

(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 Second Quarter of the Fiscal Year Ending March 31, 2020 [Japanese GAAP]

October 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: November 8, 2019
Preparation of supplementary materials on financial results: Yes
Holding of financial results briefing: Yes

Listed on: Tokyo Stock Exchange
URL <https://www.infocom.co.jp/>
(Name) Norihiro Takehara
(Name) Shinya Tanaka (TEL) +81-3-6866-3160
Scheduled date to commence dividend payments: November 26, 2019

(Amounts less than one million yen are rounded down)

1. Consolidated Business Results for the Second Quarter of the Fiscal Year Ending March 31, 2020 (April 1, 2019 to September 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	%
Six months ended								
September 30, 2019	27,679	19.7	3,863	48.8	3,876	48.1	2,575	37.2
September 30, 2018	23,128	9.1	2,596	9.8	2,616	(0.7)	1,877	(27.1)

(Note) Comprehensive income: Second quarter of the fiscal year ending March 31, 2020 : ¥2,226 million (-33.2%); Second quarter of the fiscal year ended March 31, 2019 : ¥3,331 million (14.9%)

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended				
September 30, 2019	47.08		46.87	
September 30, 2018	34.32		34.17	

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					
September 30, 2019	43,864		34,260		77.2
March 31, 2019	43,649		32,707		74.6

(Reference) Shareholders' equity: Second quarter of the fiscal year ending March 31, 2020: ¥33,866 million; 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	—	10.00	—	—	—
Fiscal year ending March 31, 2020 (forecast)	—	—	—	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
Full-year	58,500	13.1	8,200	19.0	8,200	19.3	5,500	15.0	100.53

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

See *Announcement Concerning Revisions to Earning Forecasts* (Japanese version only), published on October 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 six months ended September 30, 2019, the Infocom Group generated net sales of ¥27,679 million, up 19.7% year on year. Operating profit rose 48.8%, to ¥3,863 million; ordinary profit grew 48.1%, to ¥3,876 million; and net income attributable to owners of parent increased 37.2%, to ¥2,575 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 second quarter, our Business Solution Group recorded sales of ¥11,632 million (+12.9% year on year), and operating profit amounted to ¥1,321 million (+227.6%), driven by steady performance in IT services for hospitals and companies.

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 addition, we unveiled a dashboard function for our surgery department systems at a recent trade show. This extended function provides information during disasters. In the community-based comprehensive care field, 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.

In addition, we launched a new service that combines our integrated business management software package *GRANDIT* with cloud frameworks*.

*Cloud framework: IT infrastructure service utilizing virtualization technology (*Microsoft Azure*, *Amazon Web Services*, etc.)

(ii) Digital Entertainment Group

Segment sales were ¥16,047 million (+25.1% year on year), and operating profit amounted to ¥2,536 million(+15.9%), supported by strong performance in our e-comics distribution business.

As one measure to boost advertising for this service, we expanded the broadcast period for TV commercials and served as lead sponsor for the *Yakult Swallows* (professional baseball) *Meccha Comics Day*. We also implemented a second edition of the *Meccha Bookstore*, featuring popular *Meccha Comics* products for sale at physical bookstores. To grow our user base, we launched a mobile app version of *Meccha Comics* to target a younger user segment.

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 Papyrus Co., Ltd. to conduct business overseas.

(2) Explanation of financial condition

(i) Consolidated financial condition

Total assets amounted to ¥43,864 million, an increase of ¥214 million compared to the end of the prior consolidated fiscal year. This increase was mainly due to increases in cash and deposits and goodwill, which more than offset decreases in notes and accounts receivable. Total liabilities fell ¥1,337 million, to ¥9,604 million due to declines in provision for bonuses and income taxes payable. Net assets were up ¥1,552 million, compared with the end of the previous consolidated fiscal year, to ¥34,260 million.

Because of the above, the equity ratio rose to 77.2% from 74.6% at the end of the previous consolidated fiscal year.

(ii) Consolidated cash flow

Cash and cash equivalents as of September 30, 2019, amounted to ¥20,519 million, up ¥342 million from the end of the previous consolidated fiscal year.

[Cash flows from operating activities]

Net cash provided by operating activities amounted to ¥3,001 million (¥2,018 million in the same quarter of the previous fiscal year). Principal sources of cash were profit before income taxes of ¥3,806 million (¥2,726 million) and a decrease in notes and accounts receivable of ¥1,199 million (¥1,809 million). The reason for this decline was a ¥401 million decrease in provision (¥322 million) and income taxes paid of ¥1,790 million (¥1,687 million).

[Cash flow from investing activities]

Net cash used in investing activities amounted to ¥1,660 million (compared to ¥686 million in the same quarter of the previous fiscal year). This result was mainly due to 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), as well as ¥338 million in outlays intangible fixed assets (¥314 million in the year-ago period).

