

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 Six Months Ended September 30, 2018 (Based on Japanese GAAP)

November 8, 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 to file Quarterly Securities Report: November 12, 2018
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for analysts and institutional investors)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018)

(1) Consolidated operating results (cumulative)

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	%
Six months ended September 30, 2018	5,743	46.5	507	15.8	516	16.1	398	21.7
Six months ended September 30, 2017	3,920	(7.1)	438	(49.4)	444	(49.4)	327	(45.0)

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2018	6.17		6.13	
Six months ended September 30, 2017	5.29		–	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2018	15,187	11,375	74.3	166.63
As of March 31, 2018	10,250	6,504	62.7	103.84

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen				
Year ended March 31, 2018	–	0.00	–	3.05	3.05
Year ending March 31, 2019	–	0.00			
Year ending March 31, 2019 (Forecast)			–	4.40	4.40

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
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 six months ended September 30, 2018
(changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) 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

(4) Number of issued shares (common shares)

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

As of September 30, 2018	67,760,200 shares	As of March 31, 2018	63,481,000 shares
--------------------------	-------------------	----------------------	-------------------

Number of treasury shares at the end of the period

As of September 30, 2018	12 shares	As of March 31, 2018	1,544,012 shares
--------------------------	-----------	----------------------	------------------

Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2018	64,644,295 shares	Six months ended September 30, 2017	61,919,988 shares
-------------------------------------	-------------------	-------------------------------------	-------------------

Quarterly consolidated financial statements
Consolidated balance sheets

(Thousands of yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	1,906,252	6,208,182
Accounts receivable - trade	2,031,188	2,877,461
Merchandise and finished goods	300,849	478,140
Raw materials and supplies	42,122	114,043
Advance payments - trade	1,031,642	1,100,981
Accounts receivable - other	679,510	2,514
Other	127,909	423,549
Total current assets	6,119,477	11,204,873
Non-current assets		
Property, plant and equipment		
Property, plant and equipment	421,963	430,641
Accumulated depreciation	(174,365)	(204,245)
Total property, plant and equipment	247,597	226,396
Intangible assets		
Software	1,061,937	1,004,477
Goodwill	599,651	522,210
Contract based intangible assets	1,466,107	1,427,356
Other	96,644	139,049
Total intangible assets	3,224,340	3,093,093
Investments and other assets		
Investment securities	179,826	155,414
Deferred tax assets	266,802	303,078
Other	214,170	206,342
Allowance for doubtful accounts	(1,800)	(1,800)
Total investments and other assets	658,999	663,034
Total non-current assets	4,130,936	3,982,524
Total assets	10,250,413	15,187,398
Liabilities		
Current liabilities		
Accounts payable - trade	396,830	406,827
Current portion of long-term loans payable	422,000	422,000
Accounts payable - other	541,977	756,042
Income taxes payable	305,597	286,546
Provision for bonuses	30,962	24,990
Provision for sales returns	200,704	53,660
Provision for after service cost	20,393	19,201
Other	331,239	424,047
Total current liabilities	2,249,705	2,393,317
Non-current liabilities		
Long-term loans payable	1,437,000	1,226,000
Other	59,606	192,592
Total non-current liabilities	1,496,606	1,418,592
Total liabilities	3,746,311	3,811,909

(Thousands of yen)

	As of March 31, 2018	As of September 30, 2018
Net assets		
Shareholders' equity		
Capital stock	1,776,817	3,509,898
Capital surplus	1,616,817	4,089,925
Retained earnings	3,471,031	3,680,986
Treasury shares	(438,355)	(3)
Total shareholders' equity	6,426,311	11,280,807
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	4,345	4,060
Foreign currency translation adjustment	841	6,122
Total accumulated other comprehensive income	5,186	10,183
Share acquisition rights	72,603	84,497
Total net assets	6,504,101	11,375,488
Total liabilities and net assets	10,250,413	15,187,398

Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)

Consolidated statements of income (cumulative)

