

# **Financial Results for the Nine Months Ended March 31, 2020 [Japanese GAAP] (Non-consolidated)**



April 30, 2020

Company name: WELLNET CORPORATION

Stock exchange listing: Tokyo Stock Exchange

Code number: 2428

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Scheduled date of filing quarterly securities report: May 15, 2020

Scheduled date of commencing dividend payments: –

Availability of supplementary briefing material on quarterly financial results: None

## Schedule of quarterly financial results briefing session: No.

(Amounts of less than one million yen are rounded down.)

## **1. Financial Results for the Nine Months Ended March 31, 2020 (July 1, 2019 to March 31, 2020)**

## (1) Operating Results

(% indicates changes from the previous corresponding period.)

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		Net sales		Operating profit		Ordinary profit		Profit	
Nine months ended		Million yen	%	Million yen	%	Million yen	%	Million yen	%
March 31, 2020		7,113	(6.7)	699	55.7	706	51.4	489	50.7
March 31, 2019		7,622	2.7	449	(22.9)	466	(22.2)	324	(17.5)

	Basic earnings per share	Diluted earnings per share
Nine months ended		Yen
March 31, 2020	26.06	25.97
March 31, 2019	17.35	17.27

## (2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of March 31, 2020	Million yen 17,268	Million yen 7,006	% 40.1	Yen 368.66
As of June 30, 2019	18,960	7,443	38.8	392.04

(Reference)	Equity:	As of March 31, 2020:	¥6,933 million
		As of June 30, 2019:	¥7,353 million

## 2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended June 30, 2019	Yen -	Yen 0.00	Yen -	Yen 50.00	Yen 50.00
Fiscal year ending June 30, 2020	-	0.00	-		
Fiscal year ending June 30, 2020 (Forecast)				-	-

(Note) Revision of dividends forecast from recently announced figures: No

Although the dividend payout ratio will be set at 50% or more for the fiscal year ending June 30, 2020, the dividend amounts are yet to be determined at this moment since it is impossible to make a reasonable forecast for the financial results. For this reason, “-” has been entered for the year-end and total dividends.

### **3. Financial Results Forecast for the Fiscal Year Ending June 30, 2020 (July 1, 2019 to June 30, 2020)**

At this moment, it is difficult to make any reasonable forecasts of the impact of the spread of the novel coronavirus disease (COVID-19) on the financial results of the fiscal year ending June 30, 2020. It will be announced immediately when it becomes possible to reasonably calculate that impact.

#### **\* Notes:**

- (1) Adoption of special accounting procedures for preparing quarterly financial statements: No
- (2) Changes in accounting policies, changes in accounting estimates and retrospective restatement
  - 1) Changes in accounting policies due to the revision of accounting standards: No
  - 2) Changes in accounting policies other than 1) above: No
  - 3) Changes in accounting estimates: No
  - 4) Retrospective restatement: No
- (3) Total number of issued shares (common shares)
  - 1) Total number of issued shares at the end of the period (including treasury shares):
    - As of March 31, 2020: 19,400,000 shares
    - As of June 30, 2019: 19,400,000 shares
  - 2) Total number of treasury shares at the end of the period:
    - As of March 31, 2020: 599,824 shares
    - As of June 30, 2019: 643,048 shares
  - 3) Average number of shares during the period:
    - Nine months ended March 31, 2020: 18,790,472 shares
    - Nine months ended March 31, 2019: 18,722,247 shares

\* These financial results are outside the scope of quarterly review procedures by a certified public accountant or an audit corporation.

#### \* Explanation of the proper use of financial results forecast and other notes

At this moment, it is difficult to make any reasonable forecasts of the impact of the spread of the novel coronavirus disease (COVID-19) on the financial results of the fiscal year ending June 30, 2020. It will be announced immediately when it becomes possible to reasonably calculate that impact.

