

Financial Results
for the Nine Months Ended March 31, 2019
[Japanese GAAP]
(Non-consolidated)



April 26, 2019

Company name: WELLNET CORPORATION
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2428
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 Scheduled date of filing quarterly securities report: May 14, 2019
 Scheduled date of commencing dividend payments: –
 Availability of supplementary briefing material on quarterly financial results: None
 Schedule of quarterly financial results briefing session: No

(Amounts of less than one million yen are rounded down.)

1. Financial Results for the Nine Months Ended March 31, 2019 (July 1, 2018 to March 31, 2019)

(1) Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended								
March 31, 2019	7,622	2.7	449	(22.9)	470	(21.8)	324	(17.5)
March 31, 2018	7,421	(6.2)	582	(43.0)	601	(47.8)	393	(50.3)

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended		
March 31, 2019	17.35	17.27
March 31, 2018	20.84	20.70

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2019	22,330	7,397	32.7	389.40
As of June 30, 2018	16,811	7,907	46.5	420.62

(Reference) Equity: As of March 31, 2019: ¥7,303 million
 As of June 30, 2018: ¥7,812 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended June 30, 2018	Yen -	Yen 0.00	Yen -	Yen 50.00	Yen 50.00
Fiscal year ending June 30, 2019	-	0.00	-		
Fiscal year ending June 30, 2019 (Forecast)				50.00	50.00

(Note) Revision of dividends forecast from recently announced figures: No

3. Financial Results Forecast for the Fiscal Year Ending June 30, 2019 (July 1, 2018 to June 30, 2019)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit	
Full year	Million yen 10,000	% 2.2	Million yen 560	% (17.4)	Million yen 580	% (18.1)

	Profit		Basic earnings per share
Full year	Million yen 400	% (19.2)	Yen 21.36

(Note) Revision of financial results forecast from recently announced figures: Yes

(Note) Previously, financial results forecast for the fiscal year ending June 30, 2019 were not disclosed numerically as there were numerous uncertain factors that may impact the results. With the progress of the fiscal year, uncertainties have diminished enabling financial results forecast to be estimated and announced in figures.

* Notes:

(1) Adoption of special accounting procedures for preparing quarterly financial statements: No

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement

- 1) Changes in accounting policies due to the revision of accounting standards: No
- 2) Changes in accounting policies other than 1) above: No
- 3) Changes in accounting estimates: No
- 4) Retrospective restatement: No

(3) Total number of issued shares (common shares)

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

As of March 31, 2019: 19,400,000 shares

As of June 30, 2018: 19,400,000 shares

2) Total number of treasury shares at the end of the period:

As of March 31, 2019: 643,048 shares

As of June 30, 2018: 825,656 shares

3) Average number of shares during the period:

Nine months ended March 31, 2019: 18,722,247 shares

Nine months ended March 31, 2018: 18,892,810 shares

* These financial results are outside the scope of quarterly review procedures by a certified public accountant or an audit corporation.

* Explanation of the proper use of financial results forecast and other notes

Financial results forecast presented herein is based on the information available as at the date of the announcement of this material, and involves considerable uncertainties. Actual results may differ from the forecast due to changes in investors' investment decisions and business conditions.

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1. Qualitative Information on Financial Results for the Period under Review

(1) Explanation of Business Results

Face-to-face smartphone payments have recently shown drastic changes. In the non-face-to-face payment market, the Company's business domain, moves toward cashless payments and others are expected to become more active. Moreover, the trend of transferring various services from company-held ones to cloud-based ones is accelerating. Under these circumstances, the Company announced the "Medium Term Five-Year Management Plan (July 2016 - June 2021)" in August 2016 to actively and boldly take on new business opportunities, and has conducted activities to promote "Response to the age of electronic money," "Promotion of Bus IT Promotion Solution Project" and "Service support for consumers from the business operator side" as priority measures.

For the nine months ended March 31, 2019, the third year of the "Medium Term Five-Year Management Plan (July 2016 - June 2021)," the Company reported net sales of ¥7,622 million (up 2.7% year-on-year), operating profit of ¥449 million (down 22.9% year-on-year), ordinary profit of ¥470 million (down 21.8% year-on-year) and profit of ¥324 million (down 17.5% year-on-year).

