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August 4, 2022

Consolidated Financial Results for the Three Months Ended June 30, 2022 (Under Japanese GAAP)

Company name: Japan Communications Inc.
 Listing: Tokyo Stock Exchange: Prime Market
 Securities code: 9424
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 Scheduled date to file quarterly securities report: August 5, 2022
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes (for institutional investors, analysts and the press)

(Yen amounts are rounded down to millions, unless otherwise noted.)

1. Consolidated financial results for the three months ended June 30, 2022 (from April 1, 2022 to June 30, 2022)

(1) Consolidated operating results (cumulative)

(Percentages indicate year-on-year changes.)

	Net revenue		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
June 30, 2022	1,353	28.1	158	556.2	180	616.8	161	459.8
June 30, 2021	1,056	39.8	24	–	25	–	28	–

Note: Comprehensive income For the three months ended June 30, 2022: ¥133 million [425.2%]
 For the three months ended June 30, 2021: ¥25 million [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended		
June 30, 2022	0.98	0.97
June 30, 2021	0.17	0.17

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of				
June 30, 2022	2,102	926	37.9	4.84
March 31, 2022	1,944	785	33.6	3.97

Reference: Equity
 As of June 30, 2022: ¥795 million
 As of March 31, 2022: ¥652 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2022	–	0.00	–	0.00	0.00
Fiscal year ending March 31, 2023	–				
Fiscal year ending March 31, 2023 (Forecast)		0.00	–	0.00	0.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Overview and management policy for the fiscal year ending March 31, 2023

Since its founding in 1996, the Company has propounded and implemented the MVNO business model, an innovative form of telecommunications business, having developed its business with the mission of transferring (communicating) data safely, securely, and conveniently. Specifically, the Company is engaged in three businesses: mobile communications business (SIM business), communications business through local mobile networks (local 4G/5G), and digital ID (FPoS: Fintech Platform over SIM) business for use on smartphones. The Company plans to build a stable income stream by continuing the evolution of the SIM business, as well as to develop the local 4G/5G business and FPoS business to become the pillar of future earnings by investing in the two businesses.

In the local 4G/5G business, the Company aims to build advanced showcases in the U.S. and leverage the experience to expand in Japan.

In the FPoS business, the Company has acquired certification under the Digital Signature Act for “my Digital Certificate” (the issuing entity is my FinTech Inc., a subsidiary of the Company.) based on its patented FPoS technology, and are working on its actual use as a digital ID that can be used safely, securely, and conveniently on smartphones.

With the surrounding situation above described, the management of the Company perceives a market capitalization of 500 billion yen as the growth business scale in three to five years from the launch of commercial service of FPoS (expected within this fiscal year).

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Adoption of accounting treatment specific to the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, changes in accounting estimates, and restatement
- (i) Changes in accounting policies due to revisions to accounting standards and other regulations: None
 - (ii) Changes in accounting policies due to other reasons: None
 - (iii) Changes in accounting estimates: None
 - (iv) Restatement: None

(4) Number of issued shares (common shares)

- (i) Total number of issued shares at the end of the period (including treasury shares)

As of June 30, 2022	164,258,239 shares
As of March 31, 2022	164,258,239 shares

- (ii) Number of treasury shares at the end of the period

As of June 30, 2022	15,004 shares
As of March 31, 2022	15,004 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2022	164,243,235 shares
Three months ended June 30, 2021	164,243,235 shares

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

A financial results meeting will be held on Friday, August 5, 2022 for institutional investors, analysts and the press. The Company plans to post a video of this financial results meeting on its website promptly after the meeting is held.

1. Qualitative Information on Results for the Three Months Ended June 30

(1) Explanation on operating results

Since its founding in 1996, the Company has propounded and implemented the MVNO business model, an innovative form of telecommunications business, having developed its business with the mission of transferring (communicating) data safely, securely, and conveniently. Specifically, the Company is engaged in three businesses: mobile communications business (SIM business), communications through local mobile networks business (local 4G/5G), and digital ID (FPoS: Fintech Platform over SIM) business for use on smartphones.

The Company plans to build a stable income stream by continuing the evolution of the SIM business, as well as to develop the local 4G/5G business and FPoS business to become the pillar of future earnings by investing in the two businesses.

(i) Mobile Communications Business (SIM business)

In July 2020, the Company launched the “Nihon Tsushin SIM,” which provides flat-rate voice plans equivalent to that of major mobile operators, following the June 2020 ruling by the Minister for Internal Affairs and Communications that set the prices of wholesale telecommunication services relating to voice communications services provided to the Company from NTT DOCOMO, INC. shall not exceed the amount of the appropriate costs under efficient management plus appropriate profit. The Company has timely introduced new additional plans to “Nihon Tsushin SIM,” increasing net sales continuously.

