

Non-Consolidated Financial Results
for the Six Months Ended October 31, 2018
[Japanese GAAP]



December 11, 2018

Company name: Asukanet Co., Ltd.

Stock exchange listing: Tokyo Stock Exchange

Code number: 2438

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

Representative: Yuji Matsuo, Representative Director, President & COO

Contact: Kenya Kono, Senior Managing Director & CFO

Phone: +81-82-850-1200

Scheduled date of filing quarterly securities report: December 14, 2018

Scheduled date of commencing dividend payments: -

Availability of supplementary briefing material on quarterly financial results: Available

Schedule of quarterly financial results briefing session: Scheduled (for institutional investors and analysts)

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

1. Non-Consolidated Financial Results for the Six Months Ended October 31, 2018

(May 1, 2018 to October 31, 2018)

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

	Net sales		Operating income		Ordinary income		Profit	
Six months ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
October 31, 2018	2,912	4.5	306	10.4	310	9.2	211	7.7
October 31, 2017	2,787	11.2	277	(11.2)	284	(9.5)	195	(8.0)

	Basic earnings per share	Diluted earnings per share
Six months ended	Yen	Yen
October 31, 2018	12.54	12.53
October 31, 2017	11.69	11.64

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of October 31, 2018	5,701	5,046	88.5
As of April 30, 2018	5,715	5,000	87.4

(Reference) Equity: As of October 31, 2018: ¥5,046 million

As of April 30, 2018: ¥4,997 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 April 30, 2018	-	0.00	-	10.00	10.00
Fiscal year ending April 30, 2019	-	0.00			
Fiscal year ending April 30, 2019 (Forecast)			-	10.00	10.00

(Note) Revision to the forecast for dividends announced most recently: No

**3. Non-Consolidated Financial Results Forecast for the Fiscal Year Ending April 30, 2019
(May 1, 2018 to April 30, 2019)**

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	6,111	3.5	806	2.2	811	1.9	567	1.8	33.74

(Note) Revision to the financial results forecast announced most recently: No

As the Company manages its financial results at an annual base, the financial results forecast for the first half is not disclosed.

*** Notes:**

(1) Accounting policies adopted specially for the preparation of quarterly financial statements: Yes

(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):

October 31, 2018: 17,464,000 shares

April 30, 2018: 17,464,000 shares

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

October 31, 2018: 622,941 shares

April 30, 2018: 662,541 shares

3) Average number of shares during the period:

Six months ended October 31, 2018: 16,831,830 shares

Six months ended October 31, 2017: 16,764,011 shares

* These quarterly 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 earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that the Company believes are reasonable, and actual results may differ significantly from these forecasts due to a wide range of factors.

4. Overview of Business Results

(1) Overview of Business Results for this Fiscal Year

Asukanet operates three business areas, each with different positioning and characteristics. They are (1) the memorial design service business, which adds digital processing and remote output services for photos of the deceased to a funeral business that is largely unaffected by economic trends, (2) the personal publishing business, which provides ideas for new photo output methods that allow users to create complete photo collections beginning from just a single book, and (3) the aerial imaging business, which is utilizing unique, recently-developed technologies aiming to create a new market and achieve dreams.

Following is an overview of the business results for each segment. The results figures for each segment include internal inter-segment sales.

(1) Memorial design service business

In this business, although revenue from our primary business area – processing of photos of the deceased – was somewhat below expectations, it was higher than the same period in the previous year. There were strong sales of video-related services and supplies, as well as of frames. Sales also grew for “Asuka Altar”, which is a product produced in collaboration with the aerial imaging business. We also exhibited at events such as the Funeral Business Fair and the Life Ending Industry Expo. In addition to the “tsunagoo” function that was released into the funeral market as one type of “funeral tech” utilizing IT technologies, we added new function to order condolence messages and promoted to introduce this product to funeral homes.

In terms of income, there was an increase in personnel costs for image processing operators, and shipping expenses were also higher as a result of the price hikes that took place starting from autumn of last year. As a result, segment income decreased.

As a result, sales were 1,202,667 thousand yen (102.7% year-on-year), and segment income was 302,937 thousand yen (93.2% year-on-year).