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net sales	3,920,232	5,743,224
Cost of sales	1,352,227	2,261,546
Gross profit	2,568,005	3,481,677
Provision for sales returns	30,491	53,660
Reversal of provision for sales returns	271,951	200,704
Gross profit - net	2,809,465	3,628,722
Selling, general and administrative expenses	2,371,168	3,121,184
Operating profit	438,296	507,537
Non-operating income		
Interest income	185	50
Dividend income	231	249
Foreign exchange gains	5,004	8,652
Contribution for development	2,916	2,916
Gain on redemption of investment securities	2,745	–
Other	577	467
Total non-operating income	11,661	12,336
Non-operating expenses		
Interest expenses	4,862	2,808
Other	143	625
Total non-operating expenses	5,005	3,434
Ordinary profit	444,952	516,438
Extraordinary income		
Gain on sales of investment securities	–	110,742
Gain on reversal of share acquisition rights	398	–
Total extraordinary income	398	110,742
Extraordinary losses		
Loss on valuation of Advance payments	6,282	–
Total extraordinary losses	6,282	–
Profit before income taxes	439,068	627,181
Income taxes - current	13,039	264,466
Income taxes - deferred	98,332	(36,148)
Total income taxes	111,371	228,318
Profit	327,696	398,863
Profit attributable to owners of parent	327,696	398,863

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Profit	327,696	398,863
Other comprehensive income		
Valuation difference on available-for-sale securities	278,413	(284)
Foreign currency translation adjustment	502	5,281
Total other comprehensive income	278,916	4,996
Comprehensive income	606,612	403,860
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	606,612	403,860
Comprehensive income attributable to non-controlling interests	—	—

Consolidated statements of cash flows

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	439,068	627,181
Depreciation	174,511	176,561
Amortization of software	191,344	180,672
Amortization of goodwill	61,818	77,440
Share-based compensation expenses	6,140	12,180
Amortization of trademark right	14,035	11,626
Increase (decrease) in provision for bonuses	(11,354)	(5,971)
Increase (decrease) in provision for sales returns	(241,459)	(147,044)
Provison for after cost periods adustment	1,976	(1,192)
Gain on reversal of share acquisition rights	(398)	–
Interest and dividend income	(417)	(300)
Interest expenses	4,862	2,808
Loss (gain) on sales of investment securities	–	(110,742)
Loss (gain) on redemption of investment securities	(2,745)	–
Decrease (increase) in notes and accounts receivable - trade	(114,581)	(846,272)
Decrease (increase) in inventories	(48,767)	(248,945)
Decrease (increase) in advance payments	(42,301)	(69,338)
Increase (decrease) in notes and accounts payable - trade	34,024	9,995
Increase (decrease) in accounts payable - other	(45,711)	271,751
Other, net	(253,184)	(42,280)
Subtotal	166,859	(101,869)
Interest and dividend income received	417	300
Interest expenses paid	(4,871)	(2,819)
Income taxes paid	(459,468)	(291,424)
Net cash provided by (used in) operating activities	(297,062)	(395,813)
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,421)	(8,807)
Purchase of software	(210,095)	(346,812)
Purchase of contract based intangible assets-InvCF	(392,395)	–
Purchase of investment securities	(70,513)	(6,000)
Proceeds from sales of investment securities	–	810,027
Proceeds from redemption of investment securities	36,558	–
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(51,003)	–
Payments for lease and guarantee deposits	–	(462)
Payments from collection of lease and guarantee deposits	2,363	–
Net cash provided by (used in) investing activities	(686,507)	447,944

(Thousands of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(2,070,000)	–
Proceeds from long-term loans payable	1,610,000	–
Repayments of long-term loans payable	(252,229)	(211,000)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	–	3,450,870
Proceeds from issuance of disposal of treasury stock from exercise of share acquisition rights	–	1,172,203
Proceeds from issuance of share acquisition rights	–	21,180
Cash dividends paid	(190,951)	(188,897)
Net cash provided by (used in) financing activities	(903,180)	4,244,355
Effect of exchange rate change on cash and cash equivalents	1,426	5,442
Net increase (decrease) in cash and cash equivalents	(1,885,324)	4,301,929
Cash and cash equivalents at beginning of period	3,699,654	1,906,252
Cash and cash equivalents at end of period	1,814,330	6,208,182