

Non-Consolidated Financial Results for the Fiscal Year Ended April 30, 2019 [Japanese GAAP]



June 11, 2019

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 Annual General Meeting of Shareholders: July 26, 2019

Scheduled date of commencing dividend payments: July 29, 2019

Scheduled date of filing annual securities report: July 29, 2019

Availability of supplementary briefing material on annual financial results: Available

Schedule of annual 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 Fiscal Year Ended April 30, 2019

(May 1, 2018 to April 30, 2019)

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

	Net sales		Operating income		Ordinary income		Profit	
Fiscal year ended	Million yen	%	Million yen	%	Million yen	%	Million yen	%
April 30, 2019	6,295	6.6	868	10.1	873	9.7	598	7.5
April 30, 2018	5,904	8.6	788	(1.5)	795	(1.1)	556	(2.7)

	Basic earnings per share	Diluted earnings per share	Rate of return on equity	Ordinary income to total assets	Operating income to net sales
Fiscal year ended	Yen	Yen	%	%	%
April 30, 2019	35.57	35.56	11.5	14.6	13.8
April 30, 2018	33.20	33.08	11.6	14.4	13.4

(Reference) Equity in earnings of affiliated companies:

Fiscal year ended April 30, 2019: ¥- million

Fiscal year ended April 30, 2018: ¥- million

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of April 30, 2019	6,271	5,431	86.6	322.49
As of April 30, 2018	5,715	5,000	87.4	297.45

(Reference) Equity: As of April 30, 2019: ¥5,431 million

As of April 30, 2018: ¥4,997 million

(3) Non-Consolidated Cash Flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Million yen	Million yen	Million yen	Million yen
April 30, 2019	919	(795)	(161)	1,669
April 30, 2018	788	(596)	(157)	1,706

2. Dividends

	Annual dividends					Total dividends (Annual)	Dividend payout ratio	Dividends to net assets
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
Fiscal year ended April 30, 2018	-	0.00	-	10.00	10.00	168	30.1	3.5
Fiscal year ended April 30, 2019	-	0.00	-	11.00	11.00	185	30.9	3.5
Fiscal year ending April 30, 2020 (Forecast)	-	0.00	-	10.00	10.00		30.9	

3. Non-Consolidated Financial Results Forecast for the Fiscal Year Ending April 30, 2020 (May 1, 2019 to April 30, 2020)

(% 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
	6,738	7.0	824	(5.1)	829	(5.1)	545	(9.0)	32.36

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

* Notes:

(1) 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

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

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

April 30, 2019: 17,464,000 shares

April 30, 2018: 17,464,000 shares

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

April 30, 2019: 622,941 shares

April 30, 2018: 662,541 shares

3) Average number of shares during the period:

Fiscal year ended April 30, 2019: 16,836,406 shares

Fiscal year ended April 30, 2018: 16,773,986 shares

* These financial results are outside the scope of audit 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) Explanation of business results

During the current fiscal year, the economy of Japan overall continued a gradual recovery as a result of continuing upward trend for corporations and income generating circumstances. However the future outlook remains unpredictable due to uncertainty in overseas economies resulting from the growing trade dispute between the United States and China, and to concerns of an economic slowdown of China.

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 sales of supply products were strong, revenue from our primary business area – processing photos of the deceased, and revenue from videos and other funeral production services, were somewhat below expectations. Equipment sales also struggled as they faced a rebound from the strong performance last year. As a result, sales for the overall business increased only slightly from the previous year. Introduction of our new service “tsunagoo” at funeral companies is proceeding. This service utilizes our extensive customer base in the funeral market to connect together funeral companies, the bereaved, and mourners. In addition to functions that allow users to order offerings and condolence messages, it also features improved reception and record system functions.

In terms of income, in addition to an increase in personnel costs resulting from expanding the staff of the Image Processing Division and from higher shipping expenses due to price hikes, there was also an increase in R&D expenses. As a result, there was a small decrease in segment income.

As a result, sales were 2,538,699 thousand yen (100.6% year-on-year), and segment income was 716,975 thousand yen (95.5% year-on-year).

(2) Personal publishing service business

This business operates “AsukaBook” for the professional photographer market, and “MyBook” for the general 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 Japan professional photographers market, in addition to acquiring customers through our own marketing activities, we also exhibited at exhibitions, held digital photo seminars and workshops across Japan, and continued introducing new products. All of these combined to produce strong sales in the primary business area of wedding photo albums. We also carried out the “Life Size Baby Photo” promotion and proposed the use of this service in the architecture and pet photo markets as part of our efforts to open up new markets other than weddings.

