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November 10, 2022

Consolidated Financial Results for the Six Months Ended September 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: November 11, 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 six months ended September 30, 2022 (from April 1, 2022 to September 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	%
Six months ended								
September 30, 2022	2,762	25.4	293	458.3	335	495.0	301	364.7
September 30, 2021	2,204	41.4	52	–	56	–	64	–

Note: Comprehensive income For the six months ended September 30, 2022: ¥251 million [376.1%]
 For the six months ended September 30, 2021: ¥52 million [–%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended		
September 30, 2022	1.83	1.81
September 30, 2021	0.39	0.39

(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				
September 30, 2022	2,610	1,112	37.8	5.97
March 31, 2022	1,944	785	33.6	3.97

Reference: Equity
 As of September 30, 2022: ¥985 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	–	0.00			
Fiscal year ending March 31, 2023 (Forecast)			–	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 (launched on October 21, 2022).

*** 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 September 30, 2022	165,009,239 shares
As of March 31, 2022	164,258,239 shares

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

As of September 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)

Six months ended September 30, 2022	164,436,114 shares
Six months ended September 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, November 11, 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 Six Months Ended September 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 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.

(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. Net sales of “Nihon Tsushin SIM” are increasing steadily, and with the increase in MNP transfers from major mobile operators and major MVNOs, it is beginning to become recognized as a main line.

Although the Company has timely introduced new additional plans to “Nihon Tsushin SIM,” since April 2022, the Company began supporting eSIM, which is embedded in devices such as smartphones, in advance of other MVNO operators (announced on April 6, 2022). An eSIM is a SIM by which subscriber identity information (profiles) necessary for using telecommunication services can be remotely written to the devices which supports eSIM such as iPhone and users can change mobile service operators without replacing SIM cards, as was the case before. Because this makes users can use multiple lines of different mobile operators and/or can use separate phone numbers such as for private and business purposes on the same one (1) smartphone, it is expected to become more popular in the future.

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 and aim to become a “Neo Carrier” who can provide comparable services as mobile operators without owing mobile base station.

(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 working on 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.

Among the above, in the project of “Maebashi living-tech promotion business,” which was applied by Maebashi City, a business corporation named Mebuku Ground Inc., was established on October 6, 2022,

with jointly investment by prominent companies and prominent financial institutions in Gunma Prefecture, and the above corporation started issuing digital IDs called “mebuku ID” on October 21, 2022. Users can use “mebuku ID,” on their smartphone for both public services (such as administrative procedures) and private services.

The “mebuku ID” platform is FPoS based, and the Company will support “mebuku ID” as the first case of the FPoS business.

Gunma Prefecture and Ebetsu City also plan to use “mebuku ID,” and the Company plans to provide FPoS based services in these three regions during the current fiscal year.

As a result of the above, the Group’s consolidated net revenue for the six months ended September 30, 2022 were 2,762 million yen, an increase of 558 million yen (up 25.4%) compared to the six months ended September 30, 2021 (hereinafter referred to as the “same period of the previous year”). This was mainly due to an increase in sales from the flat-rate or semi-flat rate voice services of “Nihon Tsushin SIM.”

Cost of sales was 1,577 million yen, an increase of 214 million yen (up 15.7%) compared to the same period of the previous year. Increases in cost of sales compared to increases in net sales are largely avoidable because the mobile networks of both data and voice communications procured by the Company from NTT DOCOMO, INC. have been set not to exceed the amount of the appropriate costs under efficient management plus appropriate profit.

As a result, gross profit amounted to 1,185 million yen, an increase of 344 million yen (up 41.0%) compared to the same period of the previous year.

Operating profit amounted to 293 million yen (52 million yen for the same period of the previous year) and profit attributable to owners of parent amounted to 301 million yen (64 million yen for the same period of the previous year).

Financial results by business are as follows

(Millions of yen)				
Net revenue	For six months ended September 30, 2021	For six months ended September 30, 2022	Year-on-year change	Year-on-year change (%)
MVNO Business	1,237	1,477	240	19.4
Enabler Business	966	1,285	318	33.0
Total	2,204	2,762	558	25.4

Revenue of 67 million yen (58 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 second quarter were 1,946 million yen, an increase of 536 million yen compared to the end of the previous year. This was mainly due to increases of 429 million yen in cash and deposits and 80 million yen in accounts receivable - trade. Of the 1,358 million yen balance of cash and deposits, 250 million yen is substantially restricted in use as it has been temporarily entrusted as capital to jointly establish a corporation with other companies, etc., by the companies, etc., that plan to make the investments. In addition, included in the 291 million yen deposits received balance in liabilities is the same amount of 250 million yen. Non-current assets were 662 million yen, an increase of 131 million yen compared to the end of the previous year. This was mainly due to increases of 67 million yen in intangible assets and 57 million yen in investments and other assets.

As a result, total assets amounted to 2,610 million yen, an increase of 666 million yen compared to the end of the previous year.

