

(English Translation)

This English translation is an abridged version of the original document in Japanese. In the event of any discrepancy, the Japanese version prevails.

Summary of Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2019 [Japanese GAAP]

October 29, 2018

Listed company name: Infocom Corporation

Securities code: 4348

Representative: (Position) President and CEO

Contact: (Position) Head of Corporate Communications Office

Scheduled date to file quarterly securities report: November 7, 2018

Preparation of supplementary materials on financial results: Yes

Holding of financial results briefing: Yes

Listed on: Tokyo Stock Exchange

URL <https://www.infocom.co.jp/>

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Scheduled date to commence dividend payments: November 27, 2018

(Amounts less than one million yen are rounded down)

1. Consolidated Business Results for the Second Quarter of FY2018 (April 1, 2018 to September 30, 2018)

(1) Consolidated operating results (cumulative)

(% of change from previous year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Second quarter of FY2018	23,128	9.1	2,596	9.8	2,616	(0.7)	1,877	(27.1)
Second quarter of FY2017	21,203	9.7	2,365	46.9	2,634	62.3	2,574	145.8

(Note) Comprehensive income: Second quarter of FY2018: ¥3,331 million (14.9%); Second quarter of FY2017: ¥2,899 million (285.0 %)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Second quarter of FY2018	68.65	68.35
Second quarter of FY2017	94.16	93.77

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
Second quarter of FY2018	40,153	30,957	76.7
FY2017	38,237	28,360	73.8

(Reference) Shareholders' equity: Second quarter of FY2018: ¥30,787 million; FY2017: ¥28,227 million

2. Dividends

	Dividends per share				
	End-Q1	End-Q2	End-Q3	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY2017	—	10.00	—	28.00	38.00
FY2018	—	10.00			
FY2018 (forecasts)			—	30.00	40.00

(Note) Adjustment for the most recent forecasts of dividends: None

3. Forecasts of Consolidated Business Results for FY2018 (April 1, 2018 to March 31, 2019)

(Percent figures indicate the rate of changes from the previous fiscal year)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of the parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full-year	51,000	11.4	6,700	14.9	6,700	12.0	4,600	(0.9)	168.20

(Note) Adjustment for the most recent forecasts of dividends: Yes

See *Announcement Concerning Revisions to Earning Forecasts* (Japanese only), published on October 29, 2018, for more concerning consolidated earnings forecasts.

* Statements regarding the proper use of financial forecasts and other special remarks

- Forward-looking statements that include forecasts of business results are based on the information currently available and certain assumptions judged to be rational. Actual business results may differ substantially because of various factors. For the matters to be noted when using the financial

forecasts and the assumptions behind these forecasts, please see “(3) Explanation of consolidated earnings forecasts and other forward-looking information” under “1. Qualitative information on quarterly business results” on page 3 of the attached materials.

1. Qualitative information on quarterly business results

(1) Overview of business results

The Japanese economy was in recovery throughout the cumulative consolidated second quarter, mainly due to a rebound in personal consumption, which was pushed by steadily improving corporate earnings, employment, and wages. At the same time, U.S.-Chinese trade frictions and other overseas risks have given rise to concerns about the future of the global economy.

Overall IT-related market demand was robust throughout the period. Factors included the rising use of cloud services via smartphones, tablets, and other mobile devices; expanding business applications for the internet of things (IoT), artificial intelligence (AI), and other technologies; and the use of robotic process automation (RPA) to achieve the type of work-style reforms promoted by the Japanese government.

The e-book market returned to a growth phase due to the waning impact of pirate sites, which had risen sharply August 2017.

In this operating environment, the Infocom Group medium-term management plan (April 2016 to March 2020) emphasized two fundamental policies: (1) pursue growth and (2) continue strengthening our management foundation to support growth. To this end, we have identified e-comics and healthcare as priority businesses. In these areas, we pursued M&A opportunities actively, while developing businesses that leverage AI and IoT.

As a result, the Infocom Group generated net sales of ¥23,128 million for the three months ended September 30, 2018, up 9.1% year on year. Operating profit rose 9.8% to ¥2,596 million, while ordinary profit decreased 0.7% to ¥720 million. Profit attributable to owners of the parent decreased 27.1% to ¥1,877 million.

