

Translation

Notice: This document is an excerpt translation of the original Japanese document and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

## Summary of Consolidated Financial Results for the Year Ended March 31, 2018 (Based on Japanese GAAP)

May 15, 2018

Company name: SOURCENEXT CORPORATION  
 Stock exchange listing: Tokyo  
 Stock code: 4344 URL <http://www.sourcenext.com>  
 Representative: President and CEO Noriyuki Matsuda  
 Inquiries: Managing Director Fumihiko Aoyama TEL 03-6254-5231  
 Scheduled date of ordinary general meeting of shareholders: June 26, 2018  
 Scheduled date to file Securities Report: June 27, 2018  
 Scheduled date to commence dividend payments: June 27, 2018  
 Preparation of supplementary material on financial results: Yes  
 Holding of financial results meeting: Yes (for analysts and institutional investors)

(Amounts less than one million yen are rounded down)

### 1. Consolidated financial results for the year ended March 31, 2018 (from April 1, 2017 to March 31, 2018)

#### (1) Consolidated operating results

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2018	9,494	1.6	1,237	(21.3)	1,258	(21.0)	1,261	17.8
Year ended March 31, 2017	9,340	33.0	1,573	8.8	1,593	8.8	1,070	8.1

	Earnings per share	Diluted earnings per share	Profit attributable to owners of parent/equity	Ordinary profit/total assets	Operating profit/net sales
	Yen	Yen	%	%	%
Year ended March 31, 2018	20.37	20.36	21.4	12.5	13.0
Year ended March 31, 2017	17.15	—	21.0	20.0	16.8

#### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2018	10,250	6,504	62.7	103.84
As of March 31, 2017	9,873	5,409	54.2	86.41

#### (3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2018	(181)	(1,000)	(607)	1,906
Year ended March 31, 2017	1,402	(2,235)	1,353	3,699

### 2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2017	—	0.00	—	6.19	6.19	191	17.9	3.8
Year ended March 31, 2018	—	0.00	—	3.05	3.05	188	15.0	3.2
Year ending March 31, 2019 (Forecast)	—	0.00	—	4.40	4.40		15.0	

3. Forecast of consolidated financial results for the year ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2018	6,418	63.7	478	9.2	480	7.9	345	5.4	5.57
Full year	16,807	77.0	2,499	101.9	2,502	98.8	1,818	44.2	29.37

4. Notes

(1) Changes in significant subsidiaries during the year ended March 31, 2018

(changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations: No

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

(3) Number of issued shares (common shares)

Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2018	63,481,000 shares	As of March 31, 2017	63,464,000 shares
----------------------	-------------------	----------------------	-------------------

Number of treasury shares at the end of the period

As of March 31, 2018	1,544,012 shares	As of March 31, 2017	1,544,012 shares
----------------------	------------------	----------------------	------------------

Average number of shares during the period

Year ended March 31, 2018	61,923,704 shares	Year ended March 31, 2017	62,423,656 shares
---------------------------	-------------------	---------------------------	-------------------

**Consolidated financial statements**  
**Consolidated balance sheets**

(Thousands of yen)

	As of March 31, 2017	As of March 31, 2018
Assets		
Current assets		
Cash and deposits	3,699,654	1,906,252
Accounts receivable - trade	1,648,116	2,031,188
Merchandise and finished goods	152,134	300,849
Raw materials and supplies	28,256	42,122
Advance payments - trade	602,297	1,031,642
Accounts receivable - other	237	679,510
Deferred tax assets	179,068	183,548
Other	88,922	127,909
Total current assets	6,398,688	6,303,025
Non-current assets		
Property, plant and equipment		
Buildings	193,877	209,127
Accumulated depreciation	(38,495)	(79,301)
Buildings, net	155,382	129,826
Vehicles	5,727	6,997
Accumulated depreciation	(4,963)	(5,423)
Vehicles, net	763	1,573
Tools, furniture and fixtures	184,498	205,838
Accumulated depreciation	(53,911)	(89,641)
Tools, furniture and fixtures, net	130,587	116,197
Total property, plant and equipment	286,733	247,597
Intangible assets		
Software	899,970	1,061,937
Goodwill	41,919	599,651
Contract based intangible assets	1,546,242	1,466,107
Other	208,883	96,644
Total intangible assets	2,697,016	3,224,340
Investments and other assets		
Investment securities	238,699	179,826
Deferred tax assets	47,465	83,254
Other	206,203	214,170
Allowance for doubtful accounts	(1,800)	(1,800)
Total investments and other assets	490,568	475,451
Total non-current assets	3,474,318	3,947,388
Total assets	9,873,006	10,250,413

