# Summary of Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2017 [Japanese GAAP] (Consolidated)

October 31, 2016


Listed company name: Infocom Corporation    Listed on: Tokyo Stock Exchange

Securities code: 4348    URL http://www.infocom.co.jp/

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Scheduled date of filing the quarterly securities report: November 9, 2016  Scheduled date of payment of cash dividends: November 29, 2016

Supplementary materials for the quarterly results: Yes, Supplementary materials for the quarterly results for the first quarter of the fiscal year ending March 31, 2017

Quarterly results briefing: Yes, For investors

(Amounts less than one million yen are rounded down)

## 1. Consolidated Business Results for the Second Quarter of the Fiscal Year Ending March 31, 2017 (FY 2016) (April 1, 2016 to September 30, 2016)

(1) Consolidated operating results (cumulative)    (Percent figures indicate the rate of changes from the same period of the previous fiscal year)

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | |
|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| Second quarter of FY 2016 | 19,336 | 3.2 | 1,610 | 33.8 | 1,623 | 30.0 | 1,047 | - |
| Second quarter of FY 2015 | 18,735 | 0.2 | 1,203 | 103.8 | 1,248 | 103.4 | -1,100 | - |

(Note)Comprehensive income: Second quarter of FY 2016: 753 million yen (-%); Second quarter of FY 2015: -1,096 million yen (-%)

| | E.P.S. | Diluted E.P.S. |
|---|---|---|
| | Yen | Yen |
| Second quarter of FY 2016 | 38.32 | 38.18 |
| Second quarter of FY 2015 | -40.26 | - |

(2) Consolidated financial position

| | Total assets | Net assets | Shareholders equity ratio |
|---|---|---|---|
| | Million yen | Million yen | % |
| Second quarter of FY 2016 | 30,444 | 21,329 | 69.6 |
| FY 2015 | 31,619 | 21,148 | 66.5 |

(Reference) shareholders' equity: Second quarter of FY 2016: 21,187 million yen; FY 2015: 21,036 million yen

## 2. Dividends

| | Dividends per share | | | | |
|---|---|---|---|---|---|
| | 1Q-end | 2Q-end | 3Q-end | Year-end | Annual |
| | Yen | Yen | Yen | Yen | Yen |
| FY 2015 | - | 0.00 | - | 22.00 | 22.00 |
| FY 2016 | - | 10.00 | | | |
| FY 2016 (forecasts) | | | - | 15.00 | 25.00 |

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

## 3. Forecasts of Consolidated Business Results for FY 2016 (April 1, 2016 to March 31, 2017)

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

| | Net sales | | Operating income | | Ordinary income | | Profit attributable to owners of parent | | E.P.S. |
|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full-year | 45,000 | 11.6 | 5,000 | 12.9 | 5,000 | 9.7 | 3,000 | 311.8 | 109.73 |

(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 the outlook for 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 their assumptions, please see the attached materials on p. 3 "Explanation of the information on future forecasts including consolidated financial forecasts."

## 1. Qualitative Information on the Current Quarterly Financial Results

### (1) Explanation of Operating Results

For the current consolidated cumulative second quarter (April 1, 2016 to September 30, 2016), the Japanese economy showed a continuing gradual recovery trend with an improvement in corporate earnings and employment, but its outlook is still uncertain because of concerns about economic slowdown in emerging countries as well as monetary policies and the outcome of the presidential election in U.S.

In the IT-related market, we see expansion of the business use of smartphones and tablets driven by the introduction of the cloud and rising needs for the use of IT in the medical and nursing care areas and the introduction of IT in global companies. The e-book market experiences rapid growth where such instruments are used. Additionally, new businesses are expected to be created because of higher interests in IoT, big data, AI (artificial intelligence), VR (virtual reality), and AR (artificial reality), and the expansion of the initiative to the open-innovation that combination of in-house and outside techniques and ideas creates new value.

Under such a business environment, our group strives to increase competitiveness and expand operations mainly in the focused businesses: Digital Entertainment, Health IT and GRANDIT-ERP, according to the basic policies of the medium-term management plan (published on February 6, 2012) of [“Evolution” by speedy responses to environmental changes], [“Evolution” toward expansion of operations at the focused business areas] and [Continuing enhancement of operating base underpinning “Evolution”].