* The decrease in profit attributable to owners of the parent for the cumulative consolidated second quarter was mainly due to the gain on sale of non-current assets associated with the sale of a data center during the second quarter of the prior fiscal year.

Group sales and profit tend to be relatively low during the first and third quarters of the fiscal year, concentrated mainly in the fourth quarter. This trend stems from the concentration product and service deliveries to companies and hospitals in March during Japan's fiscal year-end.

(i) Business Solution Group

Despite strong performance in our Healthcare business, the IT Services Segment experienced a 2.4% decline in sales, which amounted to ¥10,299 million yen for the first nine months of FY03/19. Up-front investments in AI and our Healthcare business resulted in operating profit of ¥403 million, down 36.0% year on year.

Our Health IT subsegment strengthened sales promotions related to goods and services for hospitals and pharmaceutical companies. The subsegment also experienced growth in sales of clinical information management systems, stemming from medical treatment fee revisions. Sales of employment management systems, effective for tracking work hours, were strong, as hospitals and other healthcare organizations began considering work-style reforms. Additionally, we launched *care-ring*, a search engine for medical institutions and nursing care facilities and a new initiative in the area of community-based comprehensive care. Infocom also launched the beta version of *Carestyle*, a direct recruiting platform which specializes in care workers. We began a pilot shopping service with Sampo Holdings. To meet full-year FY03/19 sales targets, we are increasing up-front investment to expand the subsegment's product lineup and continue building up its sales structure.

In our corporate IT services business, in addition to the new version of the company's integrated business management software package, GRANDIT3.0, and optional product RPA Solution for GRANDIT, Infocom expanded the support service for new users of RPA with partner companies. Infocom also began providing *at score*, an AI-based deferred payment service, as well as a food temperature management IoT service that improves the efficiency of food hygiene management.

(ii) Digital Entertainment Group

Segment sales were ¥12,828 million (+20.5% year on year). Operating profit for the segment was ¥2,188 million (+26.5%). The e-comics distribution business continued to post strong returns with both increased sales and profits.

In the e-comics distribution business, we began a second joint project with Shueisha, Inc. to secure exclusive first-run distribution of comics published in the magazine *Grand Jump* simultaneously with the release of the print version. In addition, we expanded our lineup of comic properties with the launch of comics published by KADOKAWA. The company posted record monthly and quarterly sales as a result of these initiatives.

With an eye toward meeting FY03/19 segment sales targets, Infocom is striving to further enhance service content. In an effort to combat pirate sites and promote a healthy market, our consolidated subsidiary Amutus Corporation established the Japan E-Bookstore Association in cooperation with four other e-bookstores.

(2) Explanation of financial condition

(i) Consolidated financial condition

Total assets amounted to ¥40,153 million, an increase of ¥1,915 million compared to the end of the prior consolidated fiscal year. This increase was mainly due to increases in the fair value of investment securities and increases in inventories, offsetting decreases in notes and accounts receivable-trade.

Total liabilities fell ¥680 million to ¥9,196 million, mainly due to declines in provision for bonuses and income taxes payable. Net assets were up ¥2,596 million compared with the end of the previous consolidated fiscal year, reaching ¥30,957 million. As a result, our equity ratio rose to 76.7% from 73.8% at the end of the previous consolidated fiscal year.

(ii) Consolidated cash flows

Cash and cash equivalents as of September 30, 2018, amounted to ¥17,172 million, up ¥542 million compared to the end of the previous consolidated fiscal year.

[Cash flows from operating activities]

Net cash provided by operating activities amounted to ¥2,018 million (compared to ¥2,390 million in the same quarter of the previous fiscal year). Principal sources of cash were profit before income taxes of ¥ 2,726million (compared to ¥3,773 million) and a decrease in notes and accounts receivable of ¥1,809 million (compared to ¥1,048million). The reason for this decrease was a ¥769 million increase in inventories (compared to ¥298million) and income taxes paid of ¥1,687 million (compared to ¥1,006 million).