Liabilities

Current liabilities at the end of the current second quarter were 1,431 million yen, an increase of 324 million yen compared to the end of the previous year. This was mainly due to increases of 263 million yen in deposits received and 48 million yen in valuation reserve for inventory purchase commitments. Included in the 291 million yen deposits received balance is the corresponding 250 million yen in restricted deposits included in cash and deposits. Non-current liabilities were 66 million yen, an increase of 13 million yen compared to the end of the previous year. This was due to an increase of 14 million yen in long-term unearned revenue.

As a result, liabilities amounted to 1,497 million yen, an increase of 338 million yen compared to the end of the previous year.

Net assets

Net assets at the end of the current second quarter were 1,112 million yen, an increase of 327 million yen compared to the end of the previous year. This was mainly due to recording 301 million yen in profit attributable to owners of parent. Along with decreasing the amounts of capital and capital reserve, on August 10, 2022, the Company implemented an appropriation of surplus. Capital and capital reserve were decreased by 4,028 million yen and 2,789 million yen, respectively, and the entire decreased amount was transferred to other capital surplus. By transferring the increase in other capital surplus to retained earnings brought forward, the deficit was covered, and there was no impact on net assets.

As a result, the equity ratio was 37.8% (33.6% at the end of the previous year).

(ii) Status of cash flows

Cash and cash equivalents at the end of the six months ended September 30, 2022 were 1,108 million yen, an increase of 179 million yen compared to the end of the previous year.

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

Cash flows from operating activities

Net cash provided by operating activities totaled 250 million yen (an outflow of 94 million yen in the same period of the previous year). This was mainly due to an increase in trade receivables of 73 million yen despite recording of profit before income taxes of 335 million yen.

Cash flows from investing activities

Net cash used in investing activities totaled 75 million yen (an outflow of 214 million yen in the same period of the previous year). This was mainly due to purchase of intangible assets of 57 million yen.

Cash flows from financing activities

There were no cash flows from financing activities (an inflow of 150 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), and digital ID (FPoS: Fintech Platform over SIM) business for use on smartphones.

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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.

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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 (launched on October 21, 2022).

Quarterly consolidated financial statements

Quarterly consolidated balance sheets

(Thousands of yen)

	As of March 31, 2022	As of September 30, 2022
Assets		
Current assets		
Cash and deposits	928,688	1,358,638
Accounts receivable - trade	378,641	458,957
Merchandise	47,552	59,570
Supplies	71	64
Accounts receivable - other	576	543
Other	57,440	73,035
Allowance for doubtful accounts	△2,692	△4,130
Total current assets	1,410,277	1,946,680
Non-current assets		
Property, plant and equipment		
Buildings	84,111	86,193
Accumulated depreciation	△83,292	△85,041
Buildings, net	818	1,152
Vehicles	7,027	7,027
Accumulated depreciation	△4,881	△5,238
Vehicles, net	2,145	1,788
Tools, furniture and fixtures	795,689	858,258
Accumulated depreciation	△766,969	△822,611
Tools, furniture and fixtures, net	28,719	35,646
Leased assets	263,727	263,727
Accumulated depreciation	△263,727	△263,727
Leased assets, net	—	—
Construction in progress	90,093	90,140
Total property, plant and equipment	121,777	128,727
Intangible assets		
Patent right	3,834	5,127
Trademark right	2,097	3,425
Software	73,999	109,195
Software in progress	125,984	155,176
Total intangible assets	205,916	272,924
Investments and other assets		
Investment securities	63,281	71,034
Leasehold and guarantee deposits	140,335	145,146
Other	456	45,005
Total investments and other assets	204,073	261,186
Total non-current assets	531,767	662,838
Deferred assets		
Share issuance costs	376	63
Bond issuance costs	1,937	880
Total deferred assets	2,313	944
Total assets	1,944,359	2,610,463

(Thousands of yen)

	As of March 31, 2022	As of September 30, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	421,105	435,013
Accounts payable - other	85,270	103,563
Income taxes payable	62,055	70,283
Unearned revenue	117,785	116,821
Deposits received	27,918	291,140
Valuation Reserve For Inventory Purchase		
Commitments	263,951	312,306
Other	127,992	101,919
Total current liabilities	1,106,078	1,431,047
Non-current liabilities		
Long-term accounts payable - other	2,149	1,952
Long-term unearned revenue	50,920	64,937
Total non-current liabilities	53,070	66,889
Total liabilities	1,159,149	1,497,937
Net assets		
Shareholders' equity		
Share capital	4,528,440	529,260
Capital surplus	2,977,376	220,827
Retained earnings	△6,977,888	140,766
Treasury shares	△2,192	△2,192
Total shareholders' equity	525,737	888,662
Accumulated other comprehensive income		
Foreign currency translation adjustment	126,815	97,164
Total accumulated other comprehensive income	126,815	97,164
Share acquisition rights	67,864	81,605
Non-controlling interests	64,792	45,093
Total net assets	785,210	1,112,525
Total liabilities and net assets	1,944,359	2,610,463

