

(English Translation)

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Summary of Consolidated Financial Results for the First Quarter of the Fiscal Year Ending March 31, 2020 [Japanese GAAP]

July 30, 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 securities report: August 7, 2019

Preparation of supplementary materials on financial results: Yes

Holding of financial results briefing: No

Listed on: Tokyo Stock Exchange

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(Amounts less than one million yen are rounded down)

1. Consolidated Business Results for the First Quarter of the Fiscal Year Ending March 31, 2020 (April 1, 2019 to June 30, 2019)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year increases.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended								
June 30, 2019	12,687	21.2	1,240	83.1	1,268	76.1	859	79.4
June 30, 2018	10,464	5.2	677	3.9	720	6.3	479	11.4

(Note) Comprehensive income: First quarter of the fiscal year ending March 31, 2020 : ¥109 million (-84.7%); First quarter of the fiscal year ended March 31, 2019 : ¥718 million (105.3%)

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended				
June 30, 2019	15.71		15.64	
June 30, 2018	8.76		8.72	

Infocom Corporation conducted a two-for-one stock split effective March 1, 2019. Beginning balances for net income per share and diluted net income per share in the previous consolidated fiscal year have been adjusted assuming this stock split.

(2) Consolidated financial position

	Total assets		Net assets		Shareholders' equity ratio	
	Million yen		Million yen		%	
As of						
June 30, 2019	41,989		32,143		75.6	
March 31, 2019	43,649		32,707		74.6	

(Reference) Shareholders' equity: First quarter of the fiscal year ending March 31, 2020: ¥31,734 million; First quarter of the fiscal year ended March 31, 2019: ¥32,547 million

2. Dividends

	Dividends per share				
	End-Q1	End-Q2	End-Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	—	10.00	—	17.00	—
Fiscal year ending March 31, 2020	—				
Fiscal year ending March 31, 2020 (forecast)		10.00	—	19.00	29.00

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

Infocom Corporation conducted a two-for-one stock split effective March 1, 2019. Dividends per share for the fiscal year ended March 31, 2019 reflect the impact of this stock split, presented here as — under the annual total. When calculated based on post-split standards, dividends per share for the fiscal year ended March 31, 2019 amounted to ¥22 per share.

3. Forecast of Consolidated Business Results for the Fiscal Year Ending March 31, 2020

(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
For the six months ending September 30 2019	27,000	16.7	3,300	27.1	3,300	26.1	2,250	19.8	41.14
Full-year	57,000	10.2	7,800	13.2	7,800	13.5	5,200	8.7	95.07

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

See *Announcement Concerning Revisions to Earning Forecasts* (Japanese only), published on July 30, 2019, for more concerning consolidated earnings forecasts.

* 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 the results for the current quarter” on page 4 of the attached materials.

1. Qualitative information on the results for the current quarter

(1) Overview of business results

Despite a rebound in consumer spending in Japan's economy during the consolidated first quarter, concerns about the impact of global trade friction have resulted in ongoing uncertainties about the future direction of the world economy.

Overall IT-related market demand was robust throughout the period. Factors included the accelerating 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 continued to grow as smartphone-based reading has become more popular, broadening the e-book user base.

In this operating environment, the Infocom Group's medium-term management plan (April 2016 to March 2020) emphasized two fundamental policies: pursue growth and continue strengthening the management foundation to support growth. To this end, we have identified e-comics and healthcare as priority businesses. In these areas, we proactively pursued M&A and sought to develop businesses leveraging AI and IoT.

As a result, during the three months ended June 30, 2019, the Infocom Group generated net sales of ¥12,687 million, up 21.2% year on year. Operating profit rose 83.1%, to ¥1,240 million; ordinary profit grew 76.1%, to ¥1,268 million; and net income attributable to owners of parent increased 79.4%, to ¥859 million.

The Group's sales and profit tend to be relatively low in the first and third quarters of the fiscal year, but be concentrated on the fourth quarter. This trend stems from the concentration of deliveries of products and services for companies and hospitals in March, at fiscal year-end.

(i) Business Solution Group

During the consolidated first quarter, our Business Solution Group recorded sales of ¥4,863 million (+8.9% year on year), driven by steady performance in IT services for hospitals. Operating profit amounted to ¥168 million, compared to a ¥282 million operating loss in the same period of the previous fiscal year.

Our Health IT subsegment reported growth in sales of employment management systems, which support efforts to comply with work-style reform and are effective in managing complicated work schedules in hospitals. In the community-based comprehensive care field, we began offering an appointment management service customized for short-stay* treatment offices. Also, we made Staffplus (career change support service) a consolidated subsidiary to improve the matching accuracy of our Carestyle career change support service for care workers.

