

Translation

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Summary of Consolidated Financial Results for the Six Months Ended September 30, 2020 (Based on Japanese GAAP)

November 12, 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 to file Quarterly Securities Report: November 12, 2020
 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, 2020 (from April 1, 2020 to September 30, 2020)

(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, 2020 | 5,788 | (33.3) | 284 | (21.5) | 242 | (31.4) | 124 | (36.6) |
| Six months ended September 30, 2019 | 8,683 | 51.2 | 362 | (28.6) | 353 | (31.5) | 197 | (50.6) |

| | Earnings per share | | Diluted earnings per share | |
|-------------------------------------|--------------------|--|----------------------------|--|
| | Yen | | Yen | |
| Six months ended September 30, 2020 | 0.92 | | 0.91 | |
| Six months ended September 30, 2019 | 1.45 | | 1.44 | |

(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, 2020 | 18,257 | 12,192 | 66.0 | 88.49 |
| As of March 31, 2020 | 17,029 | 12,091 | 70.3 | 87.88 |

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, 2020 | – | 0.00 | – | 0.25 | 0.25 |
| Year ending March 31, 2021 | – | 0.00 | | | |
| Year ending March 31, 2021 (Forecast) | | | – | 0.46 | 0.46 |

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 |
| 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 six months ended September 30, 2020
(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, 2020 | 136,244,800 shares | As of March 31, 2020 | 136,241,200 shares |
|--------------------------|--------------------|----------------------|--------------------|

Number of treasury shares at the end of the period

| | | | |
|--------------------------|-----------|----------------------|-----------|
| As of September 30, 2020 | 24 shares | As of March 31, 2020 | 24 shares |
|--------------------------|-----------|----------------------|-----------|

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

| | | | |
|-------------------------------------|--------------------|-------------------------------------|--------------------|
| Six months ended September 30, 2020 | 136,243,006 shares | Six months ended September 30, 2019 | 136,163,792 shares |
|-------------------------------------|--------------------|-------------------------------------|--------------------|

Quarterly consolidated financial statements
Consolidated balance sheets

(Thousands of yen)

| | As of March 31, 2020 | As of September 30, 2020 |
|---|----------------------|--------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 3,898,678 | 3,549,134 |
| Accounts receivable - trade | 2,362,790 | 2,038,431 |
| Merchandise and finished goods | 3,092,616 | 3,878,413 |
| Raw materials and supplies | 123,189 | 107,542 |
| Advance payments - trade | 1,556,730 | 1,310,134 |
| Other | 484,374 | 409,912 |
| Total current assets | 11,518,380 | 11,293,568 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Property, plant and equipment | 437,227 | 443,495 |
| Accumulated depreciation | (280,105) | (311,103) |
| Total property, plant and equipment | 157,121 | 132,392 |
| Intangible assets | | |
| Software | 1,146,007 | 1,203,257 |
| Goodwill | 293,700 | 223,881 |
| Contract based intangible assets | 1,311,100 | 1,272,349 |
| Other | 176,514 | 206,814 |
| Total intangible assets | 2,927,322 | 2,906,302 |
| Investments and other assets | | |
| Investment securities | 1,382,432 | 2,994,756 |
| Deferred tax assets | 860,035 | 751,923 |
| Other | 184,428 | 178,340 |
| Total investments and other assets | 2,426,896 | 3,925,021 |
| Total non-current assets | 5,511,341 | 6,963,717 |
| Total assets | 17,029,721 | 18,257,285 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 420,982 | 438,448 |
| Short-term borrowings | — | 2,500,000 |
| Current portion of long-term borrowings | 422,000 | 422,000 |
| Accounts payable - other | 739,018 | 760,199 |
| Income taxes payable | 377,248 | 26,610 |
| Unearned revenue | 1,159,398 | 846,082 |
| Provision for bonuses | 24,472 | 10,269 |
| Provision for sales returns | 314,416 | 78,809 |
| Provision for point card certificates | 165,004 | 182,239 |
| Provision for after service cost | 18,799 | 11,174 |
| Other | 344,187 | 260,583 |
| Total current liabilities | 3,985,529 | 5,536,416 |
| Non-current liabilities | | |
| Long-term borrowings | 593,000 | 382,000 |
| Long-term unearned revenue | 359,403 | 146,086 |
| Total non-current liabilities | 952,403 | 528,086 |
| Total liabilities | 4,937,933 | 6,064,502 |

(Thousands of yen)

| | As of March 31, 2020 | As of September 30, 2020 |
|---|----------------------|--------------------------|
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 3,688,593 | 3,688,951 |
| Capital surplus | 4,268,620 | 4,268,978 |
| Retained earnings | 4,034,956 | 4,125,823 |
| Treasury shares | (3) | (3) |
| Total shareholders' equity | 11,992,168 | 12,083,750 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | (4,329) | (8,033) |
| Foreign currency translation adjustment | (14,789) | (19,027) |
| Total accumulated other comprehensive income | (19,118) | (27,060) |
| Share acquisition rights | 118,739 | 136,093 |
| Total net assets | 12,091,788 | 12,192,783 |
| Total liabilities and net assets | 17,029,721 | 18,257,285 |

