

**Financial Results
for the Three Months Ended September 30, 2020
[Japanese GAAP]
(Non-consolidated)**



October 30, 2020

Company name: WELLNET CORPORATION

Stock exchange listing: Tokyo Stock Exchange

Code number: 2428

URL: <https://www.well-net.jp/>

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Scheduled date of filing quarterly securities report: November 13, 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 Three Months Ended September 30, 2020 (July 1, 2020 to September 30, 2020)

(1) Operating Results

(% indicates changes from the previous corresponding period.)

	Net sales	Operating profit	Ordinary profit	Profit
	Million yen	Million yen	Million yen	Million yen
Three months ended September 30, 2020	2,217 (9.7)	135 (40.6)	147 (35.8)	102 (35.8)
September 30, 2019	2,456 (0.7)	228 60.5	229 54.2	159 54.9

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended September 30, 2020	5.44	5.42
September 30, 2019	8.48	8.45

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2020	21,470	6,868	31.7	361.43
As of June 30, 2020	20,074	7,009	34.6	368.95

(Reference) Equity: As of September 30, 2020: ¥6,795 million
As of June 30, 2020: ¥6,936 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended June 30, 2020	Yen -	Yen 0.00	Yen -	Yen 13.15	Yen 13.15
Fiscal year ending June 30, 2021	-	-	-	-	-
Fiscal year ending June 30, 2021 (Forecast)		0.00	-	-	-

(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, 2021, 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, 2021 (July 1, 2020 to June 30, 2021)

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, 2021. 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 September 30, 2020: 19,400,000 shares
 - As of June 30, 2020: 19,400,000 shares
 - 2) Total number of treasury shares at the end of the period:
 - As of September 30, 2020: 598,024 shares
 - As of June 30, 2020: 598,024 shares
 - 3) Average number of shares during the period:
 - Three months ended September 30, 2020: 18,801,976 shares
 - Three months ended September 30, 2019: 18,779,100 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 COVID-19 on the financial results of the fiscal year ending June 30, 2021. It will be announced immediately when it becomes possible to reasonably calculate that impact.

Table of Contents

1. Qualitative Information on Financial Results for the Period under Review	2
(1) Explanation of Business Results	2
(2) Explanation of Financial Position	3
(3) Explanation of Financial Results Forecast and Other Forward-looking Information.....	4
2. Financial Statements and Significant Notes	5
(1) Balance Sheet	5
(2) Statement of Income.....	7
(Three months ended September 30)	7
(3) Notes to Financial Statements	8
(Notes on going concern assumption).....	8
(Notes to substantial change in the amount of shareholders' equity).....	8
(Adoption of special accounting procedures for preparing quarterly financial statements).....	8
(Changes in accounting policies)	8
(Changes in accounting estimates).....	8

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

(1) Explanation of Business Results

1) Analysis of Business Results

In the Japanese economy in the three months ended September 30, 2020, as a result of concerns regarding a second outbreak of the novel coronavirus disease (COVID-19) even after the lifting of the state of emergency, there were significant restrictions on socio-economic activity and increasing weakness in the employment environment. With little movement toward the recovery of economic activity as the economy continued to be in a difficult situation due to such factors as the deterioration of corporate earnings and a decline in personal consumption, the economic outlook continues to be extremely uncertain.

Even in the non-face-to-face payment market, the Company's business domain, earnings are in a difficult situation as the effect was especially substantial on business related to transportation services, such as airlines, buses and railways in the summer vacation period, which is generally their peak, amid a sharp decrease in demand for inbound travel as well as Japanese domestic travel, despite our efforts to reduce costs, such as by reducing expenses.

On the other hand, new initiatives to construct a new lifestyle are increasing, and with regard to systems, etc. that allow for the purchase of products and services to decrease opportunities for face-to-face contact, the social roles that should be fulfilled by business corporations, particularly in IT, are increasing. Amid this significant paradigm shift, the Company has continued to engage in activities that promote the priority measures of "Response to the age of electronic money," "Promotion of Bus IT Promotion Solution Project" and "Service support for consumers from the business operator side" under the keywords of "paperless," "digitization."