Changes in Environment Surrounding the Company and Response Strategy = New Medium Term Five-Year Management Plan (July 2016 - June 2021)

The non-face-to-face payment market, the Company's business domain, is expected to continue achieving a certain level of growth in the future. During the period of the New Medium Term Five-Year Management Plan, we are pursuing a growth strategy aimed at achieving the target of ¥5.0 billion in ordinary profit in the final fiscal year by activities to meet the changes in environment, such as the rapid change in payment methods.

A. Current status of WELLNET's "Smartphone payment service," *Shiharai-Hisho*

On August 3, 2017, we began the commercial service of *Shiharai-Hisho*, an electronic money service compatible with the increasingly cashless society expected in the future, with our first client, The Kansai Electric Power Co., Inc. The smartphone application *Shiharai-Hisho* is an electronic money service managed on servers with functions including the following:

- 1) Electronic money can be immediately charged from an affiliated bank (can be charged also from other receiving agencies).
- 2) The reminder function of the *Shiharai-Hisho* prevents one from "carelessly forgetting" payment, thereby improving the collection rate.
- 3) Costs will be reduced as a result of a shift from the issuance of invoices by mail to electronic invoices through *Shiharai-Hisho*.

We have completed connections with Sumitomo Mitsui Banking Corporation, JAPAN POST BANK Co., Ltd., The Daisan Bank, Ltd., The Mie Bank, Ltd., The Chiba Kogyo Bank, Ltd., THE TAIKO BANK, LTD., The Hokkaido Bank, Ltd., The Akita Bank, Ltd., The Awa Bank, Ltd., The Ehime Bank, Ltd., The Kagawa Bank, Ltd., THE BANK OF KOCHI, LTD., The Shikoku Bank, Ltd., The Tokushima Bank, Ltd., The Hyakujushi Bank, Ltd., The Daishi Bank, Ltd., The Chikuho Bank, Ltd., and THE TOTTORI BANK, LTD. We expect to become affiliated with more banks going forward.

In addition to The Kansai Electric Power Co., Inc., our first client to introduce this service, Kyushu Electric Power Co., Inc., Hokkaido Electric Power Co., Inc. (exclusive adoption of the Company's service), Tohoku Electric Power Co., Inc., Shikoku Electric Power Co., Inc. (exclusive adoption of the Company's service), and Hokuriku Electric Power Company (exclusive adoption of the Company's service) also began offering this service, and we plan to expand it to other companies going forward. Among businesses that have already introduced our Multi Payment Services, AirAsia Japan Co., Ltd. and Peach Aviation Limited in the airline industry have adopted *Shiharai-Hisho*. In the bus industry, this service has been adopted on a full scale in routes that are compatible with one of our strengths, *Bus Mori!* service, and the number of adopted routes has increased to 65. The service of *Shiharai-Hisho* has steadily expanded among the other ordinary businesses,

such as eBay Japan (Website name: Qoo10), Shimamura Music, Sony Music Artists Inc., Kintetsu Department Store Co., Ltd., and Defactostandard, Ltd.

B. Driving forward our Bus IT Promotion Project, *Bus Mori!* SERIES

The number of routes that are compatible with the smartphone application *Bus Mori!* introduced in August 2016 has already increased to 280, partly due to the effect of increase in variation of tickets, such as single-trip tickets, coupon tickets, commuter tickets, and free passes. We are engaging in proactive sales promotion to further increase the number of routes to 300 at the end of this fiscal year (the fiscal year ending June 30, 2019). Moreover, we are developing several new services in a plan to foster *Bus Mori!* into a total cloud service.

As steps to increase the number of users, we conducted sales promotion in cooperation with bus companies and have also sponsored the *BUSTABIST* FM radio program, which conveyed the appeal of bus travel, on the JFN38 channel, particularly the key TOKYO FM station, every Sunday afternoon. This was transformed into a new program, *TABIMESHI*, with the aim to raise recognition for *Shiharai-Hisho* as well as *Bus Mori!*, in April 2019, and we have conveyed the appeal of the services along with other sales promotion measures.