[Cash flows from investing activities]

Net cash used in investing activities amounted to ¥686 million (compared to ¥1,822 million income in the same quarter of the previous fiscal year). Primary uses of cash included ¥429 million (compared to ¥129million) for the purchase of investment securities.

[Cash flows from financing activities]

Net cash used in financing activities amounted to ¥796 million (compared to ¥437million in the same quarter of previous fiscal year), mainly due to cash dividends paid of ¥765 million (compared to ¥410 million).

(3) Explanation of consolidated earnings forecasts and other forward-looking information

Given our performance for the cumulative consolidated second quarter and recent performance trends, we have made an upward revision to the fiscal year earnings forecast published on April 26, 2018. For more, see *Announcement Concerning Revisions to Earning Forecasts* (Japanese only), published on October 28, 2018.

Please note that the above forecasts are based on information available as of the publication date of this document. Actual results may differ from forecasts due to various factors in the future.

2. Quarterly Consolidated Financial Statements and Major Notes
(1) Quarterly Consolidated Balance Sheet

(Unit: million yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Current assets		
Cash and deposits	16,625	17,167
Notes and accounts receivable-trade	9,707	7,898
Inventories	270	850
Other	1,033	1,518
Allowance for doubtful accounts	(0)	(1)
Total current assets	27,636	27,433
Non-current assets		
Property, plant and equipment	1,004	948
Intangible assets		
Software	1,968	1,880
Other	42	40
Total intangible assets	2,010	1,921
Investments and other assets		
Investments and other assets	7,693	9,955
Allowance for doubtful accounts	(107)	(105)
Total investments and other assets	7,586	9,850
Total non-current assets	10,601	12,719
Total assets	38,237	40,153
Liabilities		
Current liabilities		
Accounts payable - trade	3,457	3,569
Income taxes payable	1,539	818
Provision for bonuses	1,211	887
Other	3,460	3,082
Total current liabilities	9,667	8,357
Non-current liabilities		
Other	209	838
Total non-current liabilities	209	838
Total liabilities	9,876	9,196
Net assets		
Shareholders' equity		
Capital stock	1,590	1,590
Capital surplus	1,449	1,449
Retained earnings	25,089	26,201
Treasury shares	(816)	(816)
Total shareholders' equity	27,312	28,424
Total accumulated other comprehensive income		
Valuation difference on available-for-sale securities	964	2,422
Deferred gains or losses on hedges	0	—
Foreign currency translation adjustment	(49)	(59)
Accumulated other comprehensive income	915	2,363
Share acquisition rights	128	157
Non-controlling interests	4	12
Total net assets	28,360	30,957
Total liabilities and net assets	38,237	40,153

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statements of Income
Second Quarter

(Unit: million yen)

	For the six months ended September 30, 2017	For the six months ended September 30, 2018
Net sales	21,203	23,128
Cost of sales	11,134	12,070
Gross profit	10,069	11,058
Selling, general and administrative expenses	7,703	8,461
Operating profit	2,365	2,596
Non-operating income		
Interest and dividend income	48	58
Share of profit of entities accounted for using equity method	5	5
Foreign exchange gains	0	—
Partnership gain	214	—
Other	1	0
Total non-operating income	269	63
Non-operating expenses		
Interest expenses	0	0
Foreign exchange losses	—	0
Partnership losses	—	41
Other	0	0
Total non-operating expenses	0	43
Ordinary profit	2,634	2,616
Extraordinary income		
Gain on sales of non-current assets	1,138	—
Gain on sales of investment securities	2	114
Other	48	—
Total extraordinary income	1,189	114
Extraordinary losses		
Impairment loss	2	—
Loss on retirement of non-current assets	7	1
Loss on valuation of investment securities	39	3
Total extraordinary losses	50	4
Profit before income taxes	3,773	2,726
Income taxes	1,199	841
Profit	2,574	1,884
Profit (loss) attributable to non-controlling interests	(0)	6
Profit attributable to owners of parent	2,574	1,877

Quarterly Consolidated Statements of Comprehensive Income
Second Quarter

(Unit: million yen)