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## 1. Qualitative Information on Financial Results for the Period under Review

### (1) Explanation of Business Results

#### 1) Analysis of Business Results

Despite the Japanese economy in the fiscal year under review beginning on a mild path of recovery amid firm corporate earnings and improvements in the employment environment, the outlook for the Japanese economy has fallen into extreme uncertainty due to multiple factors. Those include not only the economic slowdown in China due to the prolonged trade friction between the U.S. and China, natural disasters such as the striking of large typhoons causing enormous damage to various regions, and the domestic consumption tax hike, but also of particular concern, the sudden global economic standstill brought about by the spread of the novel coronavirus disease (COVID-19), which will have an effect on the latter half of the third quarter of the fiscal year ending June 30, 2020.

The aforementioned impact has been greatly affecting the Company's business, particularly the effect on business related to transportation services such as buses, airlines, and railways, which has become pronounced since March this year with large-scale cancellations.

In the non-face-to-face payment market, the Company's business domain, the consumer trend of shifting to cashless payments is expected only to become more lively going forward, accelerated by the hike in consumption tax that was implemented last autumn. The demand for non-face-to-face payment is further rising with the official order to refrain from leaving the house based on the State of Emergency Declaration issued by the government as a way of stopping the spread of COVID-19, and we expect various services will shift to a digital system at an accelerated pace. Furthermore, in the remittance service operated by the Company, we feel a professional commitment to respond to the demand for refunds faced by various operators due to cancellations of airplane, bus and train tickets and of various events.

For the nine months ended March 31, 2020, of the fourth year of the "Medium Term Five Year Management Plan (July 2016 – June 2021)" promoting "Response to the age of electronic money," "Promotion of Bus IT Promotion Solution Project" and "Service support for consumers from the business operator side," net sales decreased to ¥7,113 million (down 6.7% year on year) as a result of a decrease in the amount received from existing business operators, despite an increase due to the introduction of new business partners and an increase in the transaction amount from remittance services.

With respect to profits, as a result of large-scale development settling down in addition to measures to reduce expenses such as accumulating know-how regarding development and operations in-house and promoting in-house manufacturing, the Company reported operating profit of ¥699 million (up 55.7% year-on-year), ordinary profit of ¥706 million (up 51.4% year-on-year) and profit of ¥489 million (up 50.7% year-on-year).

#### 2) Current status of New Medium Term Five-Year Management Plan (July 2016 - June 2021)

##### A. Current status of WELLNET's "Smartphone payment service," *Shiharai-Hisho*

On August 3, 2017, we began the commercial service of *Shiharai-Hisho*, a smartphone payment service compatible with the increasingly cashless society expected in the future, with our first client, The Kansai Electric Power Co., Inc. Subsequently, Kyushu Electric Power Co., Inc., Hokkaido Electric Power Co., Inc. (exclusive adoption of the Company's service), Tohoku Electric Power Co., Inc., Shikoku Electric Power Co., Inc. (exclusive adoption of the Company's service), Hokuriku Electric Power Company (exclusive adoption of the Company's service), and Chubu Electric Power Co., Inc. (exclusive adoption of the Company's service) also began offering this service. In the case of Chubu Electric Power Co., Inc., the first ever implementation of SMS (short message service) based electronic invoicing/electronic payment of electricity bills was achieved from April this year, and the shift to paperless and cashless payments continues to accelerate. We have become affiliated with 34 banks, including Sumitomo Mitsui Banking Corporation and JAPAN POST BANK Co., Ltd. and plan on further expanding that number. In addition to lifestyle infrastructure business

operators such as power companies, bus, railway, and airline companies, we are expanding this service to businesses that have already introduced our Multi Payment Services.