According to these policies, the project for transferring to the data center of the business tie-up partner is being carried out as scheduled. The transfer is associated with “Discontinuance of providing services from the company’s own data center” which was determined in the previous second quarter. We also examined the effective utilization of the land and buildings of our data center after the transfer, and adopted the resolution to sell them. The date of sale will be September 29, 2017 (on schedule), and so there is no effect of the sale of the data center on the current business results.

As a result of the above, our group recorded sales of 19,336 million yen (up 3.2% from the same period of the previous fiscal year), operating income of 1,610 million yen (up 33.8%), ordinary income of 1,623 million yen (up 30.0%), and quarterly profit attributable to owners of the parent of 1,047 million yen (quarterly loss attributable to owners of the parent of 1,100 million yen for the same period of the previous fiscal year) for the current consolidated cumulative second quarter. This reached a new high for the consolidated cumulative second quarter.

For operating results of our group, sales and operating income tend to be relatively low in the first and third quarters and concentrate in the fourth quarter due to the tendency that delivery deadlines of products and services for companies and hospitals concentrate in the fiscal year end March.

Operating results by segment are as follows:

(i) Business Solution Group

For the current consolidated cumulative second quarter, the business solution group generated sales of 9,834 million yen (down 6.3% from the same period of the previous fiscal year) This is because the health IT business was affected by a reduction in the IT investments of medical institutions resulting from revisions to medical treatment fees and the bias toward the second half of sales of SI deals for corporate customers expanded. The sales decline was covered by the cost reduction measures and profits were flat from the same period of the previous fiscal year. However, operating income was 364 million yen (down 35.2% from the same period of the previous fiscal year) because of prior investments in regional comprehensive care and IoT-related areas.

As for efforts by business, in the health IT business, we implemented sales promotions of radiology information systems and medical information management systems for hospitals, whose functions had been expanded in the previous fiscal year, and started development of regional comprehensive care systems. We also developed dementia care solutions with IoT and started displaying the solutions at exhibitions, etc. for reference.

In the ERP GRANDIT business, we started sale of the new version of the integrated business software package GRANDIT® with expanded group management function and added the cloud service for expense settlement and the approval workflow expansion function to expand the business support function. Pacific Systems Corporation joined the GRANDIT Consortium as a business partner, and this strengthened the selling system for GRANDIT®.

In the field of IoT , we developed a soil environment monitoring solution, in addition to the above-mentioned dementia care solutions, and started displaying the solutions at exhibitions, etc. for reference. Also in IT services for general companies, we expanded new products and services and developed new customers and will continue to improve project and quality management.

(ii) Digital Entertainment Group

For the consolidated cumulative second quarter, the digital entertainment group generated sales of 9,502 million yen (up 15.3% from the same period of the previous fiscal year) due to the steady performance of the e-book distribution service and an operating income of 1,245 million yen (up 94.6%) due to a sales growth in the same service, continuing cost reduction measures, and the emerging effect of structural reforms in e-commerce.

For the e-book distribution service, we implemented the sales strategy to include broadcasting TV commercials for the same period as the previous period, expanding the broadcasting areas all over the nation for the purpose of maintaining and increasing the recognition of *Mecha Comic,* the largest e-comic store in Japan, effectively utilizing banner advertisements leading to the site of Mecha Comic, and exclusively distributing new books of popular series linked with advertisements. As a result of supporting the “social login function” and taking measures to improve convenience at the time of membership registration and login, in addition to the above, the number of paid members exceeded 1 million and quarterly sales reached new highs for the first and second quarters. We will strive to improve details of the service in order to achieve a sales goal for the full year of 18,000 million yen.

## (2) Explanation of Financial Positions

(i) Consolidated Financial Positions

Total assets decreased 1,174 million yen from the end of the previous consolidated fiscal year to 30,444 million yen mainly due to a decrease in notes and accounts receivable. Liabilities decreased 1,355 million yen from the end of the previous consolidated fiscal year to 9,115 million yen mainly due to a decrease in accrued income taxes. Net assets decreased 181 million yen from the end of the previous consolidated fiscal year to 21,329 million yen. As a result of the above, the equity ratio increased to 69.6% from 66.5% at the end of the previous consolidated fiscal year.

