

Financial Results
for the Nine Months Ended March 31, 2022
[Japanese GAAP]
(Non-consolidated)



April 28, 2022

Company name: WELLNET CORPORATION
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2428
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 Scheduled date of filing quarterly securities report: May 13, 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 Nine Months Ended March 31, 2022 (July 1, 2021 to March 31, 2022)

(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	%
Nine months ended								
March 31, 2022	6,732	0.1	576	12.9	585	8.0	419	11.9
March 31, 2021	6,724	(5.5)	510	(27.0)	542	(23.2)	375	(23.4)

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
March 31, 2022	22.28	22.20
March 31, 2021	19.94	19.87

(2) Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2022	25,051	7,289	28.9	383.72
As of June 30, 2021	21,257	7,175	33.4	337.37

(Reference) Equity: As of March 31, 2022: ¥7,233 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	Yen	Yen	Yen
Fiscal year ending June 30, 2021	-	0.00	-	15.47	15.47
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	%
Full year	9,600	-	730	-	730	-

	Profit		Basic earnings per share
	Million yen	%	Yen
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, 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 March 31, 2022: 19,400,000 shares

As of June 30, 2021: 1,940,000 shares

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

As of March 31, 2022: 547,985 shares

As of June 30, 2021: 577,865 shares

3) Average number of shares during the period:

Nine months ended March 31, 2022: 18,837,511 shares

Nine months ended March 31, 2021: 18,812,203 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

In the Japanese economy in the nine months of the fiscal year under review (July 1, 2021 to March 31, 2022), the impact of the novel coronavirus disease (COVID-19) has been prolonged, and the situation still remains unpredictable.

In the non-face-to-face payment market, the Company's business domain, there has been a sharp decline in the movement of people such as inbound and domestic travel, and with the impact on transportation-related businesses such as airlines, buses, and railroads at the end of March 2022, activity has not returned to pre-COVID-19 levels yet.

At the same time, DX (Digital Transformation) is being actively promoted in a variety of industries and business categories, and the non-face-to-face and non-contact services are increasing, and IT is playing an increasingly important role in society. In the midst of this paradigm shift, the Company has been promoting activities such as "Response to the age of electronic money" and "Bus IT Promotion Solution Project and the MaaS Business" as priority measures, with "paperless" and "cashless" as the keywords, and conducting activities considering a lifestyle-based fin-tech platform in this context. We also promoted content platforms for payments and more, such as the membership management system *ekaiin.com*, etc., and improved operational efficiency by consolidating back-office operations in our new Sapporo head office.

With respect to business results for the nine months ended March 31, 2022, the Company reported net sales of ¥6,732 million (up 0.1% year on year), operating profit of ¥576 million (up 12.9% year on year), ordinary profit of ¥585 million (up 8.0% year on year) and profit of ¥419 million (up 11.9 % year on year).

2) Changes in Environment Surrounding the Company and Response Strategy

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, and we are promoting the expansion of payments and more functionality, and collaboration with content cloud service providers for systems promoting going paperless and for payments systems.

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

The *Shiharai-Hisho* service, which carries out payments via bank-account-linked smartphone has already been introduced at eight electric power companies. 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, where the Company is promoting DX mainly through *Bus Mori*, the number of routes on which customers can use *Shiharai-Hisho* to pay for smartphone commuter passes and coupon tickets 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. The system has been adopted by Higashi Honganji for soliciting donations, by Meiji University for selling PCs and rental gowns, by high schools for collecting alumni association fees, and for crowdfunding. In addition, we have completed the development of a new function, "non-stop payment," which is more advanced than the current one-stop payment function, and commenced marketing activities.

On the other hand, we have completed alliances with 36 banks, including Sumitomo Mitsui Banking Corporation and Japan Post Bank Co., Ltd. However, after completion of security measures related to identity verification due to a series of large-scale incidents of unauthorized use of fund transfer agent accounts connected with several banks, the Company is working to resume operations with them. As of March 31, 2022, the number of available banks has recovered to 19, and we will make continuous efforts to increase the number of available banks, including new ones.

B. Driving forward our Bus IT Promotion Project

Launched in August 2016, the smartphone electronic ticketing application *Bus Mori!* has expanded the types of electronic ticket to include single-trip tickets, coupon tickets, commuter passes, free passes, and discount passes, and now handles more than 470 routes. During the COVID-19 pandemic, the Company expanded smartphone commuter passes and smartphone coupon tickets, which can be purchased non-face-to-face. In addition, the Company continues to expand functions for *ALTAIR triple star*, a MaaS cloud service, which the Company has been developing for five years. *ALTAIR triple star* is an all-in-one total cloud service ticket sales system that can automate a series of operations, from inventory and timetable management for rides and events, ticket reservation, purchase, issuance, and authentication, to sales information aggregation and settlement processing. Especially in the case of MaaS, which is provided jointly by multiple operators, the Company recognizes that our extensive experience in the labor-intensive settlement operations is a major advantage.

MaaS service *DohNa!!* was launched for use on Hakodate's trams, buses, and railroads from January 2020. The Company is actively responding to the strong demand for DX in the transportation industry by participating in Sendai MaaS in 2021, *OkhoNavi* in the Okhotsk area in January 2022, and JAL MaaS in February 2022.

