

Non-consolidated Financial Results for the Nine Months Ended December 31, 2013 [Japanese GAAP]



January 31, 2014

Company name: CONEXIO Corporation Stock exchange listing: Tokyo Stock Exchange
 Stock code: 9422 URL: <http://www.conexio.co.jp/index.html>
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 Scheduled date for filing of quarterly report: February 12, 2014
 Scheduled date of commencement of dividend payment: —
 Availability of supplementary briefing material on quarterly financial results: Available
 Schedule of briefing session on quarterly financial results: Not scheduled

(Figures are rounded down to the nearest million yen.)

1. Financial Results Nine Months Ended December 31, 2013 (from April 1, 2013 to December 31, 2013)

(1) Non-consolidated Operating Results (Cumulative) (% indicates rate of change from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income	
	million yen	%	million yen	%	million yen	%	million yen	%
3Q FY2013	211,314	53.4	4,498	17.5	4,583	17.2	2,446	24.6
3Q FY2012	137,776	49.9	3,829	23.3	3,909	24.0	1,963	47.2
	Earnings per share (EPS)		Diluted EPS					
	yen		yen					
3Q FY2013	48.90		—					
3Q FY2012	40.51		—					

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio
	million yen	million yen	%
3Q FY2013	91,635	20,171	22.0
FY2012	87,297	28,262	32.4

(Reference) Equity 3Q FY2013: 20,171million yen FY2012: 28,262 million yen

2. Dividends

	Annual dividends				
	1Q end	2Q end	3Q end	Year end	Total
	yen	yen	yen	yen	yen
FY2012	—	13.25	—	13.25	26.50
FY2013	—	15.75	—		
FY2013(Forecast)				15.75	31.50

(Note) Revision of recently-announced dividend forecast: None

3. Financial Forecast for Fiscal Year Ending March 31, 2014 (from April 1, 2013 to March 31, 2014)

(% indicates rate of change from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Net income		EPS
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	295,000	40.9	6,200	5.0	6,300	4.4	3,300	6.7	67.73

(Note) Revision of recently-announced financial forecast: Yes

For the revision to non-consolidated forecasts, please refer to the “Notice of Revisions to Full-year Forecasts (Non-consolidated)” announced today (January 31, 2014).

4. Notes

- (1) Application of special accounting method for preparing quarterly non-consolidated financial statements: None
- (2) Changes in accounting policies, changes in accounting estimates and restatements
- (i) Changes in accounting policies due to revision of accounting standards, etc.: None
 - (ii) Changes in accounting policies other than (i) above: None
 - (iii) Changes in accounting estimates: Yes
 - (iv) Restatements: None

(3) Number of shares issued (common stock)

(i) Number of shares issued as of the end of period (including treasury stock)	3Q FY2013	55,923,000 shares	FY2012	55,923,000 shares
(ii) Number of shares of treasury stock as of the end of period	3Q FY2013	11,184,854 shares	FY2012	254 shares
(iii) Average number of shares during the period (cumulative)	3Q FY2013	50,025,412 shares	2Q FY2012	48,479,903 shares

*** Indication of implementation status of quarterly review procedures**

- These quarterly non-consolidated financial results are outside the scope of quarterly review procedures under the Financial Instruments and Exchange Act. At the time of disclosing this report, quarterly review procedures are being conducted with respect to the quarterly non-consolidated financial statements.

*** 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 “Analysis of Financial Forecasts and Other Forward-Looking Information” on page 3 of the Appendix.

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1. Qualitative Information on Quarterly Non-consolidated Financial Results

(1) Analysis of Operating Results

During the nine months ended December 31, 2013, the Japanese economy saw improvements in corporate earnings as well as personal consumption, particularly the consumption of expensive goods and services, on the back of the aggressive economic policy and monetary easing taken by the government. However, they have not yet resulted in a growth in personal income and the economic outlook remained uncertain.

In the mobile phone market in which the Company conducts business activities, demand to replace feature phones with smartphones continued to be strong, with simultaneous introduction of highly popular models by major telecom carriers, which resulted in increased competition for customers.

