

Financial Results
for the Three Months Ended September 30, 2021
[Japanese GAAP]
(Non-consolidated)



October 29, 2021

Company name: WELLNET CORPORATION
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2428
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 Scheduled date of filing quarterly securities report: November 12, 2021
 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 Three Months Ended September 30, 2021 (July 1, 2021 to September 30, 2021)

(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	%
Three months ended								
September 30, 2021	2,095	(5.5)	130	(3.7)	134	(8.7)	108	6.2
September 30, 2020	2,217	(9.7)	135	(40.6)	147	(35.8)	102	(35.8)

	Basic earnings per share	Diluted earnings per share
Three months ended	Yen	Yen
September 30, 2021	5.77	5.75
September 30, 2020	5.44	5.42

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of September 30, 2021	21,127	6,979	32.8	367.81
As of June 30, 2021	21,257	7,175	33.4	377.37

(Reference) Equity: As of September 30, 2021: ¥6,923 million
 As of June 30, 2021: ¥7,102 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended June 30, 2021	Yen -	Yen 0.00	Yen -	Yen 15.47	Yen 15.47
Fiscal year ending June 30, 2022	-				
Fiscal year ending June 30, 2022 (Forecast)		0.00	-	13.29	13.29

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

3. Financial Results Forecast for the Fiscal Year Ending June 30, 2022 (July 1, 2021 to June 30, 2022)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit	
	Million yen	%	Million yen	%	Million yen	%
First half	-	-	-	-	-	-
Full year	9,600	-	730	-	730	-

	Profit		Basic earnings per share
	Million yen	%	Yen
First half	-	-	-
Full year	500	-	26.56

(Notes)

1. This forecast is based on the expectation that the movement of people, especially in Japan, will recover to a certain degree due to the increased level of vaccination, and will be greatly affected by the degree of recovery. The Company does not currently anticipate any extraordinary loss related to the handling of the former Sapporo office building or extraordinary loss related to the valuation of investment securities at this point in time. The Company will promptly announce any significant events that should be disclosed.
2. The Company has applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and relevant ASBJ regulations from the beginning of the fiscal year ending June 30, 2022. Therefore, the financial results forecast above represents the amounts calculated by applying the said accounting standard and relevant regulations, and does not include year-on-year changes.

* 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: Yes

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(Note) For more details, please refer to “Changes in accounting policies, (3) Notes to Financial Statements, 2. Financial Statements and Significant Notes” on page 7 of the attached materials.

(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 September 30, 2021: 19,400,000 shares

As of June 30, 2021: 19,400,000 shares

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

As of September 30, 2021: 577,865 shares

As of June 30, 2021: 577,865 shares

3) Average number of shares during the period:

Three months ended September 30, 2021: 18,822,135 shares

Three months ended September 30, 2020: 18,801,976 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

The financial results forecast and dividends forecast above are based on certain assumptions judged to be reasonable based on information available to the Company at the time of the announcement of this document. Actual business performance and dividends may differ from the forecasts due to various factors that may arise in the future.

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

(1) Explanation of Business Results

1) Analysis of Business Results

During the three months of the fiscal year under review (July 1, 2021 to September 30, 2021), the Japanese economy continued to be affected by the prolonged effects of the novel coronavirus disease (COVID-19), with the declaration of a state of emergency and significant restrictions on social and economic activities. The impact of the COVID-19 on the economy remained unpredictable.

In the non-face-to-face payment market, the Company's business domain, there has been a sharp decline in inbound and domestic travel demand, and the impact on transportation-related businesses such as airlines, buses, and railroads, especially during the summer vacation period, which is essentially the peak season, has been devastating. The Company is also working to expand sales of new products such as *ekaiin.com* and to reduce costs by relocating and consolidating administrative departments to the Sapporo head office, but we believe that it will take a certain amount of time to recover to the level before the spread of COVID-19.

At the same time, DX (Digital Transformation) is being actively promoted in a wide variety of industries and business categories, and the awareness and consumption behavior of individual consumers are also changing. In this context, the provision of services and purchase of products through non-face-to-face and non-contact means is increasing, and IT is playing an increasingly important role in society. In the midst of this paradigm shift, the Company has been promoting services such as "Response to the age of electronic money" and "Promotion of Bus IT Promotion Solution Project and the MaaS Business" as priority measures, with "paperless" and "cashless" as the keywords, and aiming to provide a lifestyle-based fin-tech platform in this context.

With respect to business results for the three months ended September 30, 2021, the Company reported net sales of ¥2,095 million (down 5.5% year on year), operating profit of ¥130 million (down 3.7% year on year), ordinary profit of ¥134 million (down 8.7% year on year) and profit of ¥108 million (up 6.2% year on year).

2) Changes in Environment Surrounding the Company and Response Strategy

The non-face-to-face settlement market, the Company's business domain, is expected to continue achieving a certain level of growth in the future, and we are promoting cloud service collaboration with content service providers, etc. for systems promoting going paperless and for settlements systems.

