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Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2023 (Nine Months Ended December 31, 2022) (Based on J-GAAP)

February 2, 2023

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Scheduled commencement date of dividend payout: -

Quarterly financial results supplementary explanatory documents: Yes

Quarterly financial results presentation: None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2023 (April 1, 2022 – December 31, 2022)

(1) Consolidated results of operations (nine months) (Percentages represent year-over-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
3Q FY 2023	328,308	(3.4)	4,659	(35.3)	7,890	(27.5)	5,493	(28.2)
3Q FY 2022	339,744	17.4	7,202	(15.5)	10,881	(20.0)	7,649	(18.9)

Note: Comprehensive income (million yen): 3Q FY 2023: 5,732 / [(24.8)%] 3Q FY 2022: 7,620 / [(18.9)%]

	Earnings per share	Diluted earnings per share
	Yen	Yen
3Q FY 2023	98.48	—
3Q FY 2022	137.20	—

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Million yen		Million yen		%	
3Q FY 2023	242,837		72,705		29.7	
FY 2022	241,277		70,483		29.2	

Reference: Shareholders' equity (million yen): 3Q FY 2023: 72,098 FY 2022: 70,448

2. Dividends

	Annual dividends				
	1Q-end	Interim	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2022	—	37.50	—	37.50	75.00
FY 2023	—	37.50	—		
FY 2023 (forecasts)				37.50	75.00

Note: Revisions to the dividend forecast most recently announced: None

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2023 (April 1, 2022 – March 31, 2023)

(Percentages represent year-over-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	483,000	1.4	11,200	6.0	15,400	0.1	10,000	(5.5)	179.32

Note: Revisions to the financial forecast most recently announced: None

Notes

- (1) Changes in significant subsidiaries during the period (nine months) under review
(Changes in subsidiaries accompanying change in the scope of consolidation): Yes
Newly included: 2 companies (Relay2, Inc. and UNiCASE Corporation)
Excluded: -
- (2) Application of accounting procedures specific to creation of quarterly consolidated financial statements: None
- (3) Changes in accounting principles, estimates and restatements
1) Changes in accounting principles caused by revision of accounting standards, etc.: None
2) Changes in accounting principles other than those mentioned above: None
3) Changes in accounting estimates: None
4) Restatement: None

(4) Number of shares issued and outstanding (shares of common stock)

1) Number of shares outstanding (including treasury shares) at the end of the period	3Q FY 2023	56,074,000 shares	FY 2022	56,074,000 shares
2) Number of treasury shares at the end of the period	3Q FY 2023	282,309 shares	FY 2022	308,866 shares
3) Average number of shares outstanding during the period (nine months)	3Q FY 2023	55,780,994 shares	3Q FY 2022	55,753,571 shares

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

* Cautionary statement with respect to forward-looking statements

(Disclaimer on forward-looking statements, etc.)

These materials contain forward-looking information including earnings projections based on information currently available to the Company and certain assumptions considered reasonable in the judgment of the Company. Nothing contained in these materials is meant to suggest that the Company promises to attain the said projections. Moreover, due to various factors, actual results may materially differ from projections.

(Concerning quarterly financial results supplementary explanatory documents)

Financial results supplementary explanatory documents will be posted in Japanese on February 2, 2023.

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1. Qualitative Information Concerning the Third Quarter Financial Results

(1) Explanation of operating performance

In the period under review (April to December 2022), amid the continuation of global monetary tightening, etc., the downturn in overseas business conditions has been a downward risk on the business conditions in Japan. Careful attention also needs to be paid to the impacts of rises in commodity prices, supply side limitations, fluctuations in the financial and capital markets, etc.

In the market for mobile phone handsets, which is the main business field of the Group (the Company, its consolidated subsidiaries, and its equity-method affiliates), gradual progress was made on the shift to 5G (5th-generation mobile communication system), including in March 2022 when KDDI CORPORATION ended its 3G (3rd-generation mobile communication system) service. However, commission terms and conditions for some telecommunications carriers were revised in the second quarter of the previous fiscal year (July to September 2021). In addition to this, great change is underway in the role played by mobile phone distributors, including the Company, and the competitive environment, such as planning to improve online procedures and to consolidate or abolish carrier shops in the medium to long term. Furthermore, in addition to holding off purchases due to an increase in the price of mobile phone handsets, the impacts of rises in commodity prices have been causing a decrease in spending on mobile-phone services.

