

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



February 3, 2020

Company name: WELLNET CORPORATION
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2428
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 Scheduled date of filing quarterly securities report: February 14, 2020
 Scheduled date of commencing dividend payments: –
 Availability of supplementary briefing material on quarterly financial results: Yes
 Schedule of quarterly financial results briefing session: Yes

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

1. Financial Results for the Six Months Ended December 31, 2019 (July 1, 2019 to December 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	%
Six months ended								
December 31, 2019	4,821	(4.6)	478	63.2	482	58.0	335	58.7
December 31, 2018	5,052	2.9	293	(16.0)	305	(16.7)	211	(12.4)

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
December 31, 2019	17.84	17.78
December 31, 2018	11.29	11.23

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of December 31, 2019	19,635	6,854	34.5	360.57
As of June 30, 2019	18,960	7,443	38.8	392.04

(Reference) Equity: As of December 31, 2019: ¥6,778 million
 As of June 30, 2019: ¥7,353 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended June 30, 2019	-	0.00	-	50.00	50.00
Fiscal year ending June 30, 2020	-	0.00	-	-	-
Fiscal year ending June 30, 2020 (Forecast)	-	-	-	-	-

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

Although the dividend payout ratio will be set at 50% for the fiscal year ending June 30, 2020, the dividend amounts are yet to be determined at this moment since it is impossible to make a reasonable forecast for the financial results.

3. Financial Results Forecast for the Fiscal Year Ending June 30, 2020 (July 1, 2019 to June 30, 2020)

At this moment, it is difficult to indicate the numerical forecast as there are many uncertain factors that may impact the actual financial results for the fiscal year ending June 30, 2020. The forecast will be announced immediately when it becomes possible to make a reasonable forecast.

(% indicates changes from the previous corresponding period.)

	Net sales		Operating profit		Ordinary profit	
Full year	Million yen	%	Million yen	%	Million yen	%
	-	-	-	-	-	-

	Profit		Basic earnings per share
Full year	Million yen	%	Yen
	-	-	-

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

* 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 December 31, 2019: 19,400,000 shares
 - As of June 30, 2019: 19,400,000 shares
 - 2) Total number of treasury shares at the end of the period:
 - As of December 31, 2019: 599,824 shares
 - As of June 30, 2019: 643,048 shares
 - 3) Average number of shares during the period:
 - Six months ended December 31, 2019: 18,785,673 shares
 - Six months ended December 31, 2018: 18,705,265 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

At this moment, it is difficult to indicate the numerical forecast as there are many uncertain factors that may impact the actual financial results for the fiscal year ending June 30, 2020. The forecast will be announced immediately when it becomes possible to make a reasonable forecast.

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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

Despite the Japanese economy in the fiscal year under review remaining on a mild path of recovery amid firm corporate earnings and improvements in the employment environment, the outlook for the Japanese economy remains unclear amid factors that include economic slowdown in China due to the prolonged trade friction between the U.S. and China, and the domestic consumption tax hike. Furthermore, there were also impacts on buses, airlines, and railways related to the Company as a result of this being a year with many natural disasters, with enormous damage being caused to various regions by the striking of large typhoons.

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 on the occasion of the consumption tax hike. Moreover, the trend of transferring various services 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 six months ended December 31, 2019, the fourth year of the "Medium Term Five-Year Management Plan (July 2016 - June 2021)," net sales decreased to ¥4,821 million (down 4.6% year-on-year) as a result of a decrease in the amount received from existing business operators, despite an increase due to the introduction of new business partners.

With respect to profits, as a result of large-scale development settling down in addition to measures to reduce expenses such as accumulating know-how regarding development and operations in-house and promoting in-house manufacturing, the Company reported operating profit of ¥478 million (up 63.2% year-on-year), ordinary profit of ¥482 million (up 58.0% year-on-year) and profit of ¥335 million (up 58.7% year-on-year).

2) 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. Furthermore, during the period of the New Medium Term Five-Year Management Plan, we are pursuing a growth strategy by meeting the shift to paperless and cashless payments.

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

On August 3, 2017, we began the commercial service of *Shiharai-Hisho*, a smartphone payment service compatible with the increasingly cashless society expected in the future, with our first client, The Kansai Electric Power Co., Inc. Subsequently, 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 have become affiliated with 32 banks, including Sumitomo Mitsui Banking Corporation and JAPAN POST BANK Co., Ltd. We expect to be affiliated with more banks going forward. In addition to power companies, we are expanding this service to businesses that have already introduced our Multi Payment Services, as well as lifestyle infrastructure business operators such as bus, railway, and airline companies.