(ii) Consolidated cash flow

Cash and cash equivalents (hereinafter the "cash") amounted to 11,771 million yen at the end of the current consolidated cumulative second quarter, down 172 million yen from the end of the previous consolidated fiscal year. The status of individual cash flows and major factors for their changes are as follows:

[Cash flow from operating activities]

Net cash provided by operating activities amounted to 999 million yen (1,542 million yen for the same period of the previous fiscal year). It increased mainly because of the depreciation of 490 million yen (573 million yen for the same period of the previous fiscal year) and a decrease in notes and accounts receivable of 1,618 million yen (1,373 million yen for the same period of the previous fiscal year) and decreased because of expenditures of 648 million yen for business restructuring arising from the business structural reform in relation to the data center (zero for the same period of the previous fiscal year) and income taxes paid of 1,142 million yen (905 million yen for the same period of the previous fiscal year).

[Cash flow from investment activities]

Net cash used in investment activities amounted to 498 million yen (911 million yen for the same period of the previous fiscal year). This was mainly due to payments for purchases of intangible fixed assets that included software of 432 million yen (532 million yen for the same period of the previous fiscal year).

[Cash flow from financing activities]

Net cash used in financing activities amounted to 635 million yen (537 million yen for the same period of the previous fiscal year). This was mainly due to payments of dividends of 601 million yen (505 million yen for the same period of the previous fiscal year).

## (3) Explanation of the Information concerning Future Forecasts including Consolidated Operating Results Forecasts

There are no changes in consolidated operating results forecasts for the full year of FY 2016 as of the announcement date of the materials.

The above-mentioned operating results forecasts are based on the information available as of the announcement date of the materials, and actual business results may differ from forecasts because of various factors in future.

# 2. Matters on Summary Information (Notes)

## (1) Changes of Accounting Policies/Changes and Restatements of Accounting Estimates

Changes of Accounting Policies

(Application of the practical solution on a change in depreciation method due to Tax Reform 2016)

As a result of revisions to the Corporation Tax Act, we applied the practical solution on a change in depreciation method due to Tax Reform 2016 (ASBJ Practical Issues Task Force (PITF) No. 32, June 17, 2016) in the current consolidated first quarter and changed the depreciation method for buildings and accompanying facilities and structures to be acquired on or after April 1, 2016 from the declining balance method to the straight line method. In the current consolidated cumulative second quarter, the changes had impact on the quarterly consolidated financial statements.

## (2) Additional Information

(Application of the Implementation Guidelines on Recoverability of Deferred Tax Assets)

We have applied the Implementation Guidelines on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, March 28, 2016) from the current consolidated first quarter.

## 3. Quarterly Consolidated Financial Statements
## (1) Quarterly Consolidated Balance Sheet

(Unit: million yen)

| | As of March 31, 2016 | As of September 30, 2016 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 11,940 | 11,767 |
| Notes and accounts receivable-trade | 8,373 | 6,709 |
| Inventories | 274 | 642 |
| Other | 2,177 | 2,793 |
| Allowance for doubtful accounts | (15) | (10) |
| Total current assets | 22,750 | 21,902 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures (net) | 1,461 | 1,463 |
| Other (net) | 1,031 | 1,132 |
| Total tangible fixed assets | 2,493 | 2,595 |
| Intangible fixed assets | | |
| Software | 2,285 | 2,117 |
| Goodwill | 33 | 25 |
| Other | 50 | 43 |
| Total intangible fixed assets | 2,369 | 2,185 |
| Investment and other assets | 4,006 | 3,760 |
| Total fixed assets | 8,868 | 8,541 |
| Total assets | 31,619 | 30,444 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable-trade | 3,107 | 2,774 |
| Income taxes payable | 932 | 525 |
| Reserve for bonus | 1,109 | 909 |
| Reserve for loss from business restructuring | 1,887 | 1,602 |
| Other reserves and allowances | 12 | 30 |
| Other | 2,875 | 3,068 |
| Total current liabilities | 9,924 | 8,911 |
| Non-current liabilities | | |
| Reserve for loss from business restructuring | 361 | - |
| Other | 185 | 204 |
| Total non-current liabilities | 546 | 204 |
| Total liabilities | 10,471 | 9,115 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,590 | 1,590 |
| Capital surplus | 1,448 | 1,448 |
| Retained earnings | 18,746 | 19,192 |
| Treasury stocks | (820) | (820) |
| Total shareholders' equity | 20,964 | 21,410 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 33 | (71) |
| Deferred gains or losses on hedges | (0) | (0) |
| Foreign currency translation adjustments | 38 | (150) |
| Total accumulated other comprehensive income | 71 | (222) |
| Subscription rights to shares | 73 | 100 |
| Non-controlling interests | 39 | 40 |
| Total net assets | 21,148 | 21,329 |
| Total liabilities and net assets | 31,619 | 30,444 |