#### B. Current status of our Bus IT Promotion Project, *Bus Mori!*

The number of routes that are compatible with the smartphone application *Bus Mori!* introduced in August 2016 has smoothly increased to 320, partly due to the effect of an increase in variation of services, such as expanding the types of tickets usable with smartphones, namely single-trip tickets, coupon tickets, commuter tickets, free passes and so forth, as well as car-mounted tablet PCs. Major topics in the financial results for the third quarter were the Company's cooperation with 11 transportation operators in Hokkaido's south-west region led by the Hokkaido Government and Hakodate City top implement the trialing of *DohNa!!*, which utilizes ICT. For *DohNa!!*, it is possible to "search," "purchase," and "use" all-day tickets, etc. from an internet browser without the need for downloading any special app, and the trial also included enabling alighting from buses by QR code. This initiative will be continued through FY 2020, and it is using IT (MaaS) to solve issues facing regional transportation services. In other initiatives, the Company started sales of smartphone coupon tickets (*Bus Mori!*) for new bus routes of the Nishitetsu Group and Hokkaido Chuo Bus. Also, adoption of the smartphone commuter tickets for rail began spreading for the first time to the so-called private railway companies such as ALPICO Kotsu Kamikochi Line and Uedadentetsu.

Moreover, we are developing several new services in a plan to foster *Bus Mori!* into a comprehensive cloud service. Moving forward, we will increase user numbers and payment volumes for both *Shihrai-Hisho* and *Bus Mori!*, expanding the number of affiliated partners.

#### C. Current status of WELLNET's "key product," Multi Payment Services

According to the FY2018 Survey of Infrastructure Development Status for Data-driven Society in Japan (E-Commerce Market Survey) released by the Ministry of Economy, Trade and Industry on May 16, 2019, the scale of the e-commerce market (B to C) for Japanese consumers increased 9.0% year on year in 2018 to ¥18.0 trillion, and Multi Payment Services are expected to have the potential to grow in the area of non-face-to-face payments.

Furthermore, by promoting the digitalization of payments (shifting to the Company's "Smartphone payment service," *Shihrai-Hisho*, a win-win relationship is being built between the Company, clients, and receiving agencies.

#### D. Performance forecast and shareholder returns

The Company is not announcing a performance forecast because the impact from changes in economic activity due to COVID-19 makes it difficult to make any forecasts. Meanwhile, out of consideration for our shareholders, we set the dividend payout ratio at 50% or more.

### (2) Explanation of Financial Position

#### Status of assets, liabilities, and net assets

Total assets as of March 31, 2020 stood at ¥17,268 million. Current assets were ¥12,558 million. This mainly comprises cash and deposits of ¥8,937 million. Cash and deposits include ¥7,442 million of receiving agency deposits in money collection business, which is the money kept temporarily by the Company up to the predetermined date of transfer to operators in the following month. Non-current assets amounted to ¥4,709 million. This mainly comprises property, plant and equipment of ¥2,042 million, intangible assets of ¥1,022 million, and investments and other assets of ¥1,645 million.

Meanwhile, total liabilities amounted to ¥10,261 million. This mainly comprises receiving agency deposits of ¥7,442 million and accounts payable - trade of ¥435 million.

Total net assets amounted to ¥7,006 million. This mainly comprises shareholders' equity of ¥6,933 million.

(Reference) Cash and deposits, net (net balance of cash and deposits after offsetting receiving agency deposits related to money collection business)

	(Thousands of yen)	
	As of June 30, 2019	As of March 31, 2020
(A) Cash and deposits	12,915,351	8,937,058
(B) Receiving agency deposits	9,393,868	7,442,649
(A)-(B) Cash and deposits, net	3,521,483	1,494,409

### (3) Explanation of Financial Results Forecast and Other Forward-looking Information

At this moment, it is difficult to make any reasonable forecasts of the impact of the spread of the novel coronavirus disease (COVID-19) on the financial results of the fiscal year ending June 30, 2020. It will be announced immediately when it becomes possible to reasonably calculate that impact.