C. Stable system operation

The effect of our investments in stable operations and reinforcement of the system over the past few years is apparent in the fact that there were no major system failures. We aim to optimize cost performance by making the revenue structure for each service visible on the premise of stable operations in the future.

Additionally, in a bid to secure excellent human resources of information technology engaging in the development and operation of systems at the Sapporo Office, we purchased land with a usable area of 5,486.19 m² in Odori Higashi 9-chome, Chuo-ku, Sapporo, in April 2019. We will start the construction of the new office building for relocation in summer 2021.

D. R&D for the future

In an effort to capture the huge waves of “IoT” and “FinTech,” we are forming affiliations where necessary with universities, etc. with diverse knowledge and technologies and choosing the right course for R&D. Additionally, we will consider investment in startup ventures developing payment peripheral platforms.

E. Governance

1) WELLNET Arete

The Company defines its *raison d’etre* and action guidelines for employees in WELLNET Arete (Virtue) with a view to implementing effective governance. Although the product may change, we provide education of the Company’s core action philosophy to employees.

(WELLNET Arete)

Contribute to society by continuously making “systems that would be handy to have.”

Proposing and spreading such “systems” to the whole world.

Distributing the profit gained from this to employees, shareholders and our next investment.

(WELLNET Employee Arete)

I will avoid the pitfalls of stereotypes and think freely.

I will first think on my own, and then propose the best solution for all.

I will promote open discussions while “the one who should decide” will decide and the organization will put it into action.

I will always clearly define “who” will do “what” by “when.”

I will repeatedly validate the execution result and improve thereon.

I will make honest, accurate and quick reports.

I will conduct business after documenting services to be provided and compensation to be received.
I will hold rectitude as my motto and accept neither entertainment nor gifts.

2) Board of Directors in which Outside Directors make up majority

The Company made a transition to a “company with an audit and supervisory committee” in September 2017 to enhance active and bold management and transparency in the decision-making process, and with an awareness of the corporate governance code. The majority of the members of the Board of Directors are Outside Directors, with two Internal Directors (of which one is a woman) and three Outside Directors. All members participate in vigorous discussions in every meeting.

F. Activities contributing to local communities

As part of our social contribution, we are providing support to many students through our WELLNET Scholarship, established to help financially struggling students at colleges of technology in Hokkaido. Many letters of gratitude were received from these students, which motivated our employees. We will continue with these activities.

In April 2017, we opened the “WELLNET Morino Childcare Center,” an in-office childcare center established to give employees at the Sapporo Office peace of mind. As part of our social contribution activities, we have begun accepting children in the surrounding neighborhood as well.

G. Performance forecast and shareholder returns

We have not disclosed the financial forecast for each fiscal year since it is difficult to forecast the effect of active and bold investment on corporate performance. Meanwhile, we set the dividend payout ratio at 50% or more during the “Medium Term Five-Year Management Plan” (with a policy of paying a dividend of ¥50 even when dividend per share is less than ¥50) in order to encourage shareholders to make long-term investment with peace of mind. We will keep this policy about the dividend value for this fiscal year (the fiscal year ending June 30, 2019). For the next fiscal year and later, however, we consider abolishing this policy about the minimum dividend payment per share of ¥50 though we will maintain the payout ratio of 50% as we aim to give priority to early monetization of next-generation products and services in focus and investment plans including the construction of the new Sapporo Office in a bid to secure excellent human resources of information technology.

We will survive this period of drastic changes and collectively work to improve our corporate value toward the next generation.

(2) Explanation of Financial Position

Status of assets, liabilities, and net assets

Total assets as of March 31, 2019 stood at ¥22,330 million. Current assets were ¥19,982 million. This mainly comprises cash and deposits of ¥16,845 million and securities of ¥999 million. Cash and deposits include ¥12,928 million of receiving agency deposits in money collection business, which is the money kept temporarily by the Company up to the predetermined date of transfer to operators in the following month. Non-current assets amounted to ¥2,348 million. This mainly comprises property, plant and equipment of ¥472 million, intangible assets of ¥1,152 million, and investments and other assets of ¥722 million.