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

(Thousands of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Net sales	2,204,069	2,762,949
Cost of sales	1,362,988	1,577,123
Gross profit	841,080	1,185,825
Selling, general and administrative expenses	788,450	891,984
Operating profit	52,629	293,841
Non-operating income		
Interest income	5	4
Foreign exchange gains	2,463	33,611
Share of profit of entities accounted for using equity method	1,752	7,571
Miscellaneous income	1,144	1,792
Total non-operating income	5,365	42,980
Non-operating expenses		
Interest expenses	28	286
Amortization of share issuance costs	575	312
Amortization of bond issuance costs	1,057	1,057
Miscellaneous losses	16	92
Total non-operating expenses	1,677	1,747
Ordinary profit	56,316	335,074
Profit before income taxes	56,316	335,074
Income taxes - current	2,045	53,649
Total income taxes	2,045	53,649
Profit	54,271	281,424
Loss attributable to non-controlling interests	△10,522	△19,699
Profit attributable to owners of parent	64,794	301,123

(Thousands of yen)

	2nd quarter ended September 30, 2021	2nd quarter ended September 30, 2022
Net sales	1,147,608	1,409,187
Cost of sales	724,547	809,888
Gross profit	423,060	599,299
Selling, general and administrative expenses	394,570	463,866
Operating profit	28,489	135,432
Non-operating income		
Interest income	5	4
Foreign exchange gains	2,916	12,370
Share of profit of entities accounted for using equity method	122	6,249
Miscellaneous income	377	774
Total non-operating income	3,421	19,398
Non-operating expenses		
Interest expenses	6	33
Amortization of share issuance costs	287	95
Amortization of bond issuance costs	528	528
Miscellaneous losses	15	55
Total non-operating expenses	838	712
Ordinary profit	31,072	154,118
Profit before income taxes	31,072	154,118
Income taxes - current	1,022	24,393
Total income taxes	1,022	24,393
Profit	30,050	129,725
Loss attributable to non-controlling interests	△5,919	△10,034
Profit attributable to owners of parent	35,969	139,759

Quarterly consolidated statements of comprehensive income

(Thousands of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Profit	54,271	281,424
Other comprehensive income		
Foreign currency translation adjustment	△1,388	△29,651
Total other comprehensive income	△1,388	△29,651
Comprehensive income	52,883	251,773
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	63,405	271,472
Comprehensive income attributable to non- controlling interests	△10,522	△19,699

(Thousands of yen)

	2nd quarter ended September 30, 2021	2nd quarter ended September 30, 2022
Profit	30,050	129,725
Other comprehensive income		
Foreign currency translation adjustment	△2,624	△11,645
Total other comprehensive income	△2,624	△11,645
Comprehensive income	27,426	118,079
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	33,345	128,114
Comprehensive income attributable to non- controlling interests	△5,919	△10,034

Quarterly consolidated statement of cash flows

(Thousands of yen)

	Six months ended September 30, 2021	Six months ended September 30, 2022
Cash flows from operating activities		
Profit before income taxes	56,316	335,074
Depreciation	8,688	17,998
Interest and dividend income	△5	△4
Interest expenses	28	286
Share of loss (profit) of entities accounted for using equity method	△1,752	△7,571
Foreign exchange losses (gains)	△1,591	△35,263
Decrease (increase) in trade receivables	△2,641	△73,711
Decrease (increase) in inventories	4,202	△9,210
Increase (decrease) in trade payables	△81,835	12,111
Decrease (increase) in accounts receivable - other	△6,920	35
Increase (decrease) in unearned revenue	△34,977	△6,116
Increase (decrease) in Long-term unearned revenue	8,324	4,083
Increase/decrease in consumption taxes payable/consumption taxes refund receivable	△42,328	△38,808
Other, net	5,135	79,045
Subtotal	△89,356	277,949
Interest and dividends received	5	4
Interest paid	△28	△67
Income taxes paid	△4,630	△27,838
Net cash provided by (used in) operating activities	△94,010	250,047
Cash flows from investing activities		
Purchase of property, plant and equipment	△87,651	△16,673
Purchase of intangible assets	△124,639	△57,753
Proceeds from refund of leasehold and guarantee deposits	—	3,013
Payments of leasehold and guarantee deposits	△2,203	△3,650
Other, net	△336	—
Net cash provided by (used in) investing activities	△214,831	△75,065
Cash flows from financing activities		
Repayments of long-term borrowings	△9,600	—
Proceeds from share issuance to non-controlling shareholders	160,050	—
Net cash provided by (used in) financing activities	150,450	—
Effect of exchange rate change on cash and cash equivalents	246	4,967
Net increase (decrease) in cash and cash equivalents	△158,145	179,950
Cash and cash equivalents at beginning of period	1,025,466	928,688
Cash and cash equivalents at end of period	※ 867,320	※ 1,108,638