Since April 2022, an eSIM that is embedded in a device like a smartphone can be selected for “Nihon Tsushin SIM,” in addition to a conventional SIM card. An eSIM is a SIM by which subscriber identity information (profiles) necessary for using telecommunication services can be remotely written to eSIM embedded in devices such as iPhone and users can change mobile service operators without replacing SIM cards, as was the case before.

The replacement cycle for smartphones has been prolonged as evolution of functions has reached a certain level and more customers consider lowering communication expenses due to a hike in prices caused by the Ukrainian situation. Amid these conditions, eSIMs are accepted by customers who want to use two lines on one smartphone and use two phone numbers separately for business and private purposes on one smartphone.

In addition, the Company has requested NTT DOCOMO, INC. for an interconnection of voice networks in June 2022 (announced on June 10, 2022). This request, which the Company had been considering for long time, was made as the Information and Communications Council of the Ministry of Internal Affairs and Communications presented a policy of allocating mobile numbers (090, etc.) to MVNOs in December 2021. The Company will secure a stable business foundation by procuring both data and voice communication networks through interconnection, aiming at a business model as a “Neo Carrier” that ensures flexibility in both technology and price.

(ii) Local 4G/5G Business through Local Mobile Networks

A U.S. subsidiary of the Company operates a business that provides SIMs used for connections with local mobile networks in the U.S. market. For connections with local mobile networks, it is necessary to write a large amount of highly specialized information to SIMs. The Company provides SIMs that are able to connect to local mobile networks set up by partner and customer companies by accumulating and utilizing technologies and expertise in relevant fields through the U.S. subsidiary. By utilizing achievements in the leading U.S. market, the Company is planning similar initiatives for the local 4G/5G business in Japan.

(iii) Digital ID (FPoS) Business for Use on Smartphones

Under the “Vision for a Digital Garden City Nation” (vision to realize a comfortable life for everyone so that they enjoy benefits from digitalization, leaving no one behind by solving regional issues through digital implementation) which was declared by the Japanese government in 2021, it was announced on June 17, 2022 that project applications by Maebashi City, Ebetsu City (Hokkaido Prefecture), and Gunma Prefecture were adopted. The project applications by these three local governments are each premised on usage of the Maebashi ID (official name TBD), on which the Company is working on as the first case in

the FPoS business. Accordingly, the Company plans to provide FPoS based services in these three regions during the current fiscal year. A Maebashi ID is understood as a platform on which both public services such as administrative procedures and other private services can be used with a single ID using a smartphone and the Company will fully support implementation of this platform in these three regions during the current fiscal year.

As a result of the above, the Group's consolidated net revenue for the three months ended June 30, 2022 were 1,353 million yen, an increase of 297 million yen (up 28.1%) compared to the three months ended June 30, 2021 (hereinafter referred to as the "same period of the previous year"). This was partially due to an increase of revenue from initial fees relating to acquisition of new customers and monthly fees resulting from growth of the flat-rate or semi-flat rate voice services centered on "Nihon Tsushin SIM" in the MVNO Business (up 16.7% from the same period of the previous year) and growth of the Enabler Business including voice services provided under partner brands (up 43.8% from the same period of the previous year).

Cost of revenue was 767 million yen, an increase of 128 million yen (up 20.2%) compared to the same period of the previous year. While payment of wholesale voice costs of flat-rate or semi-flat rate voice services increased along with an increase in users, mainly "Nihon Tsushin SIM" users, decreased inter-connection fees per unit with data communication carriers reduced costs despite bandwidth acceleration measures with NTT DOCOMO, INC. Thus, the cost ratio improved compared to the previous quarter and the gross profit margin has improved.

As a result, gross profit amounted to 586 million yen, an increase of 168 million yen (up 40.3%) compared to the same period of the previous year. Operating profit amounted to 158 million yen (24 million yen for the same period of the previous year) and profit attributable to owners of parent amounted to 161 million yen (28 million yen for the same period of the previous year).

Financial results by business are as follows

Net revenue	(Millions of yen)			
	For three months ended June 30, 2021	For three months ended June 30, 2022	Year-on-year change	Year-on-year change (%)
MVNO Business	610	713	102	16.7
Enabler Business	445	640	195	43.8
Total	1,056	1,353	297	28.1

Revenue of 41 million yen (31 million yen in the same period of the previous year) from overseas operations in the segment information are included in the Enabler Business.