In such a business climate, the Company made a new start in October by renewing its corporate philosophy, company name, and logo as part of the final step of integration following the merger in the previous fiscal year. Although the Company could not achieve satisfactory growth in sales during the period of high sales in summer and December, the expansion following the merger in the Company's size, among other factors, led to an increase in the number of units sold by 29.9% year-on-year to 2,200,000 units.

As a result, the Company's financial results for the nine months ended December 31, 2013 were 211,314 million yen in net sales (up 53.4% year-on-year), 4,498 million yen in operating income (up 17.5%), 4,583 million yen in ordinary income (up 17.2%) and 2,446 million yen in net income (up 24.6%).

The financial results of each business segment were as follows.

(Consumer Business)

The Company secured a growth in the number of units sold by enhancing its network of carrier-certified shops following the merger and through the sales of popular models. The Company also worked on securing revenue from mobile-related accessories and other products, for example, by launching a portal site "nexi" in later December to help customers customize smartphone screens and change accessories to suit their taste. As a result, net sales increased 58.3% year-on-year to 199,549 million yen and operating income increased 17.6% to 5,657 million yen.

(Corporate Business)

Leveraging the increased customer base following the merger, the Company pushed ahead with the cross-selling of various services for corporate customers as well as the reinforcement of its consulting sales. These efforts resulted in capturing new accounts for "Managed Services," a service which supports companies in raising their business efficiency, as well as MDM services, which are increasingly needed as the use of smartphones increases. The Company also started to introduce cloud services such as sales force automation system. Sales of pre-paid cards ("POSA Cards") were strong as the Company pushed ahead with, among others, the development of new distribution channels, the introduction of new products and services, and the expansion of sales floor space.

Consequently, net sales increased 0.1% year-on-year to 11,765 million yen and operating income increased 33.8% to 1,530 million yen.

(2) Analysis of Financial Position

Status of Assets, Liabilities and Net Assets

(Assets)

Current assets increased by 5,010 million yen from the end of the previous fiscal year to 68,150 million yen. This was due to the increase in cash and deposits by 1,855 million yen, the increase in merchandise and finished goods by 4,870 million yen, the decrease in accounts receivable-trade by 728 million yen, the decrease in accounts receivable-other by 606 million yen, etc.

Noncurrent assets decreased by 671 million yen from the end of the previous fiscal year to 23,485 million yen. This was attributable to the decrease in property, plant and equipment by 88 million yen, the amortization of goodwill of 275 million yen, the amortization of the right of career shop management of 515 million yen, the increase in investments and other assets by 274 million yen etc.

As a result, total assets increased by 4,338 million yen from the end of the previous fiscal year to 91,635 million yen.

(Liabilities)

Current liabilities increased by 8,317 million yen from the end of the previous fiscal year to 62,267 million yen. This was due to the increase in accounts payable-trade by 3,938 million yen, the increase in short-term loans payable by 5,900 million yen, the increase in income taxes payable by 1,042 million yen, the decrease in accrued agency commission by 686 million yen, the decrease in provision for bonuses by 1,545 million yen, etc. Noncurrent liabilities increased by 4,111 million yen from the end of the previous fiscal year to 9,196 million yen. This was attributable to the increase in long-term loans payable by 3,000 million yen, the increase in provision for retirement benefits by 432 million yen, etc.

As a result, total liabilities increased by 12,429 million yen from the end of the previous fiscal year to 71,464 million yen.

(Net assets)

Net assets decreased by 8,090 million yen from the end of the previous fiscal year to 20,164 million yen. This was due to the decrease by 9,193 million yen resulting from the purchase of treasury stock, dividend payments of 1,445 million yen, the recognition of net income of 2,446 million yen, etc.

As a result, the Company's equity ratio was 22.0%.