A. "Smartphone payment service," *Shiharai-Hisho* during shift to paperless and cashless

We expect that the *Shiharai-Hisho* service, which carries out payments via smartphone and has already been introduced at eight electric power companies, will accelerate the shift to paperless for invoicing, such as by Chubu Electric Power Co., Inc. commencing SMS (short message service) based electronic invoicing, which is the first in the electric power industry, in April 2020.

In addition, the number of local taxation and public utility charges payments that can be made using the *Shiharai-Hisho* service is increasing, especially in areas where there are many affiliated banks, and in the bus and railway industry, the number of routes on which customers can use *Shiharai-Hisho* to pay for smartphone commuter passes and coupon tickets, where the Company is promoting DX, is also increasing.

In February 2021, we released *ekaiin.com*, a membership management system that enables electronic billing and payment of various expenses using the *Shiharai-Hisho* service and credit cards in the area of membership management, which has not been digitized in the past. We are also working on the development of new and enhanced functions for *Shiharai-Hisho*, which will enable safe and secure non-stop payment (service name: *Omakase Shiharai*), a step up from the current one-stop payment system.

On the other hand, we have completed alliances with 36 banks, including Sumitomo Mitsui Banking Corporation and Japan Post Bank Co., Ltd. However, after a series of large-scale incidents of unauthorized use of fund transfer agent accounts connected with several banks, the Company has frozen the use of some of these banks and is working to resume operations with them after implementing security measures related to identity verification. As of October 29, 2021, the number of available banks has recovered to 12, and we

will continue our efforts to increase this number.

B. Driving forward our Bus IT Promotion Project

Launched in August 2016, *Bus Mori!* has been expanded to handle more than 370 routes, including smartphone tickets, smartphone coupon tickets, smartphone commuter passes, smartphone free passes, and discount passes. Despite the decline in demand during the COVID-19 pandemic, we have been capturing demand for smartphone commuter tickets and coupon tickets, which are often used for daily routes, for the future. The Company is continuously promoting the additional development of functions for *ALTAIR triple star*, a MaaS cloud service for the public transportation industry.

ALTAIR triple star is an all-in-one total service ticket sales system that aims to automate a series of operations, from bus seat inventory management, reservation and purchase acceptance, ticket issuance and lifecycle management, to sales information aggregation and inter-operator settlement processing.

DohNa!!, a MaaS service that enables inter-boarding of Hakodate's trams, buses and railroads, was launched in January 2020. Since then, the use of the service has been expanded to include excursion tickets, and the service will commence in the Sendai City MaaS project in October 2021. *Bus Mori!* and *ALTAIR triple star*, non-contact ticket sale services, are showing promise as countermeasures against the spread of COVID-19 infection. We will continue to develop these services going forward as a "total cloud service" to promote DX in the transportation industry.

C. Current status of WELLNET's key product, Multi Payment Services

Multi Payment Services are expected to have the potential to grow in the area of non-face-to-face payments. Various operators have been adopting the Company's payment services for over 30 years, and the Company will continue to meet the needs for greater convenience of both operators and customers as we shift to smartphone-centric settlement.

D. Activities contributing to local communities and SDGs

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. Although many students across Japan were affected by COVID-19 in the fiscal year 2020, there were no students who dropped out due to financial difficulties at the four colleges of technology in Hokkaido as a result of our support. We will continue these activities moving forward.

In addition, Sapporo City aims to become a sustainable city with a good living environment based on the revised Building Energy Conservation Law, and has established the Comprehensive Assessment System for Building Environmental Efficiency in Sapporo (CASBEE Sapporo) with the aim of spreading and promoting environmentally efficient buildings. Our new Sapporo head office, which was completed in June 2021, has already received the A rank under CASBEE Sapporo.

Furthermore, with the completion of the new Sapporo head office, we are aiming to obtain the platinum rank of WELL certification through office design and operation that consider the health and working environment of our employees. The WELL Certification is an initiative that began in 2014 in the U.S. to evaluate and certify spaces including buildings and offices from the standpoint of human health. It is a cutting edge initiative in Japan, with only a few cases registered. This initiative represents an investment in the Company's most important asset, our employees, and we also believe that it will lead to increased corporate value in the form of increased productivity, and workstyle reforms.

E. Performance forecast and shareholder returns

The performance forecast is as presented in "3. Financial Results Forecast for the Fiscal Year Ending June 30, 2022 (July 1, 2021 to June 30, 2022)" in summary information. In addition, out of consideration for our

shareholders, we plan for the dividend payout ratio to be 50% or more.