With respect to business results for the three months ended September 30, 2020, the Company reported net sales of ¥2,217 million (down 9.7% year on year), operating profit of ¥135 million (down 40.6% year on year), ordinary profit of ¥147 million (down 35.8% year on year) and profit of ¥102 million (down 35.8% year on year).

2) Changes in Environment Surrounding the Company and Response Strategy

The non-face-to-face payment market, the Company's business domain, is expected to continue achieving a certain level of growth in the future, and the Company is promoting collaboration with cloud services, such as content providers, for the shift to paperless and for payments.

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

Starting with The Kansai Electric Power Co., Inc., *Shiharai-Hisho*, a smartphone payment service compatible with the increasingly cashless society expected in the future, has been introduced to Kyushu Electric Power Co., Inc., Hokkaido Electric Power Co., Inc., Tohoku Electric Power Co., Inc., Shikoku Electric Power Co., Inc., Hokuriku Electric Power Company, Chubu Electric Power Co., Inc. and The Chugoku Electric Power Co., Inc. In April 2020 at Chubu Electric Power Co., Inc., the first ever implementation in electric power industry in Japan of SMS (short message service) based electronic invoicing of electricity bills was achieved, and we believe that the shift to paperless payments will continue to accelerate going forward. Moreover, in the Hokuriku area, *Shiharai-Hisho* is being utilized for the payment of electricity bills from Hokuriku Electric Power Company and the payment of taxes, etc., and FinTech services that adhere to the lifestyle that the Company is aiming for have commenced.

The Company has become affiliated with 37 banks, including Sumitomo Mitsui Banking Corporation and JAPAN POST BANK Co., Ltd., and expects to be affiliated with more banks going forward. The Company expects approximately ¥150 million in compensation related to the recent misuse of *Shiharai-Hisho*, and is collaborating with financial institutions to handle this. With regard to security measures, the Company has implemented measures with the highest dimensionality that currently exists. The Company expects that certain amount of costs will occur for security measures going forward.

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

B. Driving forward our Bus IT Promotion Project

The number of routes that are compatible with the smartphone application *Bus Mori!* introduced in August 2016 has smoothly increased to over 300, 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. Moreover, the Company will introduce new products such as car-mounted tablet PCs that can be called “electronic seating charts,” services that streamline clearing operations among bus companies, and other products, and continue development of “total cloud services.”

Bus Mori!, a non-contact service that reduces crowding at ticket windows, is expanding with its usage for the sale of smartphone set tickets for Nishi-Nippon Railroad and Hita Bus, as well as being used for smartphone coupon tickets for Meitetsu Bus and commuter tickets for the Imizu City Community Bus as there are expectations for it as a measure to prevent the spread of COVID-19.

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

According to the FY2019 Global Economic Survey Concerning Internal and External Integrated Economic Growth Strategy Building (E-Commerce Market Survey) released by the Ministry of Economy, Trade and Industry, the scale of the e-commerce market (B to C) for Japanese consumers increased 7.65% year on year in 2019 to ¥19 trillion, and Multi Payment Services are expected to have the potential to grow in the area of non-face-to-face payments.

For over 30 years, various operators have adopted the Company's payment services, and the Company will support operators as a company that can provide total solutions for payment going forward.

D. Activities contributing to local communities

As part of our social contribution, we are providing support to many students through our WELLNET Scholarship, established to help financially struggling students at colleges of technology in Hokkaido. Many letters of gratitude were received from these students, which motivated our employees. We will continue with these activities.

The new Sapporo Office scheduled for completion in May 2021 aims to earn the “WELL Certification” Platinum Rank by building an office focused on the health and work environment of our employees. The WELL Certification is an initiative that began in 2014 in the U.S. to evaluate and certify spaces including buildings and offices from the standpoint of human health. It is a cutting edge initiative in Japan, with only a few certifications awarded. This initiative represents an investment in the Company's most important asset, our employees, and we also believe that it will lead to increased corporate value in the form of increased productivity, and workstyle reforms.

E. Performance forecast and shareholder returns

Because the impact from changes in economic activity due to COVID 19 makes it difficult to make any forecasts at present, the Company will announce a performance forecast promptly as soon as it is reasonably possible to make estimates. Meanwhile, out of consideration for our shareholders, we plan for the dividend payout ratio to be 50% or more.

