

(English Translation)

This English translation is an abridged version of the original document in Japanese. In the event of any discrepancy, the Japanese version prevails.

Summary of Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2019 [Japanese GAAP]

January 31, 2019

Listed company name: Infocom Corporation

Securities code: 4348

Representative: (Position) President and CEO

Contact: (Position) Head of Corporate Communications Office

Scheduled date to file quarterly securities report: February 7, 2019

Preparation of supplementary materials on financial results: Yes

Holding of financial results briefing: No

Listed on: Tokyo Stock Exchange

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

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Scheduled date to commence dividend payments: -

(Amounts less than one million yen are rounded down)

1. Consolidated Business Results for the Third Quarter of FY2018 (April 1, 2018 to September 30, 2018)

(1) Consolidated operating results (cumulative)

(% of change from previous year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Third quarter of FY2018	35,509	13.0	3,804	11.8	3,849	4.0	2,715	(19.0)
Third quarter of FY2017	31,418	8.1	3,402	33.6	3,702	42.1	3,351	98.8

(Note) Comprehensive income: Third quarter of FY2018: ¥3,092 million (-20.7%); Third quarter of FY2017: ¥3,899 million (172.2%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Third quarter of FY2018	99.31	98.86
Third quarter of FY2017	122.55	122.05

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
Third quarter of FY2018	39,277	30,442	77.1
FY2017	38,237	28,360	73.8

(Reference) Shareholders' equity: Third quarter of FY2018: ¥30,271 million; FY2017: ¥28,227 million

2. Dividends

	Dividends per share				
	End-Q1	End-Q2	End-Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2017	—	10.00	—	28.00	38.00
FY2018	—	10.00	—	—	—
FY2018 (forecasts)	—	—	—	17.00	—

(Note) Adjustment for the most recent forecasts of dividends: None

Dividend Forecast for FY2018

Regular Dividend: ¥15.00

Commemorative Dividend: ¥2.00

At a meeting held January 21, 2019, the Infocom Corporation board of directors approved a two-for-one share stock split with the effective date of March 1, 2019. Forecasted dividends per share for FY2018 reflect this stock split, presented here as — under the annual total. When ignoring the impact of the aforementioned stock split, forecasted dividends per-share for FY2018 amount to ¥34 for the year-end and ¥44 in total for the year.

3. Forecasts of Consolidated Business Results for FY2018 (April 1, 2018 to March 31, 2019)

(Percent figures indicate the rate of changes from the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of the parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	51,500	12.5	6,700	14.9	6,700	12.0	4,600	(0.9)	84.10

(Note) Adjustment for the most recent forecasts of dividends: Yes

At a meeting held January 21, 2019, the Infocom Corporation board of directors approved a two-for-one share stock split with the effective date of March 1, 2019. Forecasted net income per share for FY2018 reflects this stock split.

* Statements regarding the proper use of financial forecasts and other special remarks

- Forward-looking statements that include forecasts of business results are based on the information currently available and certain assumptions judged to be rational. Actual business results may differ substantially because of various factors. For the matters to be noted when using the financial forecasts and the assumptions behind these forecasts, please see “(3) Explanation of consolidated earnings forecasts and other forward-looking information” under “1. Qualitative information on quarterly business results” on page 3 of the attached materials.

Post-Split Dividends and Consolidated Business Results Forecast

At a meeting held February 21, 2019, the Infocom Corporation board of directors approved a two-for-one share stock split with the effective date of March 1, 2019. Forecasted dividends and earnings for FY2018 prior to said stock split are presented below:

1. FY2018 Dividend Forecast

Dividend per Share	Q2 ¥10.00 (Note 1)	Year-End ¥34.00 (Note 2)
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2. FY2018 Consolidated Business Results Forecast

FY2018 net income per share	¥168.20
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(Note 1) Dividends for the second quarter have been paid based on pre-split ratios.

(Note 2) Dividend amount calculated prior to stock split.

(Note 3) FY2018 annual dividend (prior to stock split) is ¥44.00.

1. Qualitative information on quarterly business results

(1) Overview of business results

The Japanese economy during the cumulative consolidated third quarter showed signs of a rebound in consumer spending, driven by steadily improving corporate earnings, employment, and payrolls. At the same time, growing U.S.-China trade friction and slowing in the global economy have given rise to concerns, causing greater uncertainties in the future direction of the world economy.

Overall IT-related market demand was robust throughout the period. Factors included the rising use of cloud services via smartphones, tablets, and other mobile devices; expanding business applications for the internet of things (IoT), artificial intelligence (AI), and other technologies; and the use of robotic process automation (RPA) to achieve the type of work-style reforms promoted by the Japanese government.