## (2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

### Quarterly Consolidated Statements of Income

#### Consolidated Cumulative Second Quarter

(Unit: million yen)

| | Second quarter of FY2015 (from April 1, 2015 to September 30, 2015) | Second quarter of FY2016 (from April 1, 2016 to September 30, 2016) |
|---|---|---|
| Net Sales | 18,735 | 19,336 |
| Cost of sales | 10,357 | 10,317 |
| Gross profit | 8,378 | 9,018 |
| Selling, general and administrative expenses | 7,175 | 7,408 |
| Operating income | 1,203 | 1,610 |
| Non-operating income | | |
| Interest and dividends income | 29 | 35 |
| Equity in earnings affiliates | - | 2 |
| Other | 17 | 2 |
| Total non-operating income | 46 | 40 |
| Non-operating expenses | | |
| Interest expenses | 0 | 0 |
| Foreign exchange losses | 0 | 20 |
| Loss from partnership | - | 5 |
| Other | 0 | 0 |
| Total non-operating expenses | 0 | 27 |
| Ordinary income | 1,248 | 1,623 |
| Extraordinary gains | | |
| Compensation for transfer | - | 15 |
| Other | - | 0 |
| Total extraordinary gains | - | 15 |
| Extraordinary loss | | |
| Impairment loss | 204 | 4 |
| Loss from business restructuring | 2,544 | - |
| Loss from sale of shares of subsidiaries | - | 273 |
| Other | 23 | 10 |
| Total extraordinary loss | 2,772 | 288 |
| Income (loss) before income taxes | (1,523) | 1,350 |
| Income taxes | (423) | 300 |
| Net income (loss) | (1,100) | 1,049 |
| Profit attributable to non-controlling shareholders | 0 | 2 |
| Profit (loss) attributable to owners of parent | (1,100) | 1,047 |

## Quarterly Consolidated Statements of Comprehensive Income

### Consolidated Cumulative Second Quarter

(Unit: million yen)

| | Second quarter of FY 2015 (from April 1, 2015 to September 30, 2015) | Second quarter of FY 2016 (from April 1, 2016 to September 30, 2016) |
|---|---|---|
| Net income (loss) | (1,100) | 1,049 |
| Other comprehensive income (loss) | | |
| Valuation difference on available-for-sale securities | 4 | (104) |
| Deferred gains or losses on hedges | (0) | (0) |
| Foreign currency translation adjustment | 0 | (191) |
| Total other comprehensive income | 4 | (296) |
| Quarterly comprehensive income (loss) | (1,096) | 753 |
| | | |
| Comprehensive income attributable to owners of parent | (1,096) | 753 |
| Comprehensive income (loss) attributable to non-controlling shareholders | 0 | (0) |