(2) Explanation of Financial Position

Total assets as of September 30, 2021 stood at ¥21,127 million. Current assets were ¥13,979 million. This mainly comprises cash and deposits of ¥10,416 million. Cash and deposits include ¥8,403 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 ¥7,148 million. This mainly comprises property, plant and equipment of ¥4,316 million, intangible assets of ¥705 million, and investments and other assets of ¥2,126 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, 2021	As of September 30, 2021
(A) Cash and deposits	10,503,958	10,416,412
(B) Receiving agency deposits	8,349,597	8,403,981
(A)-(B) Cash and deposits, net	2,154,360	2,012,430

Meanwhile, total liabilities amounted to ¥14,148 million. This mainly comprises receiving agency deposits of ¥8,403 million.

Total net assets amounted to ¥6,979 million. This mainly comprises shareholders' equity of ¥6,920 million.

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

No changes have been made to the financial results forecast for the fiscal year ending June 30, 2022 from the forecast announced on August 17, 2021.

2. Financial Statements and Significant Notes

(1) Balance Sheet

(Thousands of yen)

	As of June 30, 2021	As of September 30, 2021
Assets		
Current assets		
Cash and deposits	10,503,958	10,416,412
Accounts receivable - trade	480,070	510,113
Merchandise	2,156	4,694
Work in process	9,456	-
Supplies	280	420
Deposits paid	2,124,080	2,255,780
Other	914,215	792,174
Total current assets	14,034,219	13,979,595
Non-current assets		
Property, plant and equipment	4,347,788	4,316,034
Intangible assets	733,326	705,451
Investments and other assets	2,142,134	2,126,691
Total non-current assets	7,223,249	7,148,177
Total assets	21,257,468	21,127,773
Liabilities		
Current liabilities		
Accounts payable - trade	423,282	417,118
Deposits received	2,457,239	2,543,720
Current portion of long-term borrowings	100,000	100,000
Receiving agency deposits	8,349,597	8,403,981
Income taxes payable	70,502	54,567
Provision for bonuses	-	39,967
Provision for point card certificates	38	624
Other	559,637	491,764
Total current liabilities	11,960,298	12,051,744
Non-current liabilities		
Long-term borrowings	1,900,000	1,875,000
Provision for share-based remuneration	66,758	64,629
Asset retirement obligations	10,851	10,858
Long-term accounts payable - other	119,007	119,007
Other	24,773	27,153
Total non-current liabilities	2,121,390	2,096,648
Total liabilities	14,081,688	14,148,393
Net assets		
Shareholders' equity		
Share capital	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	3,685,522	3,507,778
Treasury shares	(764,630)	(764,630)
Total shareholders' equity	7,097,891	6,920,147
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4,995	2,887
Total valuation and translation adjustments	4,995	2,887
Share acquisition rights	72,892	56,345
Total net assets	7,175,779	6,979,379
Total liabilities and net assets	21,257,468	21,127,773

(2) Statement of Income
(Three months ended September 30)

(Thousands of yen)

	For the three months ended September 30, 2020	For the three months ended September 30, 2021
Net sales	2,217,879	2,095,168
Cost of sales	1,887,519	1,777,072
Gross profit	330,360	318,096
Selling, general and administrative expenses	194,694	187,426
Operating profit	135,665	130,669
Non-operating income		
Interest income	66	521
Gain on investments in investment partnerships	8,964	499
Gain on forfeiture of unclaimed dividends	1,645	-
Rental income	772	772
Subsidy income	-	3,705
Other	947	1,209
Total non-operating income	12,396	6,708
Non-operating expenses		
Interest expenses	417	1,008
Foreign exchange losses	-	1,591
Total non-operating expenses	417	2,600
Ordinary profit	147,644	134,778
Extraordinary income		
Gain on reversal of share acquisition rights	-	16,547
Total extraordinary income	-	16,547
Profit before income taxes	147,644	151,325
Income taxes - current	43,628	47,266
Income taxes - deferred	1,831	(4,483)
Total income taxes	45,459	42,783
Profit	102,184	108,542

(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)

(Application of Accounting Standard for Revenue Recognition, etc.)

The Company has applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and relevant ASBJ regulations effective from the beginning of the first quarter of the current fiscal year, and it has recognized revenue at the time the control of promised goods or services is transferred to the customer at the amount expected to be received upon exchange of said goods or services.

Accordingly, for net sales for contracted development, this has been changed to the method where progress towards satisfaction of performance obligations is estimated and revenue is recognized based on the progress over time.

The application of the Accounting Standard for Revenue Recognition and relevant ASBJ regulations is subject to the transitional treatment provided for in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition. The cumulative effect of the retrospective application, assuming the new accounting policy had been applied to periods prior to the beginning of the first quarter of the current fiscal year was added to or deducted from the opening balance of retained earnings of the first quarter of the current fiscal year, and thus the new accounting policy was applied from such opening balance; provided, however, there is minimal impact on the opening balance. In addition, there is minimal impact on the profit or loss of the first quarter of the current fiscal year.

In accordance with the transitional treatment provided for in paragraph 89-2 of the Accounting Standard for Revenue Recognition, figures for the previous fiscal year have not been restated in accordance with the new approach to presentation.

(Changes in accounting estimates)

There is no relevant information.