[Cash flows from financing activities]

Net cash used in financing activities amounted to ¥964 million (¥796 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 second quarter and recent performance trends, we have made an upward revision to the consolidated fiscal year earnings forecast announced originally on April 25, 2019. For more information, see “Notice on Revision to Earnings Forecasts” (Japanese version only), published on October 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 September 30, 2019
Assets		
Current assets		
Cash and deposits	20,173	20,515
Notes and accounts receivable-trade	10,576	9,424
Inventories	558	528
Other	1,142	1,379
Allowance for doubtful accounts	(4)	(6)
Total current assets	32,445	31,842
Non-current assets		
Property, plant and equipment	892	914
Intangible assets		
Software	1,700	1,644
Goodwill	—	1,293
Other	38	37
Total intangible assets	1,738	2,975
Investments and other assets		
Investments and other assets	8,697	8,257
Allowance for doubtful accounts	(124)	(124)
Total investment and other assets	8,573	8,132
Total non-current assets	11,204	12,022
Total assets	43,649	43,864
Liabilities		
Current liabilities		
Accounts payable - trade	4,159	3,959
Income taxes payable	1,472	1,038
Provision for bonuses	1,222	907
Other provision	170	46
Other	3,620	3,436
Total current liabilities	10,645	9,389
Non-current liabilities		
Net defined benefit liability	—	8
Other	296	207
Total non-current liabilities	296	215
Total liabilities	10,941	9,604
Net assets		
Shareholders' equity		
Capital stock	1,590	1,590
Capital surplus	1,447	1,452
Retained earnings	28,833	30,479
Treasury shares	(816)	(810)
Total shareholders' equity	31,054	32,711
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,549	1,282
Deferred gains or losses on hedges	1	0
Foreign currency translation adjustment	(58)	(128)
Total accumulated other comprehensive income	1,492	1,154
Share acquisition rights	157	186
Non-controlling interests	2	207
Total net assets	32,707	34,260
Total liabilities and net assets	43,649	43,864

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

(Unit: million yen)

	For the six months ended September 30, 2018	For the six months ended September 30, 2019
Net sales	23,128	27,679
Cost of sales	12,070	14,262
Gross profit	11,058	13,416
Selling, general and administrative expenses	8,461	9,553
Operating profit	2,596	3,863
Non-operating income		
Interest and dividend income	58	45
Share of profit of entities accounted for using equity method	5	1
Other	0	2
Total non-operating income	63	49
Non-operating expenses		
Interest expenses	0	0
Foreign exchange losses	0	0
Partnership losses	41	34
Other	0	0
Total non-operating expenses	43	35
Ordinary profit	2,616	3,876
Extraordinary income		
Gain on sales of investment securities	114	2
Total extraordinary income	114	2
Extraordinary losses		
Loss on retirement of non-current assets	1	0
Loss on valuation of shares of subsidiaries and associates	—	20
Provision of allowance for doubtful accounts	—	49
Other	3	2
Total extraordinary losses	4	72
Profit before income taxes	2,726	3,806
Income taxes	841	1,234
Profit	1,884	2,571
Loss attributable to non-controlling interests	6	(4)
Profit attributable to owners of parent	1,877	2,575

Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income
Second Quarter

(Unit: million yen)

	For the six months ended September 30, 2018	For the six months ended September 30, 2019
Profit	1,884	2,571
Other comprehensive income		
Valuation difference on available-for-sale securities	1,457	(266)
Deferred gains or losses on hedges	(0)	(1)
Foreign currency translation adjustment	(9)	(76)
Total other comprehensive income	1,447	(344)
Comprehensive income	3,331	2,226
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,325	2,237
Comprehensive income attributable to non-controlling interests	6	(10)

(3) Quarterly Consolidated Statements of Cash Flow

(Unit: Million yen)

	For the six months ended September 30, 2018	For the six months ended September 30, 2019
Cash flows from operating activities		
Profit before income taxes	2,726	3,806
Depreciation	540	539
Share-based remuneration expenses	29	40
Amortization of goodwill	—	52
Increase (decrease) in provision	(322)	(401)
Interest and dividend income	(58)	(45)
Interest expenses	0	0
Loss (gain) on sales of investment securities	(114)	(2)
Loss on valuation of shares of subsidiaries and associates	—	20
Decrease (increase) in trade receivables	1,809	1,199
Decrease (increase) in inventories	(579)	29
Increase (decrease) in trade payables	112	(198)
Other	(500)	(295)
Subtotal	3,642	4,745
Interest and dividends received	63	47
Interest paid	(0)	(0)
Income taxes paid	(1,687)	(1,790)
Net cash provided by (used in) operating activities	2,018	3,001
Cash flows from investing activities		
Purchase of property, plant and equipment	(173)	(145)
Purchase of intangible assets	(314)	(338)
Purchase of investment securities	(429)	(96)
Proceeds from sales of investment securities	231	5
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(1,092)
Other	0	7
Net cash provided by (used in) investing activities	(686)	(1,660)
Cash flows from financing activities		
Repayments of lease obligations	(31)	(31)
Dividends paid	(765)	(929)
Other	0	(2)
Net cash provided by (used in) financing activities	(796)	(964)
Effect of exchange rate change on cash and cash equivalents	6	(34)
Net increase (decrease) in cash and cash equivalents	542	342
Cash and cash equivalents at beginning of period	16,630	20,177
Cash and cash equivalents at end of period	17,172	20,519

(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. Six months ended September 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	10,299	12,828	23,128	—	23,128
Intersegment sales or transfers	49	1	50	(50)	—
Total	10,349	12,829	23,179	(50)	23,128
Segment profit(loss)	403	2,188	2,591	5	2,596

(Notes)

1. The ¥5 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. Six months ended September 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	11,632	16,047	27,679	—	27,679
Intersegment sales or transfers	50	0	50	(50)	—
Total	11,682	16,047	27,730	(50)	27,679
Segment profit	1,321	2,536	3,858	4	3,863

(Notes)

1. The ¥4 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.