The e-book market returned to a growth phase due to the waning impact of pirate sites, which had risen sharply August 2017.

In this operating environment, the Infocom Group medium-term management plan (April 2016 to March 2020) emphasized two fundamental policies: (1) pursue growth and (2) continue strengthening our management foundation to support growth. To this end, we have identified e-comics and healthcare as priority businesses. In these areas, we pursued M&A opportunities actively, while developing businesses that leverage AI and IoT.

As a result, the Infocom Group generated net sales of ¥35,509 million for the three months ended December 31, 2018, up 13.0% year on year. Operating profit rose 11.8% to ¥3,804 million, ordinary profit rose 4.0% to ¥3,849 million. Profit attributable to owners of the parent decreased 19.0% to ¥2,715 million.

* The decrease in profit attributable to owners of the parent for the cumulative consolidated third quarter was mainly due to the gain on sale of non-current assets associated with the sale of a data center during the second quarter of the prior fiscal year.

Group sales and profit tend to be relatively low during the first and third quarters of the fiscal year, concentrated mainly in the fourth quarter. This trend stems from the concentration product and service deliveries to companies and hospitals in March during Japan's fiscal year-end.

(i) Business Solution Group

During the cumulative consolidated third quarter, our Business solution group recorded sales of ¥15,575 million (0.5% increase year on year), driven by steady performance in services for hospitals. Meanwhile, operating profit amounted to ¥534 million (33.8% decrease) due to declining profitability in a major systems integration project.

Our Health IT subsegment strengthened existing sales promotions on services for hospitals and pharmaceutical companies. At the same time, the subsegment experienced increased sales of clinical information management systems in connection with medical treatment fee revisions. Sales of employment management systems (for tracking employee work hours effectively) were strong as hospitals and other healthcare organizations began implementing work-style reforms. We launched a new version of *mima-more*, a monitoring support service for the nursing care industry. This software represents one of our efforts in the area of community-based comprehensive care. Also this period, we unveiled *Carestyle*, a career change support service which specializes in care workers.

In corporate IT services, we introduced a new version of the company's integrated business management software package, GRANDIT3.0, and an optional RPA Solution product for GRANDIT. We also, expanded support services for new users of RPA through partner companies. Other new services introduced during the period include *at score*, an AI-based deferred payment service, and a food temperature management IoT service that improves the efficiency of food hygiene management. Our company also began sales of *Visual IVR*, an automated response system for call centers combining voice and video.

(ii) Digital Entertainment Group

Segment sales were ¥19,933 million (+25.2% year on year). Operating profit for the segment was ¥3,262 million (+26.0%). The e-comics distribution business continued to post strong returns with both increased sales and profits.

We strengthened collaborations with publishers in our e-comics distribution business. These include a bimonthly publication of *Grand Jump Meccha*, a crossover publication with Shueisha, Inc., sales of *Meccha Comics fufu* with Futabasha Publishers Ltd., expanded content for initial exclusive distribution through Meccha Comics. We also operated *Meccha Bookstore*, a venture to introduce popular Meccha Comics products for sale at physical bookstores. Further, we ran television advertising for the first time in Q3 and displayed the Meccha Comics official character Meccha Dog throughout the Christmas period. In addition to these measures, we increased the effectiveness of our advertising through more sophisticated data analysis, and set a new record for Q3 sales, eliminating the normal seasonality of earnings in Q3. In an effort to combat pirate sites and promote a healthy market, our consolidated subsidiary Amutus Corporation established the Japan E-Bookstore in April 2018 in cooperation with four e-bookstores.

In August 2018, we received certification under the White Mark System and adopted the Stop Piracy Campaign.

On November 28, 2018, Infocom Corporation changed our stock listing from the JASDAQ (standard) market of the Tokyo Stock Exchange to the First Section.

(2) Explanation of financial condition

(i) Consolidated financial condition

Total assets amounted to ¥39,277 million, an increase of ¥1,039 million compared to the end of the prior consolidated fiscal year. This increase was mainly due to acquisition of investment securities and increases in inventories, offsetting decreases in notes and accounts receivable-trade.

Total liabilities fell ¥1,041 million to ¥8,834 million, mainly due to declines in provision for bonuses and income taxes payable. Net assets were up ¥2,081 million compared with the end of the previous consolidated fiscal year, reaching ¥30,442 million. As a result, our equity ratio rose to 77.1% from 73.8% at the end of the previous consolidated fiscal year.

