

Translation

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**Summary of Consolidated Financial Results
for the Year Ended March 31, 2020
(Based on Japanese GAAP)**

May 13, 2020

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 18, 2020
 Scheduled date to file Securities Report: June 19, 2020
 Scheduled date to commence dividend payments: June 19, 2020
 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, 2020 (from April 1, 2019 to March 31, 2020)

(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, 2020	17,282	17.5	474	(44.8)	537	(40.6)	224	(63.5)
Year ended March 31, 2019	14,710	54.9	859	(30.5)	905	(28.1)	615	(51.2)

	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, 2020	1.65	1.64	1.9	3.1	2.7
Year ended March 31, 2019	4.64	4.61	6.7	6.6	5.8

(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, 2020	17,029	12,091	70.3	87.88
As of March 31, 2019	17,398	11,923	68.0	86.89

(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, 2020	(1,329)	(1,715)	(602)	3,898
Year ended March 31, 2019	1,346	(160)	4,467	7,562

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, 2019	—	0.00	—	0.68	0.68	92	15.0	1.0
Year ended March 31, 2020	—	0.00	—	0.25	0.25	34	15.1	0.3
Year ending March 31, 2021 (Forecast)	—	0.00	—	0.46	0.46		15.0	

3. Forecast of consolidated financial results for the year ending March 31, 2021 (from April 1, 2020 to March 31, 2021)

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, 2020	6,174	(28.9)	100	(72.4)	100	(71.7)	69	(64.8)	0.51
Full year	16,000	(7.4)	600	26.4	600	11.6	416	85.1	3.06

4. Notes

(1) Changes in significant subsidiaries during the year ended March 31, 2020

(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, 2020	136,241,200 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 March 31, 2020	24 shares	As of March 31, 2019	24 shares
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Average number of shares during the period

Year ended March 31, 2020	136,186,344 shares	Year ended March 31, 2019	132,702,964 shares
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Consolidated financial statements
Consolidated balance sheets

(Thousands of yen)

	As of March 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	7,562,192	3,898,678
Accounts receivable - trade	2,918,567	2,362,790
Merchandise and finished goods	1,328,078	3,092,616
Raw materials and supplies	155,905	123,189
Advance payments - trade	855,189	1,556,730
Accounts receivable - other	6,677	28,033
Other	257,835	456,341
Total current assets	13,084,446	11,518,380
Non-current assets		
Property, plant and equipment		
Buildings	220,919	210,376
Accumulated depreciation	(111,636)	(136,078)
Buildings, net	109,282	74,297
Vehicles	7,309	7,167
Accumulated depreciation	(5,994)	(6,200)
Vehicles, net	1,315	967
Tools, furniture and fixtures	209,375	219,683
Accumulated depreciation	(116,047)	(137,826)
Tools, furniture and fixtures, net	93,327	81,856
Total property, plant and equipment	203,926	157,121
Intangible assets		
Software	1,096,757	1,146,007
Goodwill	444,770	293,700
Contract based intangible assets	1,388,604	1,311,100
Other	93,142	176,514
Total intangible assets	3,023,274	2,927,322
Investments and other assets		
Investment securities	328,101	1,382,432
Deferred tax assets	546,570	860,035
Other	214,479	184,428
Allowance for doubtful accounts	(1,800)	—
Total investments and other assets	1,087,350	2,426,896
Total non-current assets	4,314,550	5,511,341
Total assets	17,398,997	17,029,721

(Thousands of yen)