(Thousands of yen)

	As of March 31, 2017	As of March 31, 2018
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable - trade	414,210	396,830
Short-term loans payable	1,940,000	–
Current portion of long-term loans payable	–	422,000
Accounts payable - other	919,025	541,977
Income taxes payable	517,912	305,597
Provision for bonuses	15,464	30,962
Provision for sales returns	271,951	200,704
Provision for after service cost	18,802	20,393
Other	346,366	331,239
<b>Total current liabilities</b>	<b>4,443,734</b>	<b>2,249,705</b>
<b>Non-current liabilities</b>		
Long-term loans payable	–	1,437,000
Other	19,797	59,606
<b>Total non-current liabilities</b>	<b>19,797</b>	<b>1,496,606</b>
<b>Total liabilities</b>	<b>4,463,531</b>	<b>3,746,311</b>
<b>Net assets</b>		
<b>Shareholders' equity</b>		
Capital stock	1,771,226	1,776,817
Capital surplus	1,611,226	1,616,817
Retained earnings	2,401,478	3,471,031
Treasury shares	(438,355)	(438,355)
<b>Total shareholders' equity</b>	<b>5,345,576</b>	<b>6,426,311</b>
<b>Accumulated other comprehensive income</b>		
Valuation difference on available-for-sale securities	1,373	4,345
Foreign currency translation adjustment	3,364	841
<b>Total accumulated other comprehensive income</b>	<b>4,737</b>	<b>5,186</b>
Share acquisition rights	59,159	72,603
<b>Total net assets</b>	<b>5,409,474</b>	<b>6,504,101</b>
<b>Total liabilities and net assets</b>	<b>9,873,006</b>	<b>10,250,413</b>

**Consolidated statements of income and consolidated statements of comprehensive income**  
**Consolidated statements of income**

(Thousands of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Net sales	9,340,988	9,494,658
Cost of sales	3,031,849	3,214,408
Gross profit	6,309,138	6,280,249
Provision for sales returns	271,951	200,704
Reversal of provision for sales returns	72,745	271,951
Gross profit - net	6,109,932	6,351,496
Selling, general and administrative expenses		
Promotion expenses	543,450	498,580
Salaries	628,430	740,505
Provision for bonuses	15,464	20,335
Business consignment expenses	1,144,819	1,326,003
Advertising expenses	553,927	580,464
Other	1,650,670	1,947,664
Total selling, general and administrative expenses	4,536,763	5,113,554
Operating profit	1,573,169	1,237,942
Non-operating income		
Interest income	628	266
Dividend income	160	160
Foreign exchange gains	20,762	18,516
Contribution for development	5,833	5,833
Gain on redemption of investment securities	–	2,745
Other	1,354	1,850
Total non-operating income	28,738	29,372
Non-operating expenses		
Interest expenses	134	7,908
Commission fee	2,269	–
Loss on investments in silent partnership	6,469	–
Other	–	676
Total non-operating expenses	8,874	8,585
Ordinary profit	1,593,034	1,258,729
Extraordinary income		
Gain on sales of investment securities	–	570,292
Gain on reversal of share acquisition rights	796	985
Total extraordinary income	796	571,278
Extraordinary losses		
Loss on valuation of advance payments	15,963	12,062
Total extraordinary losses	15,963	12,062
Profit before income taxes	1,577,867	1,817,945
Income taxes - current	591,647	547,044
Income taxes - deferred	(84,608)	9,705
Total income taxes	507,039	556,750
Profit	1,070,828	1,261,194
Profit attributable to owners of parent	1,070,828	1,261,194

## Consolidated statements of comprehensive income

(Thousands of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Profit	1,070,828	1,261,194
Other comprehensive income		
Valuation difference on available-for-sale securities	1,861	2,971
Foreign currency translation adjustment	227	(2,522)
Total other comprehensive income	2,089	448
Comprehensive income	1,072,918	1,261,643
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,072,918	1,261,643
Comprehensive income attributable to non-controlling interests	—	—