(ii) Consolidated cash flows

Cash and cash equivalents as of December 31, 2019, amounted to ¥17,981 million, up ¥1,351 million compared to the end of the previous consolidated fiscal year.

[Cash flows from operating activities]

Net cash provided by operating activities amounted to ¥3,277 million (compared to ¥3,613 million in the same quarter of the previous fiscal year). Principal sources of cash were profit before income taxes of ¥3,958 million (compared to ¥4,901 million) and a decrease in notes and accounts receivable of ¥2,100 million (compared to ¥2,213 million). The reason for this decrease was a ¥908 million increase in inventories (compared to ¥647 million) and income taxes paid of ¥2,302 million (compared to ¥1,523 million).

[Cash flows from investing activities]

Net cash used in investing activities amounted to ¥852 million (compared to ¥1,646 million income in the same quarter of the previous fiscal year). This result was mainly due to cash outlays of ¥438 million in acquisition of software and other intangible fixed assets (versus ¥597 million in the year-ago period) and outlays of ¥467 million for investment securities (versus ¥129 million in the year-ago period)

[Cash flows from financing activities]

Net cash used in financing activities amounted to ¥1,086 million (compared to ¥726 million in the same quarter of previous fiscal year), mainly due to cash dividends paid of ¥1,039 million (compared to ¥683 million).

(3) Explanation of consolidated earnings forecasts and other forward-looking information

Given our performance for the cumulative consolidated third quarter and the performance of our e-comics distribution business, we have made an upward revision to our forecast for net sales as originally published on October 29, 2018.

Please note that the above forecasts are based on information available as of the publication date of this document. Actual results may differ from forecasts due to various factors in the future.

2. Quarterly Consolidated Financial Statements and Major Notes
(1) Quarterly Consolidated Balance Sheet

(Unit: million yen)

	As of March 31, 2018	As of December 31, 2018
Assets		
Current assets		
Cash and deposits	16,625	17,976
Notes and accounts receivable-trade	9,707	7,607
Inventories	270	1,179
Other	1,033	1,502
Allowance for doubtful accounts	(0)	-2
Total current assets	27,636	28,263
Non-current assets		
Property, plant and equipment	1,004	926
Intangible assets		
Software	1,968	1,797
Other	42	39
Total intangible assets	2,010	1,836
Investments and other assets		
Investments and other assets	7,693	8,359
Allowance for doubtful accounts	(107)	-107
Total investments and other assets	7,586	8,251
Total non-current assets	10,601	11,014
Total assets	38,237	39,277
Liabilities		
Current liabilities		
Accounts payable - trade	3,457	3,827
Income taxes payable	1,539	521
Provision for bonuses	1,211	475
Other provision	-	78
Other	3,460	3,562
Total current liabilities	9,667	8,465
Non-current liabilities		
Other	209	368
Total non-current liabilities	209	368
Total liabilities	9,876	8,834
Net assets		
Shareholders' equity		
Capital stock	1,590	1,590
Capital surplus	1,449	1,447
Retained earnings	25,089	26,766
Treasury shares	(816)	-816
Total shareholders' equity	27,312	28,986
Total accumulated other comprehensive income		
Valuation difference on available-for-sale securities	964	1,310
Deferred gains or losses on hedges	0	-
Foreign currency translation adjustment	(49)	-26
Accumulated other comprehensive income	915	1,284
Share acquisition rights	128	157
Non-controlling interests	4	13
Total net assets	28,360	30,442
Total liabilities and net assets	38,237	39,277

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Third Quarter

(Unit: million yen)

	For the nine months ended December 31, 2017	For the nine months ended December 31, 2018
Net sales	31,418	35,509
Cost of sales	16,565	18,813
Gross profit	14,853	16,695
Selling, general and administrative expenses	11,450	12,891
Operating profit	3,402	3,804
Non-operating income		
Interest and dividend income	72	82
Share of profit of entities accounted for using equity method	9	5
Foreign exchange gains	1	—
Partnership gain	215	—
Other	2	0
Total non-operating income	301	89
Non-operating expenses		
Interest expenses	1	1
Foreign exchange losses	—	0
Partnership losses	—	41
Other	0	0
Total non-operating expenses	1	43
Ordinary profit	3,702	3,849
Extraordinary income		
Gain on sales of non-current assets	1,138	—
Gain on sales of investment securities	61	114
Other	48	—
Total extraordinary income	1,248	114
Extraordinary losses		
Impairment loss	2	—
Loss on retirement of non-current assets	8	1
Loss on valuation of investment securities	39	3
Total extraordinary losses	50	4
Profit before income taxes	4,901	3,958
Income taxes	1,549	1,236
Profit	3,351	2,722
Profit attributable to non-controlling interests	0	7
Profit attributable to owners of parent	3,351	2,715