In the Japan general consumer market, we conducted efficient internet advertising and a variety of campaigns, and also promoted our services by means such as SNS and exhibiting at the “CP+” exhibition. Despite the intense competition in this market, our new full-flat type photo album that opens up so it is completely flat was well received, and sales to general consumers were higher than the previous year. In the area of OEM supply, the growing penetration of our services in the market has resulted in steady growth in sales.

In terms of income, despite higher expenses including a shipping price hike and growing personnel expenses, there was steady growth in segment income due to the improved operating rate. As a result, segment income increased more than expected.

As a result, sales were 3,619,794 thousand yen (110.6% year-on-year) and segment income was 916,511 thousand yen (117.8% 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. We focus on the mass production of ASKA3D plates as our most important task.

For glass ASKA3D plates, sufficient cost reductions have still not yet been achieved, however we are providing large-size plates that are capable of high-quality aerial imaging. Although still for small lots, we

are receiving growing numbers of inquiries both from Japan and overseas for signage use by the effect of domestic and overseas exhibitions. We are also working on new manufacturing development that will ensure both quality and productivity.

For plastic ASKA3D plates, in addition to sample sales of the upgraded versions that were developed and released in November of last year, we also carried out mass production trials aimed at improving quality stability and yield in preparation for future mass production. In May of this year, we successfully shifted to Phase 1 mass production starting from monthly production of 3,000 plates. In the future, we will continue working to improve quality and reduce production costs, and will strive for production that meets customer needs.

In terms of marketing, in addition to sales of glass ASKA3D plates, we also focused on sample sales of the plastic ASKA3D plates that are expected to be used in large-lot embedded product applications. Since their release, these products have been delivered to nearly 250 companies in Japan and overseas. We exhibited at 3 exhibitions in Japan including FINETECH JAPAN, as well as 2 exhibitions overseas – CeBIT in Germany and C-Touch & Display Shenzhen in Shenzhen, China. The potential for aerial imaging was evaluated highly at these exhibitions. Cases of real commercial applications have also emerged, including shop displays and products containing these plates that are used in commercial beauty equipment. In the future, we will focus on gaining orders for mass produced plastic ASKA3D plates that are the best fit for our current production scale and our sense of market price expectations.

In terms of expenses, advertising expenses were lower as a result of exhibiting at fewer exhibitions than the previous year, and R&D expenses were higher as a result of research for the launch of mass production (primarily plastic ASKA3D plates). In addition, personnel expenses were higher due to the hiring of new employees, and travel and transportation expenses were higher primarily due to overseas marketing. We also recorded an inventory write-down of our old-model glass ASKA3D plates.

As a result, sales were 146,632 thousand yen (124.0% year-on-year) and segment loss was 241,608 thousand yen (compared to a loss of 250,467 thousand yen in the same period of the previous year).

As a result of the above, sales during this fiscal year were 6,295,992 thousand yen (106.6% year-on-year). In terms of income, as a result of steady growth in segment income in the personal publishing business, ordinary income was 873,121 thousand yen (109.7% year-on-year) and net income was 598,924 thousand yen (107.5% year-on-year).

(2) Overview of the financial status during this fiscal year

(Assets)

Current assets at the end of this fiscal year increased by 73,588 thousand yen from the end of the previous fiscal year to reach 3,410,498 thousand yen. Despite a decrease in cash and savings of 37,017 thousand yen due to the purchase of land and payment of building construction costs, this increase was primarily due to an increase in accounts receivable of 98,789 thousand yen resulting from an increase in sales.

Fixed assets at the end of this fiscal year increased by 482,027 thousand yen from the end of the previous fiscal year to reach 2,861,016 thousand yen. The primary reasons for the increase were an increase of 232,553 thousand yen in land and an increase of 225,236 thousand yen in construction in progress.

(Liabilities)

Current liabilities at the end of the current fiscal year increased by 126,965 thousand yen from the end of the previous fiscal year to reach 831,149 thousand yen. The primary reasons for the increase were increases of 42,909 thousand yen in accounts payable-trade, 11,602 thousand yen in accounts payable-other, and 50,000 thousand yen in income taxes payable.

