

(English Translation)

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

January 30, 2020

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: February 7, 2020
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 the Fiscal Year Ending March 31, 2020 (April 1, 2019 to December 31, 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	%
Nine months ended December 31, 2019	41,200	16.0	5,827	53.2	5,842	51.8	3,976	46.4
December 31, 2018	35,509	13.0	3,804	11.8	3,849	4.0	2,715	(19.0)

(Note) Comprehensive income: Third quarter of the fiscal year ending March 31, 2020 : ¥3,828 million (23.8%); Third quarter of the fiscal year ended March 31, 2019 : ¥3,092 million (-20.7%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended December 31, 2019	72.68	72.35
December 31, 2018	49.65	49.43

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 December 31, 2019	44,511	35,315	78.5
March 31, 2019	43,649	32,707	74.6

(Reference) Shareholders' equity: Third quarter of the fiscal year ending March 31, 2020: ¥34,933 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)	—	—	—	21.00	31.00

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

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: None

* 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

The Japanese economy saw the negative impact of consumption tax increases on corporate and consumer activity during the consolidated third 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 nine months ended December 31, 2019, the Infocom Group generated net sales of ¥41,200 million, up 16.0% year on year. Operating profit rose 53.2%, to ¥5,827 million; ordinary profit grew 51.8%, to ¥5,842 million; and net income attributable to owners of parent increased 46.4%, to ¥3,976 million.

(i) Business Solution Group

During the consolidated third quarter, our Business Solution Group recorded sales of ¥17,034 million (+9.4% year on year), and operating profit amounted to ¥1,887 million (+253.3%), due in part to strong performance sales to hospitals and front-loaded sales to corporations.

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. We also signed a venture capital agreement with an entity specializing in healthcare as we broaden our vision to IT services for the hospital markets in Asia.

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 ¥24,165 million (+21.2% year on year), and operating profit amounted to ¥3,933 million (+20.6%), 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*. In May and November, we sponsored *Mecha Bookstores* featuring popular *Meccha Comics* products for sale at physical bookstores.

To expand our user base, we released the *Meccha Comic* app targeting younger readers. We also upgraded functions on our website and launched a *Daily Free Reading Series*.

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 amounted to ¥44,511 million, an increase of ¥862 million compared to the end of the prior consolidated fiscal year. This increase was mainly due to increases in cash and deposits, which more than offset decreases in notes and accounts receivable. Total liabilities fell ¥1,745 million, to ¥9,196 million due to declines in provision for bonuses and income taxes payable. Net assets were up ¥2,607 million, compared with the end of the previous consolidated fiscal year, to ¥35,315 million.

Because of the above, the equity ratio rose to 78.5% from 74.6% at the end of the previous consolidated fiscal year.

(ii) Consolidated cash flow

Cash and cash equivalents as of December 31, 2019, amounted to ¥22,411 million, up ¥2,234 million from the end of the previous consolidated fiscal year.

[Cash flows from operating activities]

Net cash provided by operating activities amounted to ¥5,953million (¥3,277 million in the same quarter of the previous fiscal year). Principal sources of cash were profit before income taxes of ¥5,762 million (¥3,958 million) and a decrease in notes and accounts receivable of ¥3,192 million (¥2,100 million). The reason for this decline was a ¥474 million decrease in trade payables (¥370 million) and income taxes paid of ¥2,649 million (¥2,302 million).

[Cash flow from investing activities]

Net cash used in investing activities amounted to ¥2,141million (compared to ¥852 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 ¥527 million in outlays intangible fixed assets (¥438 million in the year-ago period).

[Cash flows from financing activities]

Net cash used in financing activities amounted to ¥1,528 million (¥1,086 million in the same quarter of previous fiscal year), mainly due to cash dividends paid of ¥1,477 million (¥1,039 million).

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

As of the release of this document, we have not made any revisions to the consolidated earnings forecasts as detailed in *Notice Regarding Revised Earnings Forecasts*, 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 December 31, 2019
Assets		
Current assets		
Cash and deposits	20,173	22,407
Notes and accounts receivable-trade	10,576	7,432
Inventories	558	939
Other	1,142	1,413
Allowance for doubtful accounts	(4)	(4)
Total current assets	32,445	32,187
Non-current assets		
Property, plant and equipment	892	900
Intangible assets		
Software	1,700	1,671
Goodwill	—	1,224
Other	38	36
Total intangible assets	1,738	2,933
Investments and other assets		
Investments and other assets	8,697	8,617
Allowance for doubtful accounts	(124)	(127)
Total investment and other assets	8,573	8,490
Total non-current assets	11,204	12,323
Total assets	43,649	44,511
Liabilities		
Current liabilities		
Accounts payable - trade	4,159	3,683
Income taxes payable	1,472	371
Provision for bonuses	1,222	493
Other provision	170	17
Other	3,620	4,123
Total current liabilities	10,645	8,688
Non-current liabilities		
Net defined benefit liability	—	7
Other	296	501
Total non-current liabilities	296	508
Total liabilities	10,941	9,196
Net assets		
Shareholders' equity		
Capital stock	1,590	1,590
Capital surplus	1,447	1,452
Retained earnings	28,833	31,333
Treasury shares	(816)	(810)
Total shareholders' equity	31,054	33,564
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,549	1,520
Deferred gains or losses on hedges	1	0
Foreign currency translation adjustment	(58)	(151)
Total accumulated other comprehensive income	1,492	1,369
Share acquisition rights	157	186
Non-controlling interests	2	194
Total net assets	32,707	35,315
Total liabilities and net assets	43,649	44,511