	As of March 31, 2019	As of March 31, 2020
Liabilities		
Current liabilities		
Accounts payable - trade	567,660	420,982
Short-term borrowings	100,000	–
Current portion of long-term borrowings	422,000	422,000
Accounts payable - other	1,504,917	739,018
Income taxes payable	438,380	377,248
Unearned revenue	699,934	1,159,398
Provision for bonuses	23,318	24,472
Provision for sales returns	120,858	314,416
Provision for point card certificates	–	165,004
Provision for after service cost	14,402	18,799
Other	195,956	344,187
Total current liabilities	4,087,428	3,985,529
Non-current liabilities		
Long-term borrowings	1,015,000	593,000
Long-term unearned revenue	373,131	359,403
Total non-current liabilities	1,388,131	952,403
Total liabilities	5,475,559	4,937,933
Net assets		
Shareholders' equity		
Share capital	3,679,656	3,688,593
Capital surplus	4,259,683	4,268,620
Retained earnings	3,898,004	4,034,956
Treasury shares	(3)	(3)
Total shareholders' equity	11,837,340	11,992,168
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(778)	(4,329)
Foreign currency translation adjustment	(5,211)	(14,789)
Total accumulated other comprehensive income	(5,989)	(19,118)
Share acquisition rights	92,087	118,739
Total net assets	11,923,437	12,091,788
Total liabilities and net assets	17,398,997	17,029,721

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

(Thousands of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Net sales	14,710,520	17,282,086
Cost of sales	5,608,362	6,903,187
Gross profit	9,102,158	10,378,898
Provision for sales returns	120,858	314,416
Reversal of provision for sales returns	200,704	120,858
Gross profit - net	9,182,004	10,185,340
Selling, general and administrative expenses		
Promotion expenses	951,951	1,577,599
Salaries	795,770	857,487
Provision for bonuses	23,318	24,472
Outsourcing expenses	1,971,724	2,355,721
Advertising expenses	2,150,473	2,215,798
Other	2,428,981	2,679,653
Total selling, general and administrative expenses	8,322,219	9,710,732
Operating profit	859,784	474,608
Non-operating income		
Interest income	214	353
Dividend income	249	277
Share of profit of entities accounted for using equity method	–	69,709
Foreign exchange gains	32,024	–
Contribution for development	18,347	–
Other	1,463	3,017
Total non-operating income	52,298	73,359
Non-operating expenses		
Interest expenses	5,277	4,225
Foreign exchange losses	–	2,382
Loss on investments in silent partnerships	785	3,533
Other	392	228
Total non-operating expenses	6,455	10,369
Ordinary profit	905,628	537,598
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	1,016,370	565,871
Income taxes - current	677,990	652,828
Income taxes - deferred	(277,500)	(311,897)
Total income taxes	400,489	340,930
Profit	615,880	224,940
Profit attributable to owners of parent	615,880	224,940

Consolidated statements of comprehensive income

(Thousands of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Profit	615,880	224,940
Other comprehensive income		
Valuation difference on available-for-sale securities	(5,123)	(3,550)
Foreign currency translation adjustment	(6,053)	(9,577)
Total other comprehensive income	(11,176)	(13,128)
Comprehensive income	604,704	211,811
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	604,704	211,811
Comprehensive income attributable to non-controlling interests	—	—

Consolidated statements of changes in equity

Fiscal year ended March 31, 2019

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	1,776,817	1,616,817	3,471,031	(438,355)	6,426,311
Changes during period					
Issuance of new shares - exercise of share acquisition rights	1,902,838	1,902,838			3,805,676
Dividends of surplus			(188,907)		(188,907)
Profit attributable to owners of parent			615,880		615,880
Disposal of treasury shares		740,027		438,351	1,178,379
Net changes in items other than shareholders' equity					-
Total changes during period	1,902,838	2,642,865	426,973	438,351	5,411,028
Balance at end of period	3,679,656	4,259,683	3,898,004	(3)	11,837,340

	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 period	4,345	841	5,186	72,603	6,504,101
Changes during period					
Issuance of new shares - exercise of share acquisition rights			-		3,805,676
Dividends of surplus			-		(188,907)
Profit attributable to owners of parent			-		615,880
Disposal of treasury shares			-		1,178,379
Net changes in items other than shareholders' equity	(5,123)	(6,053)	(11,176)	19,483	8,307
Total changes during period	(5,123)	(6,053)	(11,176)	19,483	5,419,335
Balance at end of period	(778)	(5,211)	(5,989)	92,087	11,923,437