Under this business environment, the Group steadily worked toward the realization of the TG Universe (the ecosystem within T-Gaia), the Group-wide strategy in our medium-term management plan, and initiatives to achieve the TG Material Issues (eight priority issues) with the aim of transforming our business portfolio so that it is not dependent on the Consumer Mobile Business Segment. In April 2022, we established a specialist division that will operate on a Group-wide basis to support efforts in the areas of “growth investments, particularly in the Enterprise Solutions Business Segment and Payment Service Business and Other Business Segment,” and “further growth of sales of original products and enhancement of the productivity of store operations.” Activities of the business process reengineering (BPR) and the digital transformation (DX) promotion departments with the aim to enhance the productivity have become full-fledged.

The number of contracts for mobile phone numbers (below, “mobile phone contracts”) agreed during the period under review was 2,600,000 (a decrease of 14.1% compared to the same period of the previous fiscal year), mainly due to deterioration in the external environment, such as rises in commodity prices, and a fall in the number of model change contracts that accompanied a change in the direction of sales measures by telecommunications carriers. We are improving profitability per line by growing sales of original products and restraining excessive discounts on handsets. However, this was not enough to offset revenue decreases such as the decline in commission income due to effects of the revisions to commission terms and conditions and fall in the number of mobile phone contracts mentioned above.

Although we began to see the effects of specific initiatives for raising productivity, such as Smart Online Support, which provides remote support for initial setup and usage methods at shops, selling, general and administrative expenses increased due to change in the scope of consolidation, an increase in the number of consolidated subsidiaries, and an increase in on-site sales service.

As a result, consolidated business results for the period under review marked net sales of 328,308 million yen (-3.4% compared with the year-earlier period), with operating profit of 4,659 million yen (-35.3%). Due to a year-on-year decrease in the hoard profit of prepaid card, ordinary profit marked 7,890 million yen (-27.5%) and profit attributable to owners of parent posted 5,493 million yen (-28.2%).

Results by business segment for the period under review are described below.

(Millions of yen)

	Consumer Mobile Business Segment	Enterprise Solutions Business Segment	Payment Service Business and Other Business Segment	Others and adjustment amounts	Total
Net sales	273,997 (5.3%)	27,590 8.9%	26,667 5.8%	52 -	328,308 (3.4%)
Profit attributable to owners of parent	1,608 (57.7%)	1,631 20.5%	2,069 (17.1%)	184 -	5,493 (28.2%)
Supplementary information – Operating profit	2,394 (56.4%)	1,980 15.6%	144 -	139 -	4,659 (35.3%)

* Percentages represent year-over-year changes

[Consumer Mobile Business Segment]

This segment is engaged in intermediary services specializing in contracts for telecommunications services, including mobiles, and other types of contracts provided by each telecommunications carrier, as well as the sales of mobile phones, etc. For the Group's shops across Japan, we are aiming to realize shops that are "regional ICT hubs" rather than mere "points of sale," and which please customers and win their trust through high quality services and proposals with utility value that meets customer requirements.

In the Consumer Mobile Business Segment, the external environment is becoming increasingly severe than before, mainly with commission income declining compared with the same period of the previous fiscal year due to revisions to commission terms and conditions and sluggish growth in the number of mobile phone contracts as mentioned above. However, we are creating opportunities to make sales and provide services not only by opening satellite shops, mainly at shopping malls, etc., but also by providing sales support for remote locations where there are no local shops. We continue to work on expanding the number of shops that can handle Smart Online Support to raise efficiency and focusing on growing sales of coating services for mobile phones, etc., and sales of original products such as security products.