(2) Explanation on financial position

(i) Assets, liabilities and net assets

Assets

Current assets at the end of the current first quarter were 1,522 million yen, an increase of 111 million yen compared to the end of the previous year. This was mainly due to increases of 80 million yen in accounts receivable - trade and 27 million yen in merchandise. Non-current assets were 578 million yen, an increase of 46 million yen compared to the end of the previous year. This was mainly due to an increase of 38 million yen in intangible assets.

As a result, total assets amounted to 2,102 million yen, an increase of 158 million yen compared to the end of the previous year.

Liabilities

Current liabilities at the end of the current first quarter were 1,111 million yen, an increase of 5 million yen compared to the end of the previous year. Non-current liabilities were 64 million yen, an increase of 11 million yen compared to the end of the previous year. This was due to an increase of 11 million yen in long-term unearned revenue.

As a result, liabilities amounted to 1,176 million yen, an increase of 17 million yen compared to the end of the previous year.

Net assets

Net assets at the end of the current first quarter were 926 million yen, an increase of 141 million yen compared to the end of the previous year.

As a result, the equity ratio was 37.9% (33.6% at the end of the previous year).

(ii) Status of cash flows

Cash and cash equivalents at the end of the three months ended June 30, 2022 were 929 million yen, almost flat compared to the end of the previous year.

The status of cash flows and their factors during the three months ended June 30, 2022 are as follows.

Cash flows from operating activities

Net cash provided by operating activities totaled 38 million yen (an inflow of 134 million yen in the same period of the previous year). This was mainly due to an increase in trade receivables of 75 million yen, a decrease in consumption taxes payable/consumption taxes refund receivable of 35 million yen, and income taxes paid of 30 million yen despite recording of profit before income taxes of 180 million yen.

Cash flows from investing activities

Net cash used in investing activities totaled 41 million yen (an outflow of 132 million yen in the same period of the previous year). This was mainly due to purchase of intangible assets of 31 million yen.

Cash flows from financing activities

There were no cash flows from financing activities (an inflow of 54 million yen in the same period of the previous year).

(3) Explanation on future forecast information such as consolidated business forecast

Since its founding in 1996, the Company has propounded and implemented the MVNO business model, an innovative form of telecommunications business, having developed its business with the mission of transferring (communicating) data safely, securely, and conveniently. Specifically, the Company is engaged in three businesses: mobile communications business (SIM business), communications business through local mobile networks (local 4G/5G), as well as digital ID (FPoS: Fintech Platform over SIM) business for use on smartphones.

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With the surrounding situation above described, the management of the Company perceives a market capitalization of 500 billion yen as the growth business scale in three to five years from the launch of commercial service of FPoS (expected within this fiscal year).

Quarterly consolidated financial statements

Quarterly consolidated balance sheets

(Thousands of yen)

	As of March 31, 2022	As of June 30, 2022
Assets		
Current assets		
Cash and deposits	928,688	929,050
Accounts receivable - trade	378,641	459,288
Merchandise	47,552	75,221
Supplies	71	60
Accounts receivable - other	576	190
Other	57,440	61,752
Allowance for doubtful accounts	△2,692	△3,388
Total current assets	1,410,277	1,522,175
Non-current assets		
Property, plant and equipment		
Buildings	84,111	85,207
Accumulated depreciation	△83,292	△84,403
Buildings, net	818	804
Vehicles	7,027	7,027
Accumulated depreciation	△4,881	△5,060
Vehicles, net	2,145	1,966
Tools, furniture and fixtures	795,689	828,788
Accumulated depreciation	△766,969	△800,582
Tools, furniture and fixtures, net	28,719	28,206
Leased assets	263,727	263,727
Accumulated depreciation	△263,727	△263,727
Leased assets, net	—	—
Construction in progress	90,093	90,093
Total property, plant and equipment	121,777	121,071
Intangible assets		
Patent right	3,834	4,839
Trademark right	2,097	3,523
Software	73,999	95,227
Software in progress	125,984	141,296
Total intangible assets	205,916	244,886
Investments and other assets		
Investment securities	63,281	64,785
Leasehold and guarantee deposits	140,335	147,880
Other	456	120
Total investments and other assets	204,073	212,785
Total non-current assets	531,767	578,743
Deferred assets		
Share issuance costs	376	159
Bond issuance costs	1,937	1,409
Total deferred assets	2,313	1,569
Total assets	1,944,359	2,102,487