## Consolidated statements of changes in equity

Fiscal year ended March 31, 2017

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,771,226	1,611,226	1,479,156	(1)	4,861,607
Changes of items during period					
Dividends of surplus			(148,505)		(148,505)
Profit attributable to owners of parent			1,070,828		1,070,828
Purchase of treasury shares				(438,353)	(438,353)
Net changes of items other than shareholders' equity					–
Total changes of items during period	–	–	922,322	(438,353)	483,969
Balance at end of current period	1,771,226	1,611,226	2,401,478	(438,355)	5,345,576

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	(488)	3,136	2,648	41,722	4,905,978
Changes of items during period					
Dividends of surplus			–		(148,505)
Profit attributable to owners of parent			–		1,070,828
Purchase of treasury shares			–		(438,353)
Net changes of items other than shareholders' equity	1,861	227	2,089	17,437	19,526
Total changes of items during period	1,861	227	2,089	17,437	503,496
Balance at end of current period	1,373	3,364	4,737	59,159	5,409,474

Fiscal year ended March 31, 2018

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,771,226	1,611,226	2,401,478	(438,355)	5,345,576
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	5,591	5,591			11,182
Dividends of surplus			(191,642)		(191,642)
Profit attributable to owners of parent			1,261,194		1,261,194
Net changes of items other than shareholders' equity					-
Total changes of items during period	5,591	5,591	1,069,552	-	1,080,734
Balance at end of current period	1,776,817	1,616,817	3,471,031	(438,355)	6,426,311

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	1,373	3,364	4,737	59,159	5,409,474
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights			-		11,182
Dividends of surplus			-		(191,642)
Profit attributable to owners of parent			-		1,261,194
Net changes of items other than shareholders' equity	2,971	(2,522)	448	13,443	13,892
Total changes of items during period	2,971	(2,522)	448	13,443	1,094,627
Balance at end of current period	4,345	841	5,186	72,603	6,504,101



## Consolidated statements of cash flows

(Thousands of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash flows from operating activities		
Profit before income taxes	1,577,867	1,817,945
Depreciation	250,625	350,510
Amortization of software	303,394	388,732
Amortization of goodwill	3,810	140,455
Share-based compensation expenses	18,233	18,437
Amortization of trademark right	26,110	27,757
Increase (decrease) in allowance for doubtful accounts	(28)	–
Increase (decrease) in provision for bonuses	656	(8,978)
Increase (decrease) in provision for sales returns	199,205	(71,247)
Provision for after cost periods adjustment	(1,150)	1,591
Gain on reversal of share acquisition rights	(796)	(985)
Interest and dividend income	(788)	(426)
Interest expenses	134	7,908
Loss (gain) on sales of investment securities	–	(570,292)
Loss (gain) on redemption of investment securities	–	(2,745)
Decrease (increase) in notes and accounts receivable - trade	(591,079)	(367,376)
Decrease (increase) in inventories	(16,445)	(150,867)
Decrease (increase) in advance payments	(435,299)	(770,096)
Increase (decrease) in notes and accounts payable - trade	106,564	(9,977)
Increase (decrease) in accounts payable - other	123,914	(92,018)
Other, net	142,461	(126,675)
Subtotal	1,707,390	581,650
Interest and dividend income received	793	426
Interest expenses paid	(333)	(7,519)
Income taxes paid	(305,385)	(755,964)
Net cash provided by (used in) operating activities	1,402,465	(181,406)
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	–	10,000
Purchase of property, plant and equipment	(305,722)	(14,492)
Purchase of software	(618,066)	(493,618)
Purchase of contract based intangible assets-InvCF	(1,033,678)	(395,640)
Amortization of trademark right	(115,000)	–
Purchase of investment securities	(133,813)	(70,513)
Proceeds from redemption of investment securities	–	36,558
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(63,033)	(74,939)
Payments for lease and guarantee deposits	–	(457)
Payments from collection of lease and guarantee deposits	34,258	2,363
Net cash provided by (used in) investing activities	(2,235,055)	(1,000,739)

(Thousands of yen)

	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	1,940,000	(2,070,000)
Proceeds from long-term loans payable	–	2,110,000
Repayments of long-term loans payable	–	(463,229)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	–	7,173
Purchase of treasury shares	(438,353)	–
Cash dividends paid	(148,101)	(191,161)
Net cash provided by (used in) financing activities	1,353,545	(607,217)
Effect of exchange rate change on cash and cash equivalents	1,743	(4,038)
Net increase (decrease) in cash and cash equivalents	522,698	(1,793,401)
Cash and cash equivalents at beginning of period	3,176,956	3,699,654
Cash and cash equivalents at end of period	3,699,654	1,906,252