Also, in addition to being selected as an implementation organization for the Ministry of Internal Affairs and Communications' Project on Digital Utilization Support for Users under FY2022 Initial Budget (Regional Cooperation), we are also contributing to the vitalization of regional communities in ways such as taking on a project to support applications for Individual Number Card through telecommunications carriers. With regard to support for applications for Individual Number Card, as the application period has been extended to the end of February 2023, we continue to work on this service.

As a result, net sales marked 273,997 million yen (-5.3% compared with the year-earlier period), with profit attributable to owners of parent of 1,608 million yen (-57.7%).

[Enterprise Solutions Business Segment]

This segment is engaged in the sale of mobile phone for enterprise customers, the provision of solution services related to devices and network management services, etc., and sales and intermediary services specializing in optical communication line service contracts for corporate and individual customers. The Group is expanding products and services to create a one-stop channel for meeting customers' requirements through its Life Cycle Management (LCM) business which revolves around administrative and support services for device life cycles spanning from procurement, propositions, and introduction support for smart devices including PCs, to building Wi-Fi environment, maintenance, operations, and updating services.

In the Enterprise Solutions Business Segment, the number of mobile phone contracts increased compared with the same period of the previous fiscal year as delays to the delivery of some products caused by a global supply shortage of semiconductors, etc., were being resolved.

We expanded products and services in the LCM business and the number of management IDs for network administrative services, helpdesks, and the like surpassed the same period of the previous fiscal year. With regard to helpdesks, we expanded the space for the call center to respond to education-related projects, reinforcement of the offering of Smart Online Support, and other matters. We also continue to focus on proposing new business areas such as proposing the building, operation and maintenance of networks that use edge solutions, as well as strengthening relationships with local governments against the background of the "Vision for a Digital Garden City Nation" advocated by the Japanese government.

In products related to fixed-line telecommunications, the cumulative number of lines owned by the Company's own "TG Hikari" fiber-optics access service rose steadily, increasing approximately 10% from the same period of the previous fiscal year.

As a result, net sales marked 27,590 million yen (+8.9% compared with the year-earlier period), with profit attributable to owners of parent of 1,631 million yen (+20.5%).

[Payment Service Business and Other Business Segment]

This segment is mainly engaged in sales of PIN (prepaid codes), sales of gift cards, and sales of smartphone accessories through major nationwide convenience store chains. It also includes the consolidated subsidiary QUO CARD Co., Ltd. which is tasked with the issuance and settlement of "QUO Card" and "QUO Card Pay" and the sales and repair/maintenance of card-handling equipment, etc.

In Payment Service Business, PIN and gift card transaction volumes were down compared with the same period of the previous fiscal year but there continued to be high levels of demand for a variety of digital content, including games, music, and video streaming.

The amount of issuance for QUO Card and Quo Card Pay increased compared to the same period of the previous fiscal year, mainly due to adoption in various local government initiatives, but some shipping and administrative expenses were incurred in advance. QUO CARD Co., Ltd. continued to focus on adding member stores to increase convenience for users.

In the other new business, sales in the wholesale of smartphone accessories mainly to convenience stores were robust due to the expansion of sales channels and the broadening of the merchandise lineup. We continue to work on such areas as the operation of ICT schools for children and the hosting of online events for the e-Sports business. Furthermore, in November 2022, we started sales as a major distributor in Japan for "Fitbit," a wearable device brand.

We expanded our renewable energy business while contributing to customers' efforts to address climate change, including through contracts for the installation of solar power generation systems concluded between our consolidated subsidiary TG Power Inc. and the stores of major restaurant chains and electronic goods retailers.

As a result, net sales marked 26,667 million yen (+5.8% compared with the year-earlier period), with profit attributable to owners of parent of 2,069 million yen (-17.1%) due to the year-on-year decrease in the hoard profit of prepaid card mentioned above.

(2) Explanation of financial position
(Assets)

Current assets at the end of the period under review were 196,975 million yen, which was 2,433 million yen higher than at the end of the previous fiscal year. This was mainly due to a 4,473 million yen increase in inventories, a 1,457 million yen increase in accounts receivable - other, a 11,819 million yen increase in guarantee deposits, and a 14,919 million yen decrease in cash and deposits. Non-current assets at the end of the period under review were 45,862 million yen, which was 873 million yen lower than at the end of the previous fiscal year. This was mainly due to a 1,400 million yen decrease in deferred tax assets.