In corporate IT services, we improved our MyQuick document management system, providing links to electronic contract services, adding compatibility with AI-based automated input, and otherwise making the system more efficient.

*Short-stay: Patient enters the facility and receives nursing/support services over a short period of time.

(ii) Digital Entertainment Group

Segment sales were ¥7,823 million (+30.4% year on year), supported by strong performance in our e-comics distribution business. Operating profit amounted to ¥1,069 million (+11.7%), as we absorbed cost increases related to investments in advertising, overseas expansion, and data analysis.

As part of bolstering advertising for this service, we ran our first-ever TV commercials in June and bought seat advertising in the Meiji Jingu Stadium (baseball stadium). In addition, we sponsored a second edition of the *Meccha Bookstore*, featuring popular *Meccha Comics* products for sale at physical bookstores. As part of our overseas expansion, we made Korean e-comic distributor Peanutoon a consolidated subsidiary. Further, we announced a new company formed through a joint investment between Amutus Corp. and Papyless Co., Ltd. to conduct business overseas.

(2) Explanation of financial condition

(i) Consolidated financial condition

Total assets decreased ¥1,660 million compared with the end of the previous consolidated fiscal year, to ¥41,989 million due to a decrease in notes and accounts receivable. Total liabilities fell ¥1,095 million, to ¥9,846 million due to declines in provision for bonuses and income taxes payable. Net assets were down ¥564 million, compared with the end of the previous consolidated fiscal year, to ¥32,143 million.

Because of the above, the equity ratio rose to 75.6% from 74.6% at the end of the previous consolidated fiscal year.

(ii) Consolidated cash flow

Cash and cash equivalents as of June 30, 2019, amounted to ¥19,980 million, down ¥196 million from the end of the previous consolidated fiscal year.

[Cash flows from operating activities]

Net cash provided by operating activities amounted to ¥2,069million (¥1,242 million in the same quarter of the previous fiscal year). Principal sources of cash were profit before income taxes of ¥1,271 million (¥720 million) and a decrease in notes and accounts receivable of ¥2,763 million (¥3,268 million). The reason for this decline was a ¥789 million decrease in provision (¥769 million) and income taxes paid of ¥1,775 million (¥1,682 million).

[Cash flow from investing activities]

Net cash used in investing activities amounted to ¥1,321 million (compared to ¥551 million in the same quarter of the previous fiscal year). This result was mainly due to cash outlays of ¥151 million in acquisition of software and other intangible fixed assets (versus ¥164 million in the year-ago period) and outlays of ¥1,092 million stemming from the acquisition of subsidiary stock in connection with a change in the scope of consolidation (no such outlays in the year-ago period).

[Cash flows from financing activities]

Net cash used in financing activities amounted to ¥940 million (¥781 million in the same quarter of previous fiscal year), mainly due to cash dividends paid of ¥929 million (¥765 million).

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

Given our performance for the consolidated first quarter and recent performance trends, we have made an upward revision to the consolidated earnings forecasts for the cumulative consolidated second quarter announced originally on April 25, 2019. While we project strong performance in our core businesses (health IT and e-comics), many uncertainties exist as present. Accordingly, we have not made changes to the consolidated fiscal year earnings forecast announced originally on April 25, 2019. For more information, see “Notice on Revision to Earnings Forecasts,” published on July 30, 2019.

Please note that the above forecasts are based on information available as of the publication date of this material, so 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, 2019	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	20,173	19,976
Notes and accounts receivable-trade	10,576	7,861
Inventories	558	953
Other	1,142	1,641
Allowance for doubtful accounts	(4)	(4)
Total current assets	32,445	30,428
Non-current assets		
Property, plant and equipment	892	855
Intangible assets		
Software	1,700	1,652
Goodwill	—	1,372
Other	38	38
Total intangible assets	1,738	3,063
Investments and other assets		
Investments and other assets	8,697	7,719
Allowance for doubtful accounts	(124)	(77)
Total investment and other assets	8,573	7,642
Total non-current assets	11,204	11,561
Total assets	43,649	41,989
Liabilities		
Current liabilities		
Accounts payable - trade	4,159	3,868
Income taxes payable	1,472	325
Provision for bonuses	1,222	452
Other provision	170	164
Other	3,620	4,848
Total current liabilities	10,645	9,659
Non-current liabilities		
Net defined benefit liability	—	8
Other	296	177
Total non-current liabilities	296	186
Total liabilities	10,941	9,846
Net assets		
Shareholders' equity		
Capital stock	1,590	1,590
Capital surplus	1,447	1,452
Retained earnings	28,833	28,763
Treasury shares	(816)	(810)
Total shareholders' equity	31,054	30,995
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,549	792
Deferred gains or losses on hedges	1	0
Foreign currency translation adjustment	(58)	(52)
Total accumulated other comprehensive income	1,492	739
Share acquisition rights	157	186
Non-controlling interests	2	222
Total net assets	32,707	32,143
Total liabilities and net assets	43,649	41,989

