

Translation

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Summary of Consolidated Financial Results for the Six Months Ended September 30, 2019 (Based on Japanese GAAP)

November 11, 2019

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 11, 2019
 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, 2019 (from April 1, 2019 to September 30, 2019)

(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, 2019	8,683	51.2	362	(28.6)	353	(31.5)	197	(50.6)
Six months ended September 30, 2018	5,743	46.5	507	15.8	516	16.1	398	21.7

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2019	1.45		1.44	
Six months ended September 30, 2018	3.09		3.07	

(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, 2019	16,710	12,026	71.3	87.55
As of March 31, 2019	17,398	11,923	68.0	86.89

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, 2019	–	0.00	–	0.68	0.68
Year ending March 31, 2020	–	0.00			
Year ending March 31, 2020 (Forecast)			–	1.23	1.23

3. Forecast of consolidated financial results for the year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

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	20,021	36.1	1,605	86.7	1,601	76.8	1,120	82.0	8.23

4. Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2019
(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, 2019	136,164,800 shares	As of March 31, 2019	136,162,800 shares
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Number of treasury shares at the end of the period

As of September 30, 2019	24 shares	As of March 31, 2019	24 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2019	136,163,792 shares	Six months ended September 30, 2018	129,288,590 shares
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Quarterly consolidated financial statements
Consolidated balance sheets

(Thousands of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Current assets		
Cash and deposits	7,562,192	5,479,707
Accounts receivable - trade	2,918,567	2,729,184
Merchandise and finished goods	1,328,078	2,100,429
Raw materials and supplies	155,905	118,931
Advance payments - trade	855,189	1,392,840
Other	264,513	163,998
Total current assets	13,084,446	11,985,092
Non-current assets		
Property, plant and equipment		
Property, plant and equipment	437,604	434,121
Accumulated depreciation	(233,678)	(248,221)
Total property, plant and equipment	203,926	185,899
Intangible assets		
Software	1,096,757	969,426
Goodwill	444,770	367,329
Contract based intangible assets	1,388,604	1,349,852
Other	93,142	162,516
Total intangible assets	3,023,274	2,849,125
Investments and other assets		
Investment securities	328,101	826,277
Deferred tax assets	546,570	651,411
Other	214,479	214,846
Allowance for doubtful accounts	(1,800)	(1,800)
Total investments and other assets	1,087,350	1,690,736
Total non-current assets	4,314,550	4,725,761
Total assets	17,398,997	16,710,854
Liabilities		
Current liabilities		
Accounts payable - trade	567,660	416,424
Short-term borrowings	100,000	–
Current portion of long-term borrowings	422,000	422,000
Accounts payable - other	1,504,917	1,059,151
Income taxes payable	438,380	325,188
Unearned revenue	699,934	1,022,555
Provision for bonuses	23,318	23,274
Provision for sales returns	120,858	20,366
Provision for after service cost	14,402	18,440
Other	195,956	207,790
Total current liabilities	4,087,428	3,515,192
Non-current liabilities		
Long-term borrowings	1,015,000	804,000
Long-term unearned revenue	373,131	364,703
Total non-current liabilities	1,388,131	1,168,703
Total liabilities	5,475,559	4,683,896

(Thousands of yen)

	As of March 31, 2019	As of September 30, 2019
Net assets		
Shareholders' equity		
Share capital	3,679,656	3,679,944
Capital surplus	4,259,683	4,259,972
Retained earnings	3,898,004	4,007,123
Treasury shares	(3)	(3)
Total shareholders' equity	11,837,340	11,947,037
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(778)	(3,693)
Foreign currency translation adjustment	(5,211)	(22,645)
Total accumulated other comprehensive income	(5,989)	(26,339)
Share acquisition rights	92,087	106,260
Total net assets	11,923,437	12,026,958
Total liabilities and net assets	17,398,997	16,710,854