	For the six months ended September 30, 2017	For the six months ended September 30, 2018
Profit	2,574	1,884
Other comprehensive income		
Valuation difference on available-for-sale securities	373	1,457
Deferred gains or losses on hedges	1	(0)
Foreign currency translation adjustment	(50)	(9)
Total other comprehensive income	324	1,447
Comprehensive income	2,899	3,331
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,900	3,325
Comprehensive income attributable to non-controlling interests	(0)	6

(3) Quarterly Consolidated Statements of Cash Flow

(Unit: Million yen)

	For the six months ended September 30, 2017	For the six months ended September 30, 2018
Cash flows from operating activities		
Profit before income taxes	3,773	2,726
Depreciation	564	540
Impairment loss	2	—
Share-based compensation expenses	34	29
Amortization of goodwill	5	—
Increase (decrease) in provision	(296)	(322)
Interest and dividend income	(48)	(58)
Interest expenses	0	0
Loss (gain) on sales of investment securities	(2)	(114)
Loss (gain) on sales of non-current assets	(1,138)	—
Decrease (increase) in notes and accounts receivable - trade	1,048	1,809
Decrease (increase) in inventories	(298)	(579)
Increase (decrease) in notes and accounts payable - trade	3	112
Other	(221)	(500)
Subtotal	3,427	3,642
Interest and dividend income received	45	63
Interest expenses paid	(0)	(0)
Payments for business restructuring	(346)	—
Income taxes paid	(1,006)	(1,687)
Income taxes refund	270	—
Net cash provided by (used in) operating activities	2,390	2,018
Cash flows from investing activities		
Purchase of property, plant and equipment	(117)	(173)
Purchase of intangible assets	(375)	(314)
Proceeds from sales of property, plant and equipment	2,432	—
Purchase of investment securities	(129)	(429)
Proceeds from sales of investment securities	2	231
Payments for guarantee deposits	(0)	(0)
Proceeds from collection of guarantee deposits	8	1
Net cash provided by (used in) investing activities	1,822	(686)
Cash flows from financing activities		
Repayments of lease obligations	(29)	(31)
Cash dividends paid	(410)	(765)
Proceeds from share issuance to non-controlling shareholders	1	1
Other	(0)	(0)
Net cash provided by (used in) financing activities	(437)	(796)
Effect of exchange rate change on cash and cash equivalents	(2)	6
Net increase (decrease) in cash and cash equivalents	3,772	542
Cash and cash equivalents at beginning of period	12,408	16,630
Cash and cash equivalents at end of period	16,180	17,172

(4) Notes on the Quarterly Consolidated Financial Statements

(Note on going concern assumption)

Not applicable

(Note in case of significant changes in shareholders' equity)

Not applicable

(Segment information)

[Segment information]

I. Second quarter of FY2017 (from April 1, 2017 to September 30, 2017)

1. Information on net sales and profit or loss for each reporting segment

(Unit: million yen)

	Reportable segment		Total	Adjustments (Notes) 1	Amounts stated in the quarterly consolidated statements of income (Notes) 2
	Business solution	Digital entertainment			
Net sales					
Sales to external customers	10,553	10,649	21,203	—	21,203
Intersegment sales or transfers	295	0	296	(296)	—
Total	10,849	10,650	21,500	(296)	21,203
Segment profit	630	1,729	2,360	4	2,365

(Notes)

1. The ¥4 million adjustment in segment profit is due to the elimination of intersegment transactions and corporate expenses.
2. Segment profit is adjusted with operating profit in the quarterly consolidated statements of income

II. Second quarter of FY2018 (from April 1, 2018 to September 30, 2018)

1. Information on net sales and profit or loss for each reporting segment

(Unit: million yen)

	Reportable segment		Total	Adjustments (Notes) 1	Amounts stated in the quarterly consolidated statements of income (Notes) 2
	Business solution	Digital entertainment			
Net sales					
Sales to external customers	10,299	12,828	23,128	—	23,128
Intersegment sales or transfers	49	1	50	(50)	—
Total	10,349	12,829	23,179	(50)	23,128
Segment profit	403	2,188	2,591	5	2,596

(Notes)

1. The ¥5 million adjustment in segment profit is due to the elimination of intersegment transactions and corporate expenses.
2. Segment profit is adjusted with operating profit in the quarterly consolidated statements of income.