## 2. Financial Statements and Significant Notes

### (1) Balance Sheet

(Thousands of yen)

	As of June 30, 2019	As of March 31, 2020
<b>Assets</b>		
<b>Current assets</b>		
Cash and deposits	12,915,351	8,937,058
Accounts receivable - trade	560,714	501,002
Merchandise	2,133	2,052
Work in process	8,574	6,282
Supplies	1,438	1,213
Other	1,650,226	3,111,037
<b>Total current assets</b>	<u>15,138,438</u>	<u>12,558,646</u>
<b>Non-current assets</b>		
Property, plant and equipment	2,027,734	2,042,247
Intangible assets	1,080,065	1,022,305
Investments and other assets	714,441	1,645,151
<b>Total non-current assets</b>	<u>3,822,241</u>	<u>4,709,704</u>
<b>Total assets</b>	<u>18,960,679</u>	<u>17,268,351</u>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable - trade	476,794	435,859
Receiving agency deposits	9,393,868	7,442,649
Income taxes payable	71,416	143,944
Provision for bonuses	–	49,263
Provision for point card certificates	274	5
Other	1,383,065	1,993,459
<b>Total current liabilities</b>	<u>11,325,418</u>	<u>10,065,181</u>
<b>Non-current liabilities</b>		
Provision for share-based remuneration	48,240	52,538
Asset retirement obligations	7,154	–
Long-term accounts payable - other	119,007	119,007
Other	17,276	25,176
<b>Total non-current liabilities</b>	<u>191,678</u>	<u>196,721</u>
<b>Total liabilities</b>	<u>11,517,096</u>	<u>10,261,903</u>

(Thousands of yen)

	As of June 30, 2019	As of March 31, 2020
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Share capital	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	4,017,854	3,547,075
Treasury shares	(841,337)	(790,315)
<b>Total shareholders' equity</b>	<b>7,353,515</b>	<b>6,933,758</b>
<b>Valuation and translation adjustments</b>		
Valuation difference on available-for-sale securities	(98)	(2,922)
Total valuation and translation adjustments	(98)	(2,922)
<b>Share acquisition rights</b>	<b>90,165</b>	<b>75,611</b>
<b>Total net assets</b>	<b>7,443,582</b>	<b>7,006,447</b>
<b>Total liabilities and net assets</b>	<b>18,960,679</b>	<b>17,268,351</b>

(2) Statement of Income  
(Nine months ended March 31)

(Thousands of yen)

	For the nine months ended March 31, 2019	For the nine months ended March 31, 2020
Net sales	7,622,133	7,113,282
Cost of sales	6,357,572	5,805,490
Gross profit	1,264,560	1,307,791
Selling, general and administrative expenses	815,256	608,408
Operating profit	449,304	699,382
Non-operating income		
Interest income	2,225	592
Dividend income	44	44
Gain on investments in investment partnerships	6,956	1,034
Rental income	2,698	3,148
Other	5,451	2,471
Total non-operating income	17,376	7,290
Ordinary profit	466,680	706,673
Extraordinary income		
Gain on reversal of share acquisition rights	3,631	3,549
Total extraordinary income	3,631	3,549
Profit before income taxes	470,312	710,222
Income taxes - current	166,462	221,542
Income taxes - deferred	(21,002)	(925)
Total income taxes	145,459	220,617
Profit	324,852	489,604

(3) Notes to Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes to substantial change in the amount of shareholders' equity)

There is no relevant information.

(Changes in presentation)

(Notes to Statement of Income)

“Rental income” and “gain on reversal of share acquisition rights,” which were included in “other” under non-operating income for the nine months ended March 31, 2019, are separately presented as “rental income” under non-operating income and “gain on reversal of share acquisition rights” under extraordinary income from the nine months ended March 31, 2020 due to increases in their materiality. To reflect these changes in presentation, the Company reclassified its financial statements for the nine months ended March 31, 2019. As a result, ¥11,781 thousand that had been presented in “other” under non-operating income in the Statement of Income for the nine months ended March 31, 2019 was reclassified into ¥2,698 thousand in “rental income” and ¥5,451 thousand in “other” under non-operating income and ¥3,631 thousand in “gain on reversal of share acquisition rights” under extraordinary income.

(Adoption of special accounting procedures for preparing quarterly financial statements)

There is no relevant information.

(Changes in accounting policies)

There is no relevant information.

(Changes in accounting estimates)

There is no relevant information.