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 introduce smartphone payment services according to the needs. The Company aims to continue to provide payment gateway services that contribute to increase in convenience for both operators and consumers.

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 2021 as in the previous fiscal year, we received reports that four colleges of technology in Hokkaido achieved a zero dropout rate 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 advanced initiative that began in 2014 in the U.S. to evaluate and certify spaces including buildings and offices from the standpoint of human health. Recognizing that this initiative represents an investment in the Company's most important asset, our employees, and we 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

1) Status of assets, liabilities, and net assets

Total assets as of March 31, 2022 stood at ¥25,051 million. Current assets were ¥18,084 million. This mainly comprises cash and deposits of ¥14,102 million. Cash and deposits include ¥11,749 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 ¥6,967 million. This mainly comprises property, plant and equipment of ¥4,248 million, intangible assets of ¥632 million, and investments and other assets of ¥2,086 million.

Meanwhile, total liabilities amounted to ¥17,762 million. This mainly comprises receiving agency deposits of ¥11,749 million.

Total net assets amounted to ¥7,289 million. This mainly comprises shareholders' equity of ¥7,232 million.

(Reference) Cash and deposits, net (net balance of cash and deposits after offsetting receiving agency deposits related to money collection business)

(Millions of yen)

	As of June 30, 2021	As of March 31, 2022
(A) Cash and deposits	10,503	14,102
(B) Receiving agency deposits	8,349	11,749
(A)-(B) Cash and deposits, net	2,154	2,353

(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 provided in the "Notice Concerning Announcement of Financial Results Forecasts and Dividend Forecasts" announced on August 17, 2021.

2. Financial Statements and Significant Notes

(1) Balance Sheet

(Thousands of yen)

	As of June 30, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and deposits	10,503,958	14,102,836
Accounts receivable - trade	480,070	583,884
Merchandise	2,156	3,747
Work in process	9,456	1,659
Supplies	280	1,863
Deposits paid	2,124,080	2,533,480
Other	914,215	856,840
Total current assets	14,034,219	18,084,313
Non-current assets		
Property, plant and equipment	4,347,788	4,248,164
Intangible assets	733,326	632,294
Investments and other assets	2,142,134	2,086,924
Total non-current assets	7,223,249	6,967,383
Total assets	21,257,468	25,051,696
Liabilities		
Current liabilities		
Accounts payable - trade	423,282	452,895
Deposits received	2,457,239	2,707,540
Current portion of long-term borrowings	100,000	100,000
Receiving agency deposits	8,349,597	11,749,328
Income taxes payable	70,502	102,978
Provision for bonuses	-	51,537
Provision for point card certificates	38	457
Other	559,637	555,106
Total current liabilities	11,960,298	15,719,843
Non-current liabilities		
Long-term borrowings	1,900,000	1,825,000
Provision for share awards	66,758	61,481
Asset retirement obligations	10,851	10,874
Long-term accounts payable - other	119,007	119,007
Other	24,773	25,982
Total non-current liabilities	2,121,390	2,042,345
Total liabilities	14,081,688	17,762,188
Net assets		
Shareholders' equity		
Share capital	667,782	667,782
Capital surplus	3,509,216	3,480,515
Retained earnings	3,685,522	3,813,994
Treasury shares	(764,630)	(729,679)
Total shareholders' equity	7,097,891	7,232,613
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	4,995	1,301
Total valuation and translation adjustments	4,995	1,301
Share acquisition rights	72,892	55,593
Total net assets	7,175,779	7,289,508
Total liabilities and net assets	21,257,468	25,051,696

(2) Statement of Income
(Nine months ended March 31)

(Thousands of yen)

	For the nine months ended March 31, 2021	For the nine months ended March 31, 2022
Net sales	6,724,031	6,732,588
Cost of sales	5,676,554	5,619,339
Gross profit	1,047,477	1,113,249
Selling, general and administrative expenses	537,228	537,189
Operating profit	510,249	576,060
Non-operating income		
Interest income	92	544
Gain on investments in investment partnerships	28,697	16,952
Rental income	2,698	2,548
Other	7,402	6,602
Total non-operating income	38,891	26,648
Non-operating expenses		
Interest expenses	1,492	2,966
Foreign exchange losses	5,108	14,030
Total non-operating expenses	6,600	16,996
Ordinary profit	542,540	585,712
Extraordinary income		
Gain on reversal of share acquisition rights	-	17,299
Total extraordinary income	-	17,299
Profit before income taxes	542,540	603,011
Income taxes - current	158,463	183,043
Income taxes - deferred	8,993	318
Total income taxes	167,456	183,361
Profit	375,083	419,650

(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 fiscal year under review, 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, the Company has now changed to a method of estimating progress towards satisfaction of performance obligations and recognizing revenue 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 fiscal year under review was added to or deducted from the opening balance of retained earnings of the first quarter of the fiscal year under review, 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 nine months of the fiscal year under review.

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.

(Significant subsequent events)

There is no relevant information.