(2) Explanation of Financial Position

Total assets as of September 30, 2020 stood at ¥21,470 million. Current assets were ¥15,729 million. This mainly comprises cash and deposits of ¥12,359 million. Cash and deposits include ¥10,094 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 ¥5,741 million. This mainly comprises property, plant and equipment of ¥2,868 million, intangible assets of ¥860 million, and investments and other assets of ¥2,012 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, 2020	As of September 30, 2020
(A) Cash and deposits	8,689,868	12,359,265
(B) Receiving agency deposits	6,339,896	10,094,906
(A)-(B) Cash and deposits, net	2,349,972	2,264,359

Meanwhile, total liabilities amounted to ¥14,602 million. This mainly comprises receiving agency deposits of ¥10,094 million.

Total net assets amounted to ¥6,868 million. This mainly comprises shareholders' equity of ¥6,794 million.

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

As there are many uncertain elements currently affecting business results, the Company will announce the financial results forecast for the fiscal year ending June 30, 2021 when it becomes possible to reasonably estimate the forecast.

2. Financial Statements and Significant Notes

(1) Balance Sheet

(Thousands of yen)

	As of June 30, 2020	As of September 30, 2020
Assets		
Current assets		
Cash and deposits	8,689,868	12,359,265
Accounts receivable - trade	474,856	505,975
Merchandise	2,577	2,549
Work in process	2,884	15,765
Supplies	6,572	1,311
Deposits paid	4,394,838	2,138,038
Other	932,878	706,623
Total current assets	14,504,476	15,729,530
Non-current assets		
Property, plant and equipment	2,851,274	2,868,377
Intangible assets	876,190	860,304
Investments and other assets	1,842,871	2,012,669
Total non-current assets	5,570,337	5,741,352
Total assets	20,074,813	21,470,882
Liabilities		
Current liabilities		
Accounts payable - trade	454,549	418,437
Short term borrowings	740,000	740,000
Deposits received	4,903,373	2,661,179
Receiving agency deposits	6,339,896	10,094,906
Income taxes payable	210,987	55,376
Provision for bonuses	-	40,600
Provision for point card certificates	5	5
Other	218,483	377,800
Total current liabilities	12,867,295	14,388,306
Non-current liabilities		
Provision for share-based remuneration	54,073	57,694
Asset retirement obligations	-	10,827
Long-term accounts payable - other	119,007	119,007
Other	24,601	26,546
Total non-current liabilities	197,682	214,075
Total liabilities	13,064,977	14,602,381

(Thousands of yen)

	As of June 30, 2020	As of September 30, 2020
Net assets		
Shareholders' equity		
Share capital	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	3,551,222	3,406,160
Treasury shares	(788,210)	(788,210)
Total shareholders' equity	6,940,011	6,794,949
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(3,067)	659
Total valuation and translation adjustments	(3,067)	659
Share acquisition rights	72,892	72,892
Total net assets	7,009,836	6,868,501
Total liabilities and net assets	20,074,813	21,470,882

(2) Statement of Income
(Three months ended September 30)

(Thousands of yen)

	For the three months ended September 30, 2019	For the three months ended September 30, 2020
Net sales	2,456,810	2,217,879
Cost of sales	1,987,681	1,887,519
Gross profit	469,128	330,360
Selling, general and administrative expenses	240,886	194,694
Operating profit	228,241	135,665
Non-operating income		
Interest income	464	66
Gain on investments in investment partnerships	-	8,964
Gain on forfeiture of unclaimed dividends	1,237	1,645
Rental income	972	772
Other	572	947
Total non-operating income	3,247	12,396
Non-operating expenses		
Interest expenses	-	417
Loss on investments in investment partnerships	1,506	-
Total non-operating expenses	1,506	417
Ordinary profit	229,983	147,644
Extraordinary income		
Gain on reversal of share acquisition rights	1,771	-
Total extraordinary income	1,771	-
Profit before income taxes	231,754	147,644
Income taxes - current	73,812	43,628
Income taxes - deferred	(1,218)	1,831
Total income taxes	72,593	45,459
Profit	159,161	102,184

(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.

(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.