B. Current status of our Bus IT Promotion Project, *Bus Mori!*

The number of routes that are compatible with the smartphone application *Bus Mori!* introduced in

August 2016 has smoothly increased to 316, partly due to the effect of an increase in variation of services, such as expanding the types of tickets usable with smartphones, namely single-trip tickets, coupon tickets, commuter tickets, free passes and so forth, collaboration with Alipay as well as car-mounted tablet PCs. Major topics in the financial results for the second quarter were the Company's cooperation with JR BUS KANTO CO., LTD., and the beginning of sales of reserved smartphone commuter tickets (from October 1, 2019) and non-reserved smartphone coupon tickets (from December 2, 2019).

Moreover, we are developing several new services in a plan to foster *Bus Mori!* into a comprehensive cloud service.

Moving forward, we will increase user numbers and payment volumes for both *Shiharai-Hisho* and *Bus Mori!*, expanding the number of affiliated partners.

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

According to the FY2018 Survey of Infrastructure Development Status for Data-driven Society in Japan (E-Commerce Market Survey) released by the Ministry of Economy, Trade and Industry on May 16, 2019, the scale of the e-commerce market (B to C) for Japanese consumers increased 9.0% year on year in 2018 to ¥18.0 trillion, and Multi Payment Services are expected to continue to grow in the area of non-face-to-face payments.

Costs for the Company, clients, and receiving agencies will decrease as a result of Multi Payment Services making the transition to the "Smartphone payment service," *Shiharai-Hisho*, which creates a win-win relationship.

D. Performance forecast and shareholder returns

We do not disclose the financial forecast for each fiscal year since it is difficult to forecast the effect of active and bold investment on corporate performance. Meanwhile, out of consideration for our shareholders, we set the dividend payout ratio at 50% or more.

(2) Explanation of Financial Position

1) Status of assets, liabilities, and net assets

Total assets as of December 31, 2019 stood at ¥19,635 million. Current assets were ¥15,756 million. This mainly comprises cash and deposits of ¥13,159 million. Cash and deposits include ¥10,282 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 ¥3,879 million. This mainly comprises property, plant and equipment of ¥2,055 million, intangible assets of ¥1,039 million, and investments and other assets of ¥785 million.

Meanwhile, total liabilities amounted to ¥12,781 million. This mainly comprises receiving agency deposits of ¥10,282 million and accounts payable - trade of ¥499 million.

Total net assets amounted to ¥6,854 million. This mainly comprises shareholders' equity of ¥6,778 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, 2019	As of December 31, 2019
(A) Cash and deposits	12,915,351	13,159,598
(B) Receiving agency deposits	9,393,868	10,282,814
(A)-(B) Cash and deposits, net	3,521,483	2,876,784

2) Status of cash flows

Cash and cash equivalents (the “funds”) as of December 31, 2019 stood at ¥13,079 million. The status of cash flows and their contributing factors are as follows.

(Cash flows from operating activities)

Funds provided by operating activities amounted to ¥1,364 million. The main factor for the increase is a ¥888 million increase in receiving agency deposits.

(Cash flows from investing activities)

Funds provided by investing activities amounted to ¥815 million. The main factor for the increase is proceeds from withdrawal of time deposits of ¥1,000 million.

(Cash flows from financing activities)

Funds used in financing activities amounted to ¥935 million. The main factor for the decrease is dividends paid of ¥935 million.

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

At this moment, it is difficult to indicate the numerical forecast as there are many uncertain factors that may impact the actual financial results for the fiscal year ending June 30, 2020. The forecast will be announced immediately when it becomes possible to make a reasonable forecast.

2. Financial Statements and Significant Notes

(1) Balance Sheet

(Thousands of yen)

	As of June 30, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	12,915,351	13,159,598
Accounts receivable - trade	560,714	597,410
Merchandise	2,133	2,433
Work in process	8,574	15,099
Supplies	1,438	1,071
Other	1,650,226	1,980,698
Total current assets	15,138,438	15,756,312
Non-current assets		
Property, plant and equipment	2,027,734	2,055,194
Intangible assets	1,080,065	1,039,229
Investments and other assets	714,441	785,037
Total non-current assets	3,822,241	3,879,461
Total assets	18,960,679	19,635,774
Liabilities		
Current liabilities		
Accounts payable - trade	476,794	499,765
Receiving agency deposits	9,393,868	10,282,814
Income taxes payable	71,416	159,270
Provision for bonuses	–	13,091
Provision for point card certificates	274	118
Other	1,383,065	1,631,039
Total current liabilities	11,325,418	12,586,099
Non-current liabilities		
Provision for share-based remuneration	48,240	50,334
Asset retirement obligations	7,154	–
Long-term accounts payable - other	119,007	119,007
Other	17,276	25,769
Total non-current liabilities	191,678	195,111
Total liabilities	11,517,096	12,781,210

(Thousands of yen)