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, 2018	Six months ended September 30, 2019
Net sales	5,743,224	8,683,016
Cost of sales	2,261,546	3,333,250
Gross profit	3,481,677	5,349,766
Provision for sales returns	53,660	20,366
Reversal of provision for sales returns	200,704	120,858
Gross profit - net	3,628,722	5,450,258
Selling, general and administrative expenses	3,121,184	5,087,961
Operating profit	507,537	362,297
Non-operating income		
Interest income	50	96
Dividend income	249	277
Foreign exchange gains	8,652	–
Contribution for development	2,916	–
Other	467	413
Total non-operating income	12,336	788
Non-operating expenses		
Interest expenses	2,808	1,888
Foreign exchange losses	–	7,268
Other	625	223
Total non-operating expenses	3,434	9,379
Ordinary profit	516,438	353,705
Extraordinary income		
Gain on sales of investment securities	110,742	–
Gain on sales of shares of subsidiaries and associates	–	28,273
Total extraordinary income	110,742	28,273
Profit before income taxes	627,181	381,978
Income taxes - current	264,466	288,426
Income taxes - deferred	(36,148)	(103,555)
Total income taxes	228,318	184,871
Profit	398,863	197,107
Profit attributable to owners of parent	398,863	197,107

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Profit	398,863	197,107
Other comprehensive income		
Valuation difference on available-for-sale securities	(284)	(2,915)
Foreign currency translation adjustment	5,281	(17,434)
Total other comprehensive income	4,996	(20,349)
Comprehensive income	403,860	176,757
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	403,860	176,757
Comprehensive income attributable to non-controlling interests	—	—

Consolidated statements of cash flows

(Thousands of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Profit before income taxes	627,181	381,978
Depreciation	176,561	184,040
Amortization of software	180,672	201,448
Amortization of goodwill	77,440	77,440
Share-based remuneration expenses	12,180	14,356
Amortization of trademark right	11,626	11,544
Increase (decrease) in provision for bonuses	(5,971)	(43)
Increase (decrease) in provision for sales returns	(147,044)	(100,491)
Provision for after cost periods adjustment	(1,192)	4,038
Interest and dividend income	(300)	(374)
Interest expenses	2,808	1,888
Loss (gain) on sales of investment securities	(110,742)	–
Loss (gain) on sales of shares of subsidiaries and associates	–	(28,273)
Decrease (increase) in trade receivables	(846,272)	182,870
Decrease (increase) in inventories	(248,945)	(740,624)
Decrease (increase) in advance payments - trade	(69,338)	(537,651)
Increase (decrease) in trade payables	9,995	(147,066)
Increase (decrease) in accounts payable - other	271,751	(466,720)
Increase (decrease) in unearned revenue	162,724	322,621
Increase (decrease) in long-term unearned revenue	132,985	(8,427)
Other, net	(337,991)	111,774
Subtotal	(101,869)	(535,670)
Interest and dividends received	300	374
Interest paid	(2,819)	(2,195)
Income taxes paid	(291,424)	(386,236)
Net cash provided by (used in) operating activities	(395,813)	(923,727)
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,807)	(7,202)
Purchase of software	(346,812)	(308,260)
Purchase of investment securities	(6,000)	(467,379)
Proceeds from sales of investment securities	810,027	–
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	–	60,841
Payments of leasehold and guarantee deposits	(462)	(5,306)
Net cash provided by (used in) investing activities	447,944	(727,306)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	–	(100,000)
Repayments of long-term borrowings	(211,000)	(211,000)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	3,450,870	394
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	–
Dividends paid	(188,897)	(92,066)
Net cash provided by (used in) financing activities	4,244,355	(402,672)
Effect of exchange rate change on cash and cash equivalents	5,442	(28,779)
Net increase (decrease) in cash and cash equivalents	4,301,929	(2,082,484)
Cash and cash equivalents at beginning of period	1,906,252	7,562,192
Cash and cash equivalents at end of period	6,208,182	5,479,707