(Thousands of yen)

	As of March 31, 2022	As of June 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	421,105	424,232
Accounts payable - other	85,270	101,385
Income taxes payable	62,055	36,056
Unearned revenue	117,785	124,548
Deposits received	27,918	29,545
Valuation Reserve For Inventory Purchase		
Commitments	263,951	294,773
Other	127,992	100,831
Total current liabilities	1,106,078	1,111,372
Non-current liabilities		
Long-term accounts payable - other	2,149	2,051
Long-term unearned revenue	50,920	62,754
Total non-current liabilities	53,070	64,806
Total liabilities	1,159,149	1,176,178
Net assets		
Shareholders' equity		
Share capital	4,528,440	4,528,440
Capital surplus	2,977,376	2,977,376
Retained earnings	△6,977,888	△6,816,524
Treasury shares	△2,192	△2,192
Total shareholders' equity	525,737	687,100
Accumulated other comprehensive income		
Foreign currency translation adjustment	126,815	108,809
Total accumulated other comprehensive income	126,815	108,809
Share acquisition rights	67,864	75,269
Non-controlling interests	64,792	55,128
Total net assets	785,210	926,308
Total liabilities and net assets	1,944,359	2,102,487

Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income
 Quarterly consolidated statements of income

(Thousands of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Net sales	1,056,460	1,353,761
Cost of sales	638,440	767,235
Gross profit	418,020	586,526
Selling, general and administrative expenses	393,880	428,117
Operating profit	24,139	158,408
Non-operating income		
Share of profit of entities accounted for using equity method	1,629	1,322
Foreign exchange gains	—	21,241
Miscellaneous income	766	1,018
Total non-operating income	2,396	23,582
Non-operating expenses		
Interest expenses	22	253
Amortization of share issuance costs	287	216
Amortization of bond issuance costs	528	528
Foreign exchange losses	452	—
Miscellaneous losses	0	36
Total non-operating expenses	1,291	1,035
Ordinary profit	25,244	180,955
Profit before income taxes	25,244	180,955
Income taxes - current	1,022	29,256
Total income taxes	1,022	29,256
Profit	24,221	151,699
Loss attributable to non-controlling interests	△4,603	△9,664
Profit attributable to owners of parent	28,824	161,363

Quarterly consolidated statements of comprehensive income

(Thousands of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Profit	24,221	151,699
Other comprehensive income		
Foreign currency translation adjustment	1,235	△18,005
Total other comprehensive income	1,235	△18,005
Comprehensive income	25,457	133,693
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	30,060	143,358
Comprehensive income attributable to non- controlling interests	△4,603	9,664

Quarterly consolidated statement of cash flows

(Thousands of yen)

	Three months ended June 30, 2021	Three months ended June 30, 2022
Cash flows from operating activities		
Profit before income taxes	25,244	180,955
Depreciation	3,899	8,161
Interest expenses	22	253
Share of loss (profit) of entities accounted for using equity method	△1,629	△1,322
Foreign exchange losses (gains)	1,238	△21,712
Decrease (increase) in trade receivables	△3,778	△75,946
Decrease (increase) in inventories	△5,655	△25,049
Increase (decrease) in trade payables	187,389	2,134
Decrease (increase) in accounts receivable - other	24	388
Increase (decrease) in unearned revenue	△5,812	3,567
Increase (decrease) in Long-term unearned revenue	5,283	5,573
Increase/decrease in consumption taxes payable/consumption taxes refund receivable	△47,329	△35,232
Other, net	△19,470	27,577
Subtotal	139,427	69,348
Interest paid	△22	△34
Income taxes paid	△4,630	△30,428
Net cash provided by (used in) operating activities	134,775	38,885
Cash flows from investing activities		
Purchase of property, plant and equipment	△66,337	△6,080
Purchase of intangible assets	△65,932	△31,862
Proceeds from refund of leasehold and guarantee deposits	—	73
Payments of leasehold and guarantee deposits	△0	△3,624
Other, net	△91	—
Net cash provided by (used in) investing activities	△132,361	△41,493
Cash flows from financing activities		
Repayments of long-term borrowings	△5,400	—
Proceeds from share issuance to non-controlling shareholders	60,000	—
Net cash provided by (used in) financing activities	54,600	—
Effect of exchange rate change on cash and cash equivalents	△129	2,969
Net increase (decrease) in cash and cash equivalents	56,883	362
Cash and cash equivalents at beginning of period	1,025,466	928,688
Cash and cash equivalents at end of period	1,082,350	929,050