Quarterly Consolidated Statements of Comprehensive Income
Second Quarter

(Unit: million yen)

	For the nine months ended December 31, 2017	For the nine months ended December 31, 2018
Profit	3,351	2,722
Other comprehensive income		
Valuation difference on available-for-sale securities	589	345
Deferred gains or losses on hedges	0	(0)
Foreign currency translation adjustment	(42)	23
Total other comprehensive income	547	369
Comprehensive income	3,899	3,092
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,899	3,085
Comprehensive income attributable to non-controlling interests	(0)	7

(3) Quarterly Consolidated Statements of Cash Flow

(Unit: Million yen)

	For the nine months ended December 31, 2017	For the nine months ended December 31, 2018
Cash flows from operating activities		
Profit before income taxes	4,901	3,958
Depreciation	838	816
Impairment loss	2	—
Share-based compensation expenses	34	29
Amortization of goodwill	7	—
Increase (decrease) in provision	(729)	(655)
Interest and dividend income	(72)	(82)
Interest expenses	1	1
Loss (gain) on sales of investment securities	(61)	(114)
Loss (gain) on sales of non-current assets	(1,138)	—
Decrease (increase) in notes and accounts receivable - trade	2,213	2,100
Decrease (increase) in inventories	(647)	(908)
Increase (decrease) in notes and accounts payable - trade	(186)	370
Other	(17)	(22)
Subtotal	5,145	5,493
Interest and dividend income received	67	87
Interest expenses paid	(1)	(1)
Payments for business restructuring	(346)	—
Income taxes paid	(1,523)	(2,302)
Income taxes refund	270	—
Net cash provided by (used in) operating activities	3,613	3,277
Cash flows from investing activities		
Purchase of property, plant and equipment	(136)	(209)
Purchase of intangible assets	(597)	(438)
Proceeds from sales of property, plant and equipment	2,433	—
Purchase of investment securities	(129)	(467)
Proceeds from sales of investment securities	112	235
Payments for guarantee deposits	(48)	(2)
Proceeds from collection of guarantee deposits	9	19
Other	2	10
Net cash provided by (used in) investing activities	1,646	(852)
Cash flows from financing activities		
Repayments of lease obligations	(43)	(46)
Cash dividends paid	(683)	(1,039)
Proceeds from share issuance to non-controlling shareholders	1	2
Other	(0)	(2)
Net cash provided by (used in) financing activities	(726)	(1,086)
Effect of exchange rate change on cash and cash equivalents	(2)	12
Net increase (decrease) in cash and cash equivalents	4,530	1,351
Cash and cash equivalents at beginning of period	12,408	16,630
Cash and cash equivalents at end of period	16,938	17,981

(4) Notes on the Quarterly Consolidated Financial Statements

(Note on going concern assumption)

Not applicable

(Note in case of significant changes in shareholders' equity)

Not applicable

(Segment information)

[Segment information]

I. Third quarter of FY2017 (from April 1, 2017 to December 31, 2017)

1. Information on net sales and profit or loss for each reporting segment

(Unit: million yen)

	Reportable segment		Total	Adjustments (Notes) 1	Amounts stated in the quarterly consolidated statements of income (Notes) 2
	Business solution	Digital entertainment			
Net sales					
Sales to external customers	15,502	15,916	31,418	—	31,418
Intersegment sales or transfers	434	4	438	(438)	—
Total	15,936	15,920	31,857	(438)	31,418
Segment profit	806	2,589	3,395	7	3,402

(Notes)

1. The ¥7 million adjustment in segment profit is due to the elimination of intersegment transactions and corporate expenses.
2. Segment profit is adjusted with operating profit in the quarterly consolidated statements of income

II. Third quarter of FY2018 (from April 1, 2018 to December 31, 2018)

1. Information on net sales and profit or loss for each reporting segment

(Unit: million yen)

	Reportable segment		Total	Adjustments (Notes) 1	Amounts stated in the quarterly consolidated statements of income (Notes) 2
	Business solution	Digital entertainment			
Net sales					
Sales to external customers	15,575	19,933	35,509	—	35,509
Intersegment sales or transfers	72	4	76	(76)	—
Total	15,648	19,937	35,585	(76)	35,509
Segment profit	534	3,262	3,796	7	3,804

(Notes)

1. The ¥7 million adjustment in segment profit is due to the elimination of intersegment transactions and corporate expenses.
2. Segment profit is adjusted with operating profit in the quarterly consolidated statements of income.