Fiscal year ended March 31, 2020

(Thousands of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	3,679,656	4,259,683	3,898,004	(3)	11,837,340
Changes during period					
Issuance of new shares - exercise of share acquisition rights	8,937	8,937			17,875
Dividends of surplus			(92,590)		(92,590)
Profit attributable to owners of parent			224,940		224,940
Change in scope of consolidation			4,602		4,602
Net changes in items other than shareholders' equity					-
Total changes during period	8,937	8,937	136,952	-	154,827
Balance at end of period	3,688,593	4,268,620	4,034,956	(3)	11,992,168

	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 period	(778)	(5,211)	(5,989)	92,087	11,923,437
Changes during period					
Issuance of new shares - exercise of share acquisition rights			-		17,875
Dividends of surplus			-		(92,590)
Profit attributable to owners of parent			-		224,940
Change in scope of consolidation			-		4,602
Net changes in items other than shareholders' equity	(3,550)	(9,577)	(13,128)	26,651	13,522
Total changes during period	(3,550)	(9,577)	(13,128)	26,651	168,350
Balance at end of period	(4,329)	(14,789)	(19,118)	118,739	12,091,788

Consolidated statements of cash flows

(Thousands of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from operating activities		
Profit before income taxes	1,016,370	565,871
Depreciation	365,124	378,012
Amortization of software	421,746	435,987
Amortization of goodwill	154,881	151,070
Share-based remuneration expenses	24,508	32,314
Amortization of trademark right	23,171	23,089
Increase (decrease) in allowance for doubtful accounts	–	(1,800)
Increase (decrease) in provision for bonuses	(7,643)	964
Increase (decrease) in provision for sales returns	(79,846)	193,558
Increase (decrease) in provision for point card certificates	–	165,004
Provision for after cost periods adjustment	(5,991)	4,397
Interest and dividend income	(464)	(631)
Interest expenses	5,277	4,225
Loss (gain) on sales of investment securities	(110,742)	–
Loss (gain) on sales of shares of subsidiaries and associates	–	(28,273)
Share of loss (profit) of entities accounted for using equity method	–	(69,709)
Decrease (increase) in trade receivables	(887,494)	550,153
Decrease (increase) in inventories	(1,142,124)	(1,732,821)
Decrease (increase) in advance payments - trade	176,452	(701,541)
Increase (decrease) in trade payables	170,827	(143,065)
Increase (decrease) in accounts payable - other	1,008,278	(836,459)
Increase (decrease) in unearned revenue	559,945	459,464
Increase (decrease) in long-term unearned revenue	313,524	(13,727)
Other, net	(81,693)	(60,665)
Subtotal	1,924,110	(624,581)
Interest and dividends received	464	631
Interest paid	(5,326)	(4,269)
Income taxes paid	(573,164)	(701,315)
Net cash provided by (used in) operating activities	1,346,083	(1,329,534)
Cash flows from investing activities		
Purchase of property, plant and equipment	(18,301)	(21,330)
Purchase of software	(750,152)	(809,231)
Purchase of investment securities	(186,451)	(996,269)
Proceeds from sales of investment securities	810,027	35,000
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	–	60,841
Payments of leasehold and guarantee deposits	(15,600)	(5,552)
Payments from collection of lease and guarantee deposits	–	20,996
Net cash provided by (used in) investing activities	(160,478)	(1,715,545)

(Thousands of yen)

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	100,000	(100,000)
Repayments of long-term borrowings	(422,000)	(422,000)
Proceeds from issuance of shares resulting from exercise of share acquisition rights	3,785,648	12,212
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	(189,048)	(92,251)
Net cash provided by (used in) financing activities	4,467,982	(602,038)
Effect of exchange rate change on cash and cash equivalents	2,352	(16,395)
Net increase (decrease) in cash and cash equivalents	5,655,939	(3,663,513)
Cash and cash equivalents at beginning of period	1,906,252	7,562,192
Cash and cash equivalents at end of period	7,562,192	3,898,678