(3) Analysis of Financial Forecasts and Other Forward-Looking Information

As stated in the "Notice of Revisions to Full-year Forecasts (Non-consolidated)" announced today (January 31, 2014), in light of the recent business environment, the full-year forecasts have been revised to net sales at 295,000 million yen, operating income at 6,200 million yen, ordinary income at 6,300 million yen, and net income at 3,300 million yen.

Differences from the full-year forecasts accounted on April 30, 2013 are summarized below.

Modification of the full-year ended March 31, non-consolidated forecasts, 2014 (from April 1, 2013 to March 31, 2014)

	Net sales	Operating income	Ordinary income	Net income	Earnings per share (EPS)
	million yen	million yen	million yen	million yen	yen
Previous forecast (A)	300,000	7,800	7,800	4,350	77.79
This revised forecast (B)	295,000	6,200	6,300	3,300	67.73
Increase (decrease) (B-A)	(5,000)	(1,600)	(1,500)	(1,050)	
Rate of change (%)	(1.7)	(20.5)	(19.2)	(24.1)	
(Reference) previous year (The fiscal year ending March 31, 2013)	209,303	5,903	6,034	3,092	61.46

2. Summary Information (Notes)

(1) Changes in significant subsidiaries during the period

Not applicable.

(2) Application of special accounting procedures in the preparation of quarterly financial statements

Not applicable.

(3) Changes in accounting policies, changes in accounting estimates and restatements

(Change in accounting estimates)

During the nine months ended December 31, 2013, the Company decided to relocate part of its office and shortened the useful lives of assets that will no longer be used following the relocation.

In addition, the Company shortened the amortization period that is considered reasonable for lease deposits that had been amortized as restoration obligations under the real estate lease agreement for the current office.

As a result, depreciation increased by 79 million yen and operating income, ordinary income, and quarterly net income before taxes decreased by 79 million yen for the nine months ended December 31, 2013 as compared with the respective amounts that would have been posted under the previous method.

3. Quarterly Non-Consolidated Financial Statements

(1) Quarterly Non-Consolidated Balance Sheets

(Million yen)

	As of March 31,2013	As of December 31,2013
Assets		
Current assets		
Cash and deposits	1,566	3,421
Accounts receivable-trade	37,122	36,393
Merchandise and finished goods	9,284	14,154
Accounts receivable-other	11,366	10,760
Deposits paid	293	250
Other	3,530	3,186
Allowance for doubtful accounts	(23)	(17)
Total current assets	63,140	68,150
Noncurrent assets		
Property, plant and equipment	3,728	3,640
Intangible assets		
Goodwill	2,321	2,045
The right of career shop management	13,409	12,893
Other	597	531
Total intangible assets	16,327	15,470
Investments and other assets	4,099	4,374
Total noncurrent assets	24,156	23,485
Total assets	87,297	91,635
Liabilities		
Current liabilities		
Accounts payable-trade	18,623	22,562
Accrued agency commission	6,197	5,511
Short-term loans payable	9,900	15,800
Accounts payable-other	11,706	11,780
Income taxes payable	22	1,064
Provision for bonuses	2,585	1,040
Provision for directors' bonuses	24	2
Other	4,889	4,506
Total current liabilities	53,949	62,267
Noncurrent liabilities		
Long-term loans payable	—	3,000
Provision for retirement benefits	3,755	4,187
Provision for directors' retirement benefits	8	—
Asset retirement obligations	376	387
Other	944	1,621
Total noncurrent liabilities	5,085	9,196
Total liabilities	59,034	71,464

(Million yen)

	As of March 31,2013	As of December 31,2013
Net assets		
Shareholders' equity		
Capital stock	2,778	2,778
Capital surplus	9,779	9,779
Retained earnings	15,467	16,468
Treasury stock	(0)	(9,193)
Total shareholders' equity	28,025	19,832
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	236	339
Total valuation and translation adjustments	236	339
Total net assets	28,262	20,171
Total liabilities and net assets	87,297	91,635

(2) Quarterly Non-Consolidated Statements of Income

(Million yen)