Fixed assets at the end of this fiscal year decreased by 2,369 thousand yen to 9,330 thousand yen

(Net assets)

Net assets at the end of this fiscal year increased by 431,020 thousand yen to reach 5,431,034 thousand yen. The primary reason for the increase was an increase of 424,492 thousand yen in retained earnings.

(3) Overview of cash flows in this fiscal year

The balance of cash and cash equivalents (hereafter referred to as “cash”) at the end of this fiscal year declined by 37,017 thousand yen from the end of the previous fiscal year to reach 1,669,763 thousand yen. Despite acquiring steady cash from operating activities as a result of recording strong profits, this decline was due to payments related to buying land for the headquarters and constructing buildings.

(Cash flows from operating activities)

Net cash acquired as a result of operating activities during this fiscal year was 919,926 thousand yen (compared to 788,191 thousand yen during the previous fiscal year). The primary factors affecting this result

were pre-tax net income of 864,268 thousand yen and depreciation expenses of 295,005 thousand yen on one hand, and the payment of 244,927 thousand yen in income taxes on the other.

(Cash flows from investing activities)

Net cash expended as a result of investment activities during this fiscal year was 795,405 thousand yen (compared to 596,942 thousand yen during the previous fiscal year). This was primarily due to the acquisition of 696,432 thousand yen in tangible fixed assets and 94,736 thousand yen in intangible fixed assets.

(Cash flows from financing activities)

Net cash expended as a result of financing activities during this fiscal year was 161,639 thousand yen (compared to 157,530 thousand yen during the previous fiscal year). This was primarily due to the payment of 168,058 thousand yen in dividends.

(4) Future outlook

Despite signs of recovery including a recovery in corporate earnings and improvement in the employment environment, the outlook for the economy during the coming fiscal year is expected to remain highly unpredictable as a result of unstable economic conditions between US and China and other overseas situation.

Under these conditions, our company is operating a business that is consistent with the current times in which services are customized from minimum lot sizes to meet individual needs, and aims to capture stable demand. Both the memorial design service business and personal publishing business have established a solid business foundation and achieved stable income, however we recognize that there are issues from the perspective of further growth and will carry out measures aimed at expanding these business areas. In the aerial imaging business that we are conducting as a new business area, more time has been required than was initially expected. However we expect to make great leaps forward now that we have begun the first step of the supply of plastic ASKA3D plate. We will also continue to challenge ourselves in the development of new business and services.

In the memorial design service business, we will make use of our strengths in image processing technologies, in-house support systems, and a diverse range of funeral presentation tools to develop new customers and increase the unit price for existing customers. We will be launching a variety of new services under the label of “So-Tech” – IT services for the funeral market.

In the personal publishing business, we will add new product items and improve our photo collection ordering software, and will also hold various seminars and participate in exhibitions, conduct events, and take other steps to capture customers. There has also been strong growth in sales from OEM supply to smartphone users, and we increase our production capacity for its further expansion.

In the aerial imaging business, we will address the establishment of a mass production system capable of producing AI plates for aerial imaging at suitable prices for BtoB users. In addition to expanding sales of glass plates, we will carry out R&D investment and sample sales of plastic plates that we expect to be combined with sensors and incorporated in products.

As a result of the above, regarding costs in the forecast for the fiscal year ending April 30, 2020, we are planning for continued advance investment including advertising expenses and R&D expenses in the aerial imaging business. In the personal publishing business, we are planning for an increase in depreciation expenses as a result of active investment in printing and other equipment and the operation of our production facilities at the headquarters site. In addition, we also expect costs to increase as a result of relocating a part of our production functions. In terms of sales, we expect strong growth in each business, and will focus our sales efforts primarily on the plastic plates in the aerial imaging business. We are forecasting sales of 6,738 million yen (107.0% compared to the current year), operating income of 824 million yen (94.9%), ordinary income of 829 million yen (94.9%), and net income of 545 million yen (91.0%).

In addition, various matters in the personal publishing business, such as overseas markets and general consumer markets, contain elements of uncertainty. Because sales in overseas markets are conducted in the local currencies, they are susceptible to the effects of changing exchange rates. The aerial imaging business and other new business areas also involve technological research and marketing that we have not engaged in before, and many uncertain elements are involved in its commercialization.

Note: The above forecast was created based on information available at the time this material was released, and actual results may differ from the forecast values due to a variety of factors.