(2) Personal publishing service business

This business operates *AsukaBook* for the professional photography market in Japan, and *MyBook* for the general Japanese consumer market. We are also engaged in OEM supply of photo albums and photo prints based on photos that were taken with smartphones.

In the professional photographer market, in addition to acquiring contracts and making product proposals through our own marketing activities, we also conducted *AsukaBook* seminars in 11 locations across Japan, released new products, and expanded the range of design templates. As a result of these and other measures, we saw steady growth in sales to professional photographers. Aiming to expand the penetration of our “Life-Size Baby Photos” service, we held photo awards and exhibited at events, and also conducted a life-size photo commemoration day campaign.

In the general consumer market, we worked to obtain orders primarily among photography enthusiasts and knowledgeable customers through means such as efficient internet advertising, conducting various campaigns, and utilizing SNS. In September of this year, we introduced a full-flat type new product with pages that open flat. There had been high demand for such a product, and it succeeded in achieving a strong launch. However as competition is fierce, sales of *MyBook* were down from the same period in the previous year. Sales of OEM products grew steadily as the presence of our services continued to expand in the market.

Despite the shipping price hike that has been in effect since autumn of last year, an increase in personnel expenses, and other factors pushing costs upwards, segment income showed steady growth as a result of a recovery in the operating rate accompanying the growth in sales.

As a result, sales were 1,650,131 thousand yen (105.8% year-on-year), and segment income was 362,744 thousand yen (106.7% year-on-year).

(3) Aerial imaging business

This business was launched in March 2011, aiming to create a market through new image and video expressions utilizing aerial imaging technologies. We are developing, manufacturing, and selling both glass and plastic “ASKA3D plates” that utilize our original technologies to project images in mid-air.

For glass ASKA3D plates, although sufficient cost reductions have not yet been achieved, we are providing large-size plates that are capable of high-quality aerial imaging. Although still in small lots, sales for signage and aerial system operations are increasing. In addition, we are also supplying plates for the “Asuka Altar” service that is a collaboration project with the memorial design service business.

For plastic ASKA3D plates, we began the supply of our first round of samples in June 2018, and are engaged in sales primarily to customers which already purchased glass plates or which expressed interest at exhibitions and other events. In parallel with sample supply, we also made improvements to dies, production methods, and other areas, aiming for quality which is closer to that provided by glass plates. As a result, in October we succeeded in developing an upgraded plate that features large improvements to brightness and aerial imaging quality. We are now conducting production trials aimed at stabilizing quality and improving yield in preparation for the mass production stage.

In terms of marketing, we exhibited the upgraded plastic ASKA3D plates at C-Touch & Display Shenzhen that was held in Shenzhen, China in November. It was highly evaluated as a non-contact touch panel intended for integration into various products. We will provide samples and conduct marketing follow-up aimed at obtaining mass-production orders. We are now preparing to exhibit at FINETECH Japan and SEMICON Japan which will be held in Japan in December.

In terms of expenses, as a result of concentrated research and development aimed at improving the quality of plastic ASKA3D plates, there was an increase in R&D expenses including prototyping and die costs. Personnel expenses were higher as a result of reinforcing our staff, and there was also an increase in travel expenses, primarily as a result of events held overseas. However because the number of exhibitions was less than the same period in the previous fiscal year, advertising expenses were lower.

As a result, sales were 67,794 thousand yen (115.0% year-on-year), and segment loss was 117,278 thousand yen (compared to a loss of 149,960 thousand yen in the same period of the previous year).

As a result of the above, sales during the consolidated first 2 quarters were higher in all business areas and reached 2,912,273 thousand yen (104.5% year-on-year). In terms of income, although there was a decline in the memorial design service business, as a result of steady growth in segment income from the personal publishing service business and a reduction of the loss in the aerial imaging business, ordinary income was 310,520 thousand yen (109.2% year-on-year) and net income was 211,057 thousand yen (107.7% year-on-year).

(2) Overview of the Financial Status during this Fiscal Year

(1) Assets, liabilities, and net assets

(Assets)

Current assets at the end of this 2Q decreased by 14,012 thousand yen from the end of the previous fiscal year to reach 5,701,885 thousand yen. Despite an increase of 427,862 thousand yen in tangible fixed assets resulting from the purchasing of land adjacent to the headquarters, this decrease was primarily the result of a decrease of 492,941 thousand yen in cash and savings resulting from the use of ready cash to cover this purchase.