	Nine months ended December 31, 2012	Nine months ended December 31, 2013
Net sales	137,776	211,314
Cost of sales	112,637	178,585
Gross profit	25,138	32,728
Selling, general and administrative expenses	21,309	28,230
Operating income	3,829	4,498
Non-operating income		
Interest income	4	0
Dividends income	11	8
Income related to sales contest	16	15
Support money of store move etc income	41	34
Other	19	85
Total non-operating income	92	143
Non-operating expenses		
Interest expenses	3	34
Loss on sales and retirement of noncurrent assets	7	11
Commission for purchase of treasury stock	—	5
Other	0	7
Total non-operating expenses	12	59
Ordinary income	3,909	4,583
Extraordinary income		
Gain on sales of noncurrent assets	—	0
Other	—	0
Total extraordinary income	—	0
Extraordinary loss		
Office transfer expenses	—	101
Loss on closing of stores	49	49
Loss on sales and retirement of noncurrent assets	25	18
Loss on valuation of golf club membership	20	—
Loss on valuation of stocks of subsidiaries and affiliates	25	7
Impairment loss	42	22
Other	1	2
Total extraordinary losses	164	202
Income before income taxes	3,744	4,381
Income taxes-current	680	1,312
Income taxes-deferred	1,100	622
Total income taxes	1,781	1,935
Net income	1,963	2,446

(3) Notes to Quarterly Non-consolidated Financial Statements

(Notes on Going Concern Assumption)

Nine months ended December 31, 2013 (from April 1, 2013 to December 31, 2013)

Not applicable.

(Material Changes in Shareholders' Equity)

Nine months ended December 31, 2013 (from April 1, 2013 to December 31, 2013)

Pursuant to the resolution passed at the meeting of the Board of Directors held on August 8, 2013, the Company purchased treasury stock. As a result, treasury stock increased by 9,193 million yen during the third quarter this year to 9,193 million yen at the end of the third quarter of the current fiscal year.

(Segment Information)

1. Overview of reporting segments

Reporting segments of the Company are constituent units of the Company for which separate financial statements are available and subject to periodic examination by the Board of Directors for the purpose of determining the allocation of management resources and evaluating business performance.

The Company's core business is to serve as a sales agency for mobile phones, which involves acting as an intermediary for concluding contracts of mobile phone and other communication services, providing after-sale services to subscribers, and selling handsets, etc.

Therefore, the reporting segments of the Company are "Consumer Business" and "Corporate Business", based on the attributes of customers to whom merchandise is sold and services are provided.

In "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. targeted at corporate customers, while also offering marketing solutions using mobile phones, providing prepaid services to convenience stores, providing Internet connection services and offering M2M solutions .

2. Information on amount of net sales, income or loss of each reporting segment

Third quarter under review (from April 1, 2013 to December 31, 2013)

(Unit: million yen)

	Reporting segment			Adjustments (Note 1)	Amount recorded in quarterly non- consolidated statement of income (Note 2)
	Consumer Business	Corporate Business	Total		
Net sales	199,549	11,765	211,314	—	211,314
Segment income	5,657	1,530	7,187	(2,689)	4,498

(Notes)

- Adjustments to segment income in the amount of -2,689 million yen correspond to Company-wide expenses that have not been allocated to each reporting segment. Company-wide expenses are primarily general and administrative expenses that are not attributable to the reporting segments.
- Segment income had been adjusted with respect to operating income in the quarterly non-consolidated statement of income.

4. Supplementary Information

Status of Sales

(Unit: million yen, %)

		Nine months ended December 31, 2012	Nine months ended December 31, 2013	Rate of change
Consumer Business	Net sales	126,018	199,549	58.3
	Operating income	4,811	5,657	17.6
Corporate Business	Net sales	11,757	11,765	0.1
	Operating income	1,144	1,530	33.8
Adjustments	Company-wide expenses	2,126	2,689	26.5
Amount recorded in quarterly non-consolidated statement of income	Net sales	137,776	211,314	53.4
	Operating income	3,829	4,498	17.5