5. Financial Statements for the fiscal year ended April 30, 2019

(1) Balance sheet

(Units: 1,000s yen)

	Previous fiscal year (Ended April 30, 2018)	Current fiscal year (Ended April 30, 2019)
Asset		
Current assets		
Cash and deposits	2,311,781	2,274,763
Notes receivable-trade	594	1,512
Accounts receivable-trade	725,937	825,727
Merchandise and products	191,123	172,942
Work in progress	14,325	23,551
Raw materials and supplies	62,206	78,072
Prepaid expenses	31,289	34,378
Others	2,269	2,464
Allowance for doubtful accounts	(2,617)	(2,914)
Total current assets	3,336,909	3,410,498
Fixed assets		
Tangible fixed assets		
Buildings	895,176	925,358
Accumulated depreciation	(382,618)	(416,721)
Buildings, net	512,558	508,636
Structures	17,643	19,245
Accumulated depreciation	(11,485)	(11,764)
Structures (net)	6,157	7,480
Machinery and equipment	1,407,637	1,506,666
Accumulated depreciation	(1,011,099)	(1,097,104)
Machinery and equipment, net	396,538	409,561
Vehicles	9,661	9,288
Accumulated depreciation	(2,786)	(4,241)
Vehicles (net)	6,875	5,046
Tools, equipments, and fixtures	352,591	381,142
Accumulated depreciation	(217,329)	(243,963)
Tools, equipments, and fixtures (net)	135,261	137,179
Land	611,507	844,060
Construction in progress	24,407	249,643
Total tangible fixed assets	1,693,306	2,161,609
Intangible fixed assets		
Patents etc.	20,603	17,123
Software	180,165	172,391
Others	6,082	12,855
Total intangible fixed assets	206,851	202,370
Total investments and other assets		
Investment securities	240,600	228,800
Paid capital	10	10
Long term advanced payment	3,390	2,819
Deferred tax assets	94,080	122,617
Others	140,748	142,788
Total investment and others	478,829	497,035
Total fixed assets	2,378,988	2,861,016
Total assets	5,715,897	6,271,514

(Units: 1,000s yen)

	Previous fiscal year (Ended April 30, 2018)	Current fiscal year (Ended April 30, 2019)
Liabilities		
Current liabilities		
Accounts payable-trade	126,270	169,180
Accounts payable-other	162,361	173,963
Accrued expense	72,320	73,881
Income taxes payable	137,900	187,900
Advance received	16,526	16,704
Deposit received	11,991	12,322
Provision for bonuses	136,500	144,200
Others	40,313	52,996
Total current liabilities	704,183	831,149
Fixed liabilities		
Provision for retirement benefits	6,482	6,009
Others	5,217	3,320
Total fixed liabilities	11,700	9,330
Total liabilities	715,883	840,479
Net assets		
Shareholders' equity		
Capital stock	490,300	490,300
Capital surplus		
Capital reserves	606,585	606,585
Total capital surplus	606,585	606,585
Retained earnings		
Legal retained earnings	1,693	1,693
Other retained earnings		
Retained earnings	4,181,890	4,606,383
Total retained earnings	4,183,583	4,608,076
Treasury stock	(285,940)	(268,850)
Total shareholders' equity	4,994,527	5,436,110
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	3,129	(5,076)
Total valuation and translation adjustments	3,129	(5,076)
Subscription rights to shares	2,356	—
Total net assets	5,000,014	5,431,034
Total liabilities and net assets	5,715,897	6,271,514

(2) Profit and loss statement

(unit:1000s yen)