(2) Quarterly consolidated statement of income and comprehensive income
Quarterly Consolidated Statements of Income
First Quarter

(Unit: million yen)

	For the three months ended June 30, 2018	For the three months ended June 30, 2019
Net sales	10,464	12,687
Cost of sales	5,619	6,587
Gross profit	4,845	6,099
Selling, general and administrative expenses	4,168	4,859
Operating profit	677	1,240
Non-operating income		
Interest and dividend income	56	43
Share of profit of entities accounted for using equity method	4	1
Other	0	2
Total non-operating income	60	47
Non-operating expenses		
Interest expenses	0	0
Foreign exchange losses	0	0
Partnership losses	15	18
Other	0	0
Total non-operating expenses	17	18
Ordinary profit	720	1,268
Extraordinary income		
Gain on sales of investment securities	—	2
Other	—	0
Total extraordinary income	—	2
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Total extraordinary losses	0	0
Profit before income taxes	720	1,271
Income taxes	241	411
Profit	478	859
Loss attributable to non-controlling interests	(0)	(0)
Profit attributable to owners of parent	479	859

Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income
First Quarter

(Unit: million yen)

	For the three months ended June 30, 2018	For the three months ended June 30, 2019
Profit	478	859
Other comprehensive income		
Valuation difference on available-for-sale securities	299	(756)
Deferred gains or losses on hedges	1	(1)
Foreign currency translation adjustment	(61)	8
Total other comprehensive income	239	(749)
Comprehensive income	718	109
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	719	106
Comprehensive income attributable to non-controlling interests	(0)	3

(3) Quarterly Consolidated Statements of Cash Flow

(Unit: Million yen)

	For the three months ended June 30, 2018	For the three months ended June 30, 2019
Cash flows from operating activities		
Profit before income taxes	720	1,271
Depreciation	259	277
Share-based remuneration expenses	29	40
Increase (decrease) in provision	(769)	(789)
Interest and dividend income	(56)	(43)
Interest expenses	0	0
Loss (gain) on sales of investment securities	—	(2)
Decrease (increase) in trade receivables	3,268	2,763
Decrease (increase) in inventories	(491)	(395)
Increase (decrease) in trade payables	(337)	(288)
Other	246	970
Subtotal	2,869	3,803
Interest and dividends received	55	42
Interest paid	(0)	(0)
Income taxes paid	(1,682)	(1,775)
Net cash provided by (used in) operating activities	1,242	2,069
Cash flows from investing activities		
Purchase of property, plant and equipment	(137)	(20)
Purchase of intangible assets	(164)	(151)
Purchase of investment securities	(279)	(64)
Proceeds from sales of investment securities	30	5
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(1,092)
Other	(0)	2
Net cash provided by (used in) investing activities	(551)	(1,321)
Cash flows from financing activities		
Repayments of lease obligations	(15)	(10)
Dividends paid	(765)	(929)
Other	(0)	0
Net cash provided by (used in) financing activities	(781)	(940)
Effect of exchange rate change on cash and cash equivalents	1	(5)
Net increase (decrease) in cash and cash equivalents	(88)	(196)
Cash and cash equivalents at beginning of period	16,630	20,177
Cash and cash equivalents at end of period	16,541	19,980

(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. Three months ended June 30, 2018

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

(Unit: million yen)

	Reportable segment		Total	Adjustments (Note)1	Amounts stated in the quarterly consolidated statements of income (Note) 2
	Business solution	Digital entertainment			
Net sales					
Sales to external customers	4,466	5,997	10,464	—	10,464
Intersegment sales or transfers	21	0	22	(22)	—
Total	4,488	5,998	10,487	(22)	10,464
Segment profit(loss)	(282)	957	674	2	677

(Notes)

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

II. Three months ended June 30, 2019

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

(Unit: million yen)

	Reportable segment		Total	Adjustments (Note)1	Amounts stated in the quarterly consolidated statements of income (Note) 2
	Business solution	Digital entertainment			
Net sales					
Sales to external customers	4,863	7,823	12,687	—	12,687
Intersegment sales or transfers	24	0	24	(24)	—
Total	4,887	7,823	12,711	(24)	12,687
Segment profit	168	1,069	1,237	2	1,240

(Notes)

1. The ¥2 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.