## (3) Quarterly Consolidated Statements of Cash Flow

(Unit: Million yen)

| | Second quarter (from April 1, 2015 to September 30, 2015) | Second quarter (from April 1, 2016 to September 30, 2016) |
|---|---|---|
| Cash flow from operating activities | | |
| Income (loss) before income taxes | (1,523) | 1,350 |
| Depreciation and amortization | 573 | 490 |
| Impairment loss | 204 | 4 |
| Loss from business restructuring | 2,544 | - |
| Share-based compensation expense | 30 | 27 |
| Amortization of goodwill | 7 | 7 |
| Increase (decrease) in allowance for doubtful accounts | (89) | (185) |
| Interest and dividends income | (29) | (35) |
| Interest expenses | 0 | 0 |
| Decrease (increase) in notes and accounts receivable-trade | 1,373 | 1,618 |
| Decrease (increase) in inventories | (283) | (369) |
| Increase (decrease) in notes and accounts payable-trade | 75 | (315) |
| Other, net | (461) | 163 |
| Subtotal | 2,422 | 2,757 |
| Interest and dividends income received | 25 | 33 |
| Interest expenses paid | (0) | (0) |
| Payments for business restructuring | - | (648) |
| Income taxes paid | (905) | (1,142) |
| Net cash provided by operating activities | 1,542 | 999 |
| Cash flow from investment activities | | |
| Purchases of property tangible assets | (72) | (195) |
| Purchases of intangible assets | (532) | (432) |
| Proceeds from sales of property tangible assets | - | 0 |
| Proceeds from sales of intangible assets | 0 | - |
| Deposit income on sales of property tangible assets | - | 282 |
| Purchases of investment securities | (336) | (157) |
| Proceeds from sale of shares of subsidiaries resulting in changes in the scope of consolidation | - | 4 |
| Payments for guarantee deposits | (1) | (3) |
| Proceeds from collection of guarantee deposits | 20 | 2 |
| Other, net | 10 | 0 |
| Net cash used in investing activities | (911) | (498) |
| Cash flow from financing activities | | |
| Repayment of lease obligations | (35) | (35) |
| Cash dividends paid | (505) | (601) |
| Proceeds from share issuance to non-controlling shareholders | 3 | 1 |
| Net cash used in financing activities | (537) | (635) |
| Effect of exchange rate changes on cash and cash equivalents | (1) | (37) |
| Net increase (decrease) in cash and cash equivalents | 92 | (172) |
| The period cash and cash equivalents at beginning of the period | 11,946 | 11,943 |
| Cash and cash equivalents at end of the quarter | 12,038 | 11,771 |

## (4) Notes on the Quarterly Consolidated Financial Statements

(Note on going concern assumption)
Not applicable

(Note in case of remarkable changes in shareholders' equity)
Not applicable

(Segment information)
[Segment information]
I Second quarter of FY 2015 (from April 1, 2015 to September 30, 2015)
1. Information about sales and profit or loss for each reportable 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 | 10,492 | 8,242 | 18,735 | - | 18,735 |
| Intersegment sales or transfers | 246 | 0 | 246 | (246) | - |
| Total | 10,738 | 8,243 | 18,982 | (246) | 18,735 |
| Segment income (loss) | 562 | 640 | 1,203 | 0 | 1,203 |

(Notes)
1 Adjustments of segment income of 0 million yen represent elimination of transactions between segments and expenses of the whole company.
2 Segment income was adjusted to operating profit stated in the quarterly consolidated statements of income.

2. Information on impairment loss on fixed assets or goodwill by reportable segment
(Significant impairment loss on fixed assets)
As part of the business structural reforms for further growth based on medium- and long-term viewpoints, our group decided to discontinue provision of services from the Shin-Yokohama data center by the end of June 2017. In the IT service segment and as a result of this, the book values of the relevant assets were reduced to their recoverable amounts and the reduction amount of 204 million yen was recorded as impairment loss in extraordinary loss.

II Second quarter of FY 2016 (from April 1, 2016 to September 30, 2016)
1. Information about sales and profit or loss for each reportable 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 | 9,834 | 9,502 | 19,336 | - | 19,336 |
| Intersegment sales or transfers | 336 | 1 | 338 | (338) | - |
| Total | 10,171 | 9,503 | 19,674 | (338) | 19,336 |
| Segment income (loss) | (364) | 1,245 | 1,610 | (0) | 1,610 |

(Notes)
1 Adjustments of segment income of -0 million yen represent elimination of transactions between segments and expenses of the whole company.
2 Segment income was adjusted to operating profit stated in the quarterly consolidated statements of income.