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, 2019 | Six months ended September 30, 2020 |
|---|--|--|
| Net sales | 8,683,016 | 5,788,263 |
| Cost of sales | 3,333,250 | 2,327,214 |
| Gross profit | 5,349,766 | 3,461,048 |
| Provision for sales returns | 20,366 | 78,809 |
| Reversal of provision for sales returns | 120,858 | 314,416 |
| Gross profit - net | 5,450,258 | 3,696,656 |
| Selling, general and administrative expenses | 5,087,961 | 3,412,354 |
| Operating profit | 362,297 | 284,301 |
| Non-operating income | | |
| Interest income | 96 | 10,914 |
| Dividend income | 277 | 740 |
| Other | 413 | 1,723 |
| Total non-operating income | 788 | 13,379 |
| Non-operating expenses | | |
| Interest expenses | 1,888 | 4,018 |
| Foreign exchange losses | 7,268 | 35,775 |
| Share of loss of entities accounted for using equity method | – | 15,044 |
| Other | 223 | 95 |
| Total non-operating expenses | 9,379 | 54,934 |
| Ordinary profit | 353,705 | 242,747 |
| Extraordinary income | | |
| Gain on reversal of share acquisition rights | – | 398 |
| Gain on sales of shares of subsidiaries and associates | 28,273 | – |
| Total extraordinary income | 28,273 | 398 |
| Profit before income taxes | 381,978 | 243,145 |
| Income taxes - current | 288,426 | 8,793 |
| Income taxes - deferred | (103,555) | 109,424 |
| Total income taxes | 184,871 | 118,218 |
| Profit | 197,107 | 124,927 |
| Profit attributable to owners of parent | 197,107 | 124,927 |

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

| | Six months ended September 30, 2019 | Six months ended September 30, 2020 |
|--|--|--|
| Profit | 197,107 | 124,927 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (2,915) | (3,704) |
| Foreign currency translation adjustment | (17,434) | (4,237) |
| Total other comprehensive income | (20,349) | (7,941) |
| Comprehensive income | 176,757 | 116,985 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 176,757 | 116,985 |
| Comprehensive income attributable to non-controlling interests | — | — |

Consolidated statements of cash flows

(Thousands of yen)

| | Six months ended September 30, 2019 | Six months ended September 30, 2020 |
|---|--|--|
| Cash flows from operating activities | | |
| Profit before income taxes | 381,978 | 243,145 |
| Depreciation | 184,040 | 203,532 |
| Amortization of software | 201,448 | 259,481 |
| Amortization of goodwill | 77,440 | 69,818 |
| Share-based remuneration expenses | 14,356 | 17,967 |
| Amortization of trademark right | 11,544 | 11,537 |
| Increase (decrease) in provision for bonuses | (43) | (14,086) |
| Increase (decrease) in provision for sales returns | (100,491) | (235,607) |
| Increase (decrease) in provision for point card certificates | – | 17,234 |
| Provison for after cost periods adustment | 4,038 | (7,625) |
| Interest and dividend income | (374) | (11,655) |
| Interest expenses | 1,888 | 4,018 |
| Loss (gain) on sales of shares of subsidiaries and associates | (28,273) | – |
| Share of loss (profit) of entities accounted for using equity method | – | 15,044 |
| Gain on reversal of share acquisition rights | – | (398) |
| Decrease (increase) in trade receivables | 182,870 | 323,131 |
| Decrease (increase) in inventories | (740,624) | (780,049) |
| Decrease (increase) in advance payments - trade | (537,651) | 246,596 |
| Increase (decrease) in trade payables | (147,066) | 17,465 |
| Increase (decrease) in accounts payable - other | (466,720) | 94,323 |
| Increase (decrease) in unearned revenue | 322,621 | (313,316) |
| Increase (decrease) in long-term unearned revenue | (8,427) | (213,317) |
| Other, net | 111,774 | (7,320) |
| Subtotal | (535,670) | (60,077) |
| Interest and dividends received | 374 | 27,880 |
| Interest paid | (2,195) | (4,856) |
| Income taxes paid | (386,236) | (340,833) |
| Net cash provided by (used in) operating activities | (923,727) | (377,887) |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (7,202) | (7,385) |
| Purchase of software | (308,260) | (562,351) |
| Purchase of investment securities | (467,379) | (1,650,090) |
| Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation | 60,841 | – |
| Payments of leasehold and guarantee deposits | (5,306) | – |
| Net cash provided by (used in) investing activities | (727,306) | (2,219,827) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | (100,000) | 2,500,000 |
| Repayments of long-term borrowings | (211,000) | (211,000) |
| Proceeds from issuance of shares resulting from exercise of share acquisition rights | 394 | 500 |
| Dividends paid | (92,066) | (34,068) |
| Net cash provided by (used in) financing activities | (402,672) | 2,255,431 |
| Effect of exchange rate change on cash and cash equivalents | (28,779) | (7,262) |
| Net increase (decrease) in cash and cash equivalents | (2,082,484) | (349,544) |
| Cash and cash equivalents at beginning of period | 7,562,192 | 3,898,678 |
| Cash and cash equivalents at end of period | 5,479,707 | 3,549,134 |