	23rd fiscal year (May 1, 2017-April 30, 2018)	24th fiscal year (May 1, 2018-April 30, 2019)
Net Sales		
Sales from service	1,674,315	1,700,512
Sales of products	3,420,030	3,796,290
Sales of goods	809,664	799,189
Total sales	5,904,010	6,295,992
Cost of sales		
Cost of service	773,678	813,317
Cost of product sales		
Stock of product at beginning of the year	107,183	129,141
Cost of product sales during year	1,591,772	1,700,446
Total	1,698,955	1,829,587
Transfer to other accounts	20,995	15,740
Stock of product at year end	129,141	100,909
Cost of production sales	1,548,818	1,712,937
Cost of goods sales		
Stock of goods at beginning of the year	58,940	61,981
Cost of goods sales during year	562,819	562,879
Total	621,759	624,861
Transfer to other accounts	18,976	19,672
Stock of goods at year end	61,981	72,033
Cost of goods sales	540,800	533,155
Total cost of sales	2,863,298	3,059,410
Gross profit	3,040,712	3,236,581
Selling, general, and administrative expenses	2,252,012	2,367,900
Operating income	788,700	868,681
Non-operating income		
Interest received	520	549
Dividends received	1,060	1,010
Commissions received	412	466
Revenue from insurance	3,999	960
Foreign exchange gains	14	—
Gain on forfeiture of unclaimed dividends	825	950
Others	415	554
Total non-operating income	7,249	4,492
Non-operating expenses		
Foreign exchange losses	—	53
Total non-operating expenses	—	53
Ordinary income	795,949	873,121
Extraordinary losses		
Loss on retirement of fixed assets	21,566	8,852
Total extraordinary losses	21,566	8,852
Net income before taxes	774,383	864,268
Current income taxes etc.	236,653	290,286
Income tax adjustment	(19,161)	(24,942)
Income taxes	217,492	265,343
Net income	556,890	598,924

(3) Statement of cash flows

(unit:1000s yen)

	23rd fiscal year (May 1, 2017-April 30, 2018)	24th fiscal year (May 1, 2018-April 30, 2019)
Cash flows resulting from operating activities		
Net income before taxes	774,383	864,268
Depreciation expenses	309,094	295,005
Increase (decrease) in allowance for doubtful accounts	489	1,109
Increase (decrease) in provision for bonuses	7,500	7,700
Increase (decrease) in provision for retirement benefits	—	(472)
Interest and dividends received	(1,581)	(1,559)
Foreign exchange losses (gains)	189	(101)
Loss on disposal of fixed assets	21,566	8,852
Decrease (increase) in notes and accounts receivable-trade	(41,133)	(101,585)
Decrease (increase) in inventory assets	(32,520)	(6,911)
Increase (decrease) in accounts payable-trade	7,365	42,909
Increase (decrease) in accrued consumption taxes	(27,773)	12,719
Others	6,065	41,359
Subtotal	1,023,643	1,163,293
Interest and dividends received	1,362	1,560
Income taxes paid	(236,814)	(244,927)
Cash flows due to operating activities	788,191	919,926
Cash flows due to investing activities		
Purchase of property, plant, and equipment	(433,241)	(696,432)
Purchase of intangible fixed assets	(58,482)	(94,736)
Purchase of investment securities	(99,900)	—
Collection of loans receivable	1,440	400
Payments into time deposits	(605,000)	(605,000)
Proceeds from withdrawal of time deposits	605,000	605,000
Others	(6,758)	(4,636)
Cash flows due to investing activities	(596,942)	(795,405)
Cash flows due to financing activities		
Cash dividends paid	(167,225)	(168,058)
Purchase of treasury stock	11,592	8,316
Others	(1,897)	(1,897)
Cash flows due to financing activities	(157,530)	(161,639)
Effect of exchange rate on cash and cash equivalents	(189)	101
Net increase (decrease) in cash and cash equivalents	33,529	(37,017)
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	1,706,781	1,669,763

(4) Notes regarding the financial statements

(Segment information etc.)

Information related to the amounts of sales, income or loss, assets, liabilities, and other items for each reporting segment.

Year 23 (May 1, 2017 – April 30, 2018)

(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	2,524,634	3,271,521	107,854	5,904,010	—	5,904,010
Inter-segment internal sales and transfers	—	—	10,350	10,350	(10,350)	—
Total	2,524,634	3,271,521	118,204	5,914,360	(10,350)	5,904,010
Segment income (loss)	750,399	778,088	(250,467)	1,278,019	(489,318)	788,700
Other term						
Depreciation	25,940	234,820	17,701	278,463	30,630	309,094

Year 24 (May 1, 2018 – April 30, 2019)

(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	2,538,699	3,619,794	137,498	6,295,992	—	6,295,992
Inter-segment internal sales and transfers	—	—	9,134	9,134	(9,134)	—
Total	2,538,699	3,619,794	146,632	6,305,126	(9,134)	6,295,992
Segment income (loss)	716,975	916,511	(241,608)	1,391,878	(523,196)	868,681
Other term						
Depreciation	29,886	215,197	16,470	261,555	33,450	295,005

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