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

(Unit: million yen)

	For the nine months ended December 31, 2018	For the nine months ended December 31, 2019
Net sales	35,509	41,200
Cost of sales	18,813	21,059
Gross profit	16,695	20,140
Selling, general and administrative expenses	12,891	14,312
Operating profit	3,804	5,827
Non-operating income		
Interest and dividend income	82	72
Share of profit of entities accounted for using equity method	5	1
Other	0	3
Total non-operating income	89	77
Non-operating expenses		
Interest expenses	1	1
Foreign exchange losses	0	2
Partnership losses	41	58
Other	0	0
Total non-operating expenses	43	62
Ordinary profit	3,849	5,842
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	2
Loss on valuation of shares of subsidiaries and associates	—	20
Provision of allowance for doubtful accounts	—	56
Other	3	2
Total extraordinary losses	4	82
Profit before income taxes	3,958	5,762
Income taxes	1,236	1,796
Profit	2,722	3,966
Loss attributable to non-controlling interests	7	(10)
Profit attributable to owners of parent	2,715	3,976

Quarterly Consolidated Statements of Comprehensive Income
Quarterly Consolidated Statements of Income
Third Quarter

(Unit: million yen)

	For the nine months ended December 31, 2018	For the nine months ended December 31, 2019
Profit	2,722	3,966
Other comprehensive income		
Valuation difference on available-for-sale securities	345	(28)
Deferred gains or losses on hedges	(0)	(1)
Foreign currency translation adjustment	23	(107)
Total other comprehensive income	369	(137)
Comprehensive income	3,092	3,828
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,085	3,852
Comprehensive income attributable to non-controlling interests	7	(24)

(3) Quarterly Consolidated Statements of Cash Flow

(Unit: Million yen)

	For the nine months ended December 31, 2018	For the nine months ended December 31, 2019
Cash flows from operating activities		
Profit before income taxes	3,958	5,762
Depreciation	816	771
Share-based remuneration expenses	29	40
Amortization of goodwill	—	102
Increase (decrease) in provision	(655)	(839)
Interest and dividend income	(82)	(72)
Interest expenses	1	1
Loss (gain) on sales of investment securities	(114)	(2)
Loss on valuation of shares of subsidiaries and associates	—	20
Decrease (increase) in trade receivables	2,100	3,192
Decrease (increase) in inventories	(908)	(381)
Increase (decrease) in trade payables	370	(474)
Other	(22)	409
Subtotal	5,493	8,531
Interest and dividends received	87	72
Interest paid	(1)	(1)
Income taxes paid	(2,302)	(2,649)
Net cash provided by (used in) operating activities	3,277	5,953
Cash flows from investing activities		
Purchase of property, plant and equipment	(209)	(205)
Purchase of intangible assets	(438)	(527)
Purchase of investment securities	(467)	(252)
Proceeds from sales of investment securities	235	5
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(1,092)
Other	26	(69)
Net cash provided by (used in) investing activities	(852)	(2,141)
Cash flows from financing activities		
Repayments of lease obligations	(46)	(47)
Dividends paid	(1,039)	(1,477)
Other	(0)	(4)
Net cash provided by (used in) financing activities	(1,086)	(1,528)
Effect of exchange rate change on cash and cash equivalents	12	(49)
Net increase (decrease) in cash and cash equivalents	1,351	2,234
Cash and cash equivalents at beginning of period	16,630	20,177
Cash and cash equivalents at end of period	17,981	22,411

(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. Nine months ended December, 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	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(loss)	534	3,262	3,796	7	3,804

(Notes)

1. The ¥7 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. Nine months ended December 31, 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	17,034	24,165	41,200	—	41,200
Intersegment sales or transfers	74	0	74	(74)	—
Total	17,108	24,165	41,274	(74)	41,200
Segment profit	1,887	3,933	5,820	7	5,827

(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.