	As of June 30, 2019	As of December 31, 2019
Net assets		
Shareholders' equity		
Share capital	667,782	667,782
Capital surplus	3,509,216	3,509,216
Retained earnings	4,017,854	3,392,549
Treasury shares	(841,337)	(790,778)
Total shareholders' equity	7,353,515	6,778,769
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(98)	(77)
Total valuation and translation adjustments	(98)	(77)
Share acquisition rights	90,165	75,871
Total net assets	7,443,582	6,854,563
Total liabilities and net assets	18,960,679	19,635,774

(2) Statement of Income
(Six months ended December 31)

(Thousands of yen)

	For the six months ended December 31, 2018	For the six months ended December 31, 2019
Net sales	5,052,151	4,821,736
Cost of sales	4,207,184	3,920,087
Gross profit	844,967	901,648
Selling, general and administrative expenses	551,549	422,764
Operating profit	293,417	478,884
Non-operating income		
Interest income	1,772	579
Dividend income	44	44
Insurance claim income	2,848	–
Gain on investments in investment partnerships	3,358	–
Gain on forfeiture of unclaimed dividends	932	1,237
Rental income	1,640	1,995
Other	1,249	1,059
Total non-operating income	11,846	4,916
Non-operating expenses		
Loss on investments in investment partnerships	–	1,506
Total non-operating expenses	–	1,506
Ordinary profit	305,263	482,294
Extraordinary income		
Gain on reversal of share acquisition rights	1,051	3,289
Total extraordinary income	1,051	3,289
Profit before income taxes	306,314	485,583
Income taxes - current	103,311	140,622
Income taxes - deferred	(8,093)	9,882
Total income taxes	95,217	150,504
Profit	211,096	335,078

(3) Statement of Cash Flows

(Thousands of yen)

	For the six months ended December 31, 2018	For the six months ended December 31, 2019
Cash flows from operating activities		
Profit before income taxes	306,314	485,583
Depreciation	193,019	176,401
Interest and dividend income	(1,816)	(623)
Loss (gain) on investments in investment partnerships	(3,358)	1,506
Decrease (increase) in operating accounts receivable	36,072	–
Decrease (increase) in trade receivables	(138,506)	(36,695)
Decrease (increase) in inventories	6,535	(6,458)
Increase (decrease) in operating accounts payable	(73,555)	–
Increase (decrease) in trade payables	65,000	22,971
Increase (decrease) in receiving agency deposits	6,871,673	888,946
Other, net	(479,824)	(115,462)
Subtotal	6,781,554	1,416,168
Interest and dividends received	9,638	3,336
Income taxes paid	(82,682)	(54,675)
Net cash provided by (used in) operating activities	6,708,510	1,364,830
Cash flows from investing activities		
Proceeds from withdrawal of time deposits	500,000	1,000,000
Purchase of securities	(2,999,619)	–
Proceeds from redemption of securities	3,000,000	–
Purchase of property, plant and equipment	(7,162)	(29,731)
Purchase of intangible assets	(268,792)	(98,769)
Proceeds from share of profits on investments in capital	–	10,500
Payments of guarantee deposits	–	(116,947)
Proceeds from refund of guarantee deposits	–	50,081
Net cash provided by (used in) investing activities	224,425	815,132
Cash flows from financing activities		
Dividends paid	(926,222)	(935,715)
Proceeds from disposal of treasury shares resulting from exercise of subscription rights to shares	79,148	–
Purchase of treasury shares	(1)	–
Net cash provided by (used in) financing activities	(847,075)	(935,715)
Net increase (decrease) in cash and cash equivalents	6,085,860	1,244,247
Cash and cash equivalents at beginning of period	9,983,995	11,835,344
Cash and cash equivalents at end of period	16,069,856	13,079,592

(4) 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.

(Changes in presentation)

(Notes to Statement of Income)

“Gain on forfeiture of unclaimed dividends,” “rental income” and “gain on reversal of share acquisition rights,” which were included in “other” under non-operating income for the six months ended December 31, 2018, are separately presented as “gain on forfeiture of unclaimed dividends” and “rental income” under non-operating income and “gain on reversal of share acquisition rights” under extraordinary income from the six months ended December 31, 2019 due to increases in their materiality. To reflect these changes in presentation, the Company reclassified its financial statements for the six months ended December 31, 2018.

As a result, ¥4,873 thousand that had been presented in “other” under non-operating income in the Statement of Income for the six months ended December 31, 2018 was reclassified into ¥932 thousand in “gain on forfeiture of unclaimed dividends,” ¥1,640 thousand in “rental income” and ¥1,249 thousand in “other” under non-operating income and ¥1,051 thousand in “gain on reversal of share acquisition rights” under extraordinary income.

(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.

(Significant subsequent events)

There is no relevant information.