) in cash and cash equivalents	1,165	(122)
Cash and cash equivalents at beginning of period	20,499	21,665
Cash and cash equivalents at end of period	21,665	21,542