(Liabilities)

Current liabilities at the end of this 2Q decreased by 60,677 thousand yen from the end of the previous fiscal year to reach 655,206 thousand yen. This was primarily due a decrease of 23,600 thousand yen in income taxes payable and a decrease of 32,213 thousand yen in accounts payable.

(Net assets)

Net assets at the end of this 2Q increased by 46,665 thousand yen from the end of the previous fiscal year to reach 5,046,679 thousand yen. This was primarily due to net income of 211,057 thousand yen, and a decrease of 168,014 thousand yen in dividend of surplus.

(2) Cash flows

The balance of cash and cash equivalents (hereafter referred to as “cash”) during the consolidated first 2 quarters declined by 492,941 thousand yen from the end of the previous fiscal year to reach 1,213,839 thousand yen. The status of each cash flow and primarily factors affecting it during the consolidated first 2 quarters are as follows.

(Cash flows from operating activities)

Net cash acquired as a result of operating activities during the consolidated first 2 quarters was 261,551 thousand yen (compared to 241,517 thousand yen in the same period of the previous fiscal year). Despite recording pre-tax net income of 310,147 thousand yen and recording depreciation expenses of 141,966 thousand yen, this result was primarily due to payment of 122,746 thousand yen in income taxes.

(Cash flows from investment activities)

Net cash expended as a result of investment activities during the consolidated first 2 quarters was 595,410 thousand yen (compared to expenditure of 116,699 thousand yen in the same period of the previous fiscal year. This was primarily due to the acquisition of 538,474 thousand yen in tangible fixed assets including the purchase of land adjacent to the headquarters and deposits for construction of a new company building, as well as the acquisition of 53,410 thousand yen in software and other intangible fixed assets.

(Cash flows from financing activities)

Net cash expended as a result of financing activities during the consolidated first 2 quarters was 159,995 thousand yen (compared to expenditure of 161,556 thousand yen during the same period of the previous fiscal year. This was primarily due to the payment of 167,362 thousand yen in dividends.

5. Financial Statements for the First Quarter

(1) Balance sheet

(Units: 1,000s yen)

	Previous fiscal year (ended April 30, 2018)	First two quarters of the current fiscal year (ended Oct. 31, 2018)
Asset		
Current assets		
Cash and deposits	2,311,781	1,818,839
Accounts receivable-trade	726,531	769,011
Merchandise and products	191,123	201,427
Work in progress	14,325	21,300
Raw materials and supplies	62,206	62,282
Others	33,559	28,826
Allowance for doubtful accounts	(2,617)	(3,126)
Total current assets	3,336,909	2,898,560
Fixed assets		
Tangible fixed assets		
Buildings, net	512,558	523,899
Machinery and equipment, net	396,538	461,889
Land	611,507	844,060
Others, net	172,702	291,318
Total tangible fixed assets	1,693,306	2,121,168
Total intangible fixed assets	206,851	206,185
Total investments and other assets	478,829	475,970
Total fixed assets	2,378,988	2,803,324
Total assets	5,715,897	5,701,885
Liabilities		
Current liabilities		
Accounts payable-trade	126,270	134,493
Income taxes payable	137,900	114,300
Provision for bonuses	136,500	142,200
Others	303,512	253,761
Total current liabilities	704,183	644,754
Fixed liabilities		
Provision for retirement benefits	6,482	6,182
Others	5,217	4,269
Total fixed liabilities	11,700	10,451
Total liabilities	715,883	655,206
Net assets		
Shareholders' equity		
Capital stock	490,300	490,300
Capital reserves	606,585	606,585
Retained earnings	4,183,583	4,220,209
Treasury stock	(285,940)	(268,850)
Total shareholders' equity	4,994,527	5,048,243
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	3,129	(1,564)
Total valuation and translation adjustments	3,129	(1,564)
Subscription rights to shares	2,356	—
Total net assets	5,000,014	5,046,679
Total liabilities and net assets	5,715,897	5,701,885

(2) Profit and loss statement

First two quarters of the fiscal year

(unit:1000s yen)