Meanwhile, total liabilities amounted to ¥14,932 million. This mainly comprises receiving agency deposits of ¥12,928 million and accounts payable - trade of ¥541 million.

Total net assets amounted to ¥7,397 million. This mainly comprises shareholders' equity of ¥7,303 million.

(Reference) Cash and deposits, net (net balance of cash and deposits after offsetting receiving agency deposits related to money collection business)

(Thousands of yen)

	As of June 30, 2018	As of March 31, 2019
(A) Cash and deposits	10,564,002	16,845,867
(B) Receiving agency deposits	6,959,082	12,928,818
(A)-(B) Cash and deposits, net	3,604,919	3,917,049

(3) Explanation of Financial Results Forecast and Other Forward-looking Information

Please see “Notice Concerning Revisions in the Financial Results Forecast” announced on April 26, 2019.

2. Financial Statements and Significant Notes

(1) Balance Sheet

(Thousands of yen)

	As of June 30, 2018	As of March 31, 2019
Assets		
Current assets		
Cash and deposits	10,564,002	16,845,867
Accounts receivable - trade	539,030	623,938
Operating accounts receivable	36,072	-
Securities	1,999,913	999,989
Merchandise	2,206	1,546
Work in process	6,630	2,484
Supplies	1,433	1,706
Other	1,322,082	1,506,845
Total current assets	14,471,371	19,982,379
Non-current assets		
Property, plant and equipment	528,130	472,758
Intangible assets	1,105,878	1,152,648
Investments and other assets	705,978	722,671
Total non-current assets	2,339,987	2,348,077
Total assets	16,811,358	22,330,456
Liabilities		
Current liabilities		
Accounts payable - trade	512,434	541,752
Operating accounts payable	73,555	-
Receiving agency deposits	6,959,082	12,928,818
Income taxes payable	117,135	50,982
Provision for bonuses	-	47,525
Provision for point card certificates	362	99
Other	1,063,212	1,173,725
Total current liabilities	8,725,783	14,742,903
Non-current liabilities		
Provision for granting of shares	42,407	46,075
Asset retirement obligations	7,049	7,128
Long-term accounts payable - other	119,007	119,007
Other	9,921	17,844
Total non-current liabilities	178,385	190,055
Total liabilities	8,904,169	14,932,959

(Thousands of yen)

	As of June 30, 2018	As of March 31, 2019
Net assets		
Shareholders' equity		
Capital stock	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	4,690,225	3,967,804
Treasury shares	(1,054,932)	(841,337)
Total shareholders' equity	7,812,292	7,303,466
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	485	462
Total valuation and translation adjustments	485	462
Share acquisition rights	94,411	93,567
Total net assets	7,907,189	7,397,496
Total liabilities and net assets	16,811,358	22,330,456

(2) Statement of Income
(Nine months ended March 31)

(Thousands of yen)

	For the nine months ended March 31, 2018	For the nine months ended March 31, 2019
Net sales	7,421,159	7,622,133
Cost of sales	5,798,545	6,357,572
Gross profit	1,622,613	1,264,560
Selling, general and administrative expenses	1,039,840	815,256
Operating profit	582,773	449,304
Non-operating income		
Interest income	2,653	2,225
Dividend income	42	44
Refunded consumption taxes	11,864	–
Gain on investments in partnership	–	6,956
Other	7,122	11,781
Total non-operating income	21,681	21,007
Non-operating expenses		
Loss on investments in partnership	2,956	–
Other	28	–
Total non-operating expenses	2,984	–
Ordinary profit	601,470	470,312
Profit before income taxes	601,470	470,312
Income taxes - current	225,326	166,462
Income taxes - deferred	(17,652)	(21,002)
Total income taxes	207,673	145,459
Profit	393,797	324,852

(3) Notes to Financial Statements

(Notes on going concern assumption)

There is no relevant information.

(Notes to substantial change in the amount of shareholders' equity)

There is no relevant information.

(Adoption of special accounting procedures for preparing quarterly financial statements)

There is no relevant information.

(Changes in accounting policies)

There is no relevant information.

(Changes in accounting estimates)

There is no relevant information.