	First two quarters of the previous fiscal year (May 1, 2017 – Oct 31, 2017)	First two quarters of the current fiscal year (May 1, 2018 – Oct. 31, 2018)
Net Sales	2,787,097	2,912,273
Cost of sales	1,366,401	1,449,118
Gross profit	1,420,695	1,463,155
Selling, general, and administrative expenses	1,142,996	1,156,587
Operating income	277,699	306,567
Non-operating income		
Interest received	294	219
Dividends received	610	510
Commissions received	232	287
Foreign exchange gains	736	938
Income from insurance	3,991	832
Gain on forfeiture of unclaimed dividends	825	950
Others	20	214
Total non-operating income	6,711	3,953
Non-operating expenses	284,411	310,520
Extraordinary loss		
Loss on retirement of non-current assets	550	373
Total extraordinary losses	550	373
Net income before taxes	283,860	310,147
Income taxes	87,928	99,089
Net income	195,931	211,057

(3) Statement of cash flows

(unit:1000s yen)

	First two quarters of the previous fiscal year (May 1, 2017 – Oct. 31, 2017)	First two quarters of the current fiscal year (May 1, 2018 – Oct. 31, 2018)
Cash flows resulting from operating activities		
Net income before taxes	283,860	310,147
Depreciation expenses	147,691	141,966
Increase (decrease) in allowance for doubtful accounts	1,258	508
Increase (decrease) in provision for bonuses	7,400	5,700
Increase (decrease) in provision for retirement benefits	—	(299)
Interest and dividends received	(904)	(729)
Foreign exchange losses (gains)	(135)	(913)
Loss on retirement of non-current assets	550	373
Decrease (increase) in accounts receivable-trade	(38,508)	(42,479)
Decrease (increase) in inventory assets	(16,014)	(17,355)
Increase (decrease) in accounts payable-trade	758	8,222
Increase (decrease) in accrued consumption taxes	(36,107)	(14,608)
Others	13,893	(7,048)
Subtotal	363,743	383,482
Interest and dividends received	775	815
Income taxes paid	(123,001)	(122,746)
Cash flows due to operating activities	241,517	261,551
Cash flows due to investing activities		
Payments into time deposits	(10,000)	(355,000)
Proceeds from withdrawal of time deposits	5,000	355,000
Purchase of property, plant, and equipment	(83,792)	(538,474)
Purchase of intangible fixed assets	(26,209)	(53,410)
Collection of loans receivable	720	400
Others	(2,417)	(3,925)
Cash flows due to investing activities	(116,699)	(595,410)
Cash flows due to financing activities		
Cash dividends paid	(166,655)	(167,362)
Proceeds from disposal of treasury stock	6,048	8,316
Others	(948)	(948)
Cash flows due to financing activities	(161,556)	(159,995)
Effect of exchange rate on cash and cash equivalents	135	913
Net increase (decrease) in cash and cash equivalents	(36,602)	(492,941)
Balance of cash and cash equivalents at beginning of year	1,673,251	1,706,781
Balance of cash and cash equivalents at end of quarter	1,636,648	1,213,839

[Segment information]

Cumulative first 2 quarters of the previous fiscal year (May 1, 2017 – Oct 31, 2017)

Information related to the amounts of sales, income, and loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Adjustments	Amount recorded in profit and loss statement
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	1,170,660	1,559,640	56,797	2,787,097	—	2,787,097
Inter-segment internal sales and transfers	—	—	2,160	2,160	(2,160)	—
Total	1,170,660	1,559,640	58,957	2,789,257	(2,160)	2,787,097
Segment income (loss)	324,953	340,078	(149,960)	515,071	(237,371)	277,699

Cumulative first 2 quarters of the current fiscal year (May 1, 2018 – Oct. 31, 2018)

Information related to the amounts of sales, income, and loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Adjustments	Amount recorded in profit and loss statement
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	1,202,667	1,650,131	59,474	2,912,273	—	2,912,273
Inter-segment internal sales and transfers	—	—	8,320	8,320	(8,320)	—
Total	1,202,667	1,650,131	67,794	2,920,593	(8,320)	2,912,273
Segment income (loss)	302,937	362,744	(117,278)	548,403	(241,835)	306,567

This is the summarized translation of released report for your reference.
Please refer to the original Japanese financial document.