As a result, total assets posted 242,837 million yen, which was 1,560 million yen higher than at the end of the previous fiscal year.

(Liabilities)

Current liabilities at the end of the period under review were 164,279 million yen, which was 1,988 million yen higher than at the end of the previous fiscal year. This was mainly due to a 9,474 million yen increase in card deposits and a 3,841 million yen increase in accounts payable - other despite a 9,000 million yen decrease in current portion of long-term borrowings, a 1,423 million yen decrease in accounts payable - trade, and a 1,189 million yen decrease in provision for bonuses. Non-current liabilities at the end of the period under review were 5,853 million yen, which was 2,650 million yen lower than at the end of the previous fiscal year. This was mainly due to a 2,813 million yen decrease in long-term borrowings.

As a result, total liabilities posted 170,132 million yen, which was 662 million yen lower than at the end of the previous fiscal year.

(Net assets)

Net assets at the end of the period under review were 72,705 million yen, which was 2,222 million yen higher than at the end of the previous fiscal year. This was mainly due to 5,493 million yen recognized in profit attributable to owners of parent and 4,183 million yen in payment of dividends of surplus.

(3) Explanation of forward-looking information including the consolidated financial forecasts

Nine months (April to December 2022) net sales represent 68.0% of the full-year estimate, with percentages for operating profit, ordinary profit, and profit attributable to owners of parent at 41.6%, 51.2%, and 54.9%, respectively.

At present, the full-year consolidated financial forecasts remains unchanged from the forecasts announced on May 2, 2022. Going forward, any information that emerges which should be disclosed will be disclosed as appropriate.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheets

(Millions of yen)

	FY 2022 (As of March 31, 2022)	3Q FY 2022 (As of December 31, 2022)
Assets		
Current assets		
Cash and deposits	58,162	43,243
Notes and accounts receivable - trade	17,660	17,043
Inventories	22,239	26,713
Accounts receivable - other	12,621	14,079
Guarantee deposits	81,400	93,219
Other	2,495	2,708
Allowance for doubtful accounts	(37)	(32)
Total current assets	194,542	196,975
Non-current assets		
Property, plant and equipment	3,903	3,657
Intangible assets		
Goodwill	16,563	16,907
Contract-related intangible assets	1,260	1,209
Other	4,885	5,628
Total intangible assets	22,709	23,746
Investments and other assets	20,122	18,458
Total non-current assets	46,735	45,862
Total assets	241,277	242,837
Liabilities		
Current liabilities		
Accounts payable - trade	9,964	8,540
Current portion of long-term borrowings	12,751	3,751
Accounts payable - other	16,576	20,417
Income taxes payable	722	325
Refund liability	-	86
Provision for bonuses	2,719	1,529
Card deposits	118,341	127,816
Other	1,215	1,811
Total current liabilities	162,290	164,279
Non-current liabilities		
Long-term borrowings	5,622	2,809
Years of service gratuity reserve provisions	146	169
Retirement benefit liability	349	379
Asset retirement obligations	1,979	1,976
Other	406	518
Total non-current liabilities	8,503	5,853
Total liabilities	170,794	170,132
Net assets		
Shareholders' equity		
Share capital	3,154	3,154
Capital surplus	5,123	5,141
Retained earnings	62,137	63,447
Treasury shares	(284)	(260)
Total shareholders' equity	70,129	71,482
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	263	312
Foreign currency translation adjustment	55	303
Total accumulated other comprehensive income	318	615
Non-controlling interests	35	607
Total net assets	70,483	72,705
Total liabilities and net assets	241,277	242,837

(2) Quarterly consolidated statements of income and quarterly consolidated statements of comprehensive income
(Quarterly consolidated statements of income)
(Consolidated nine months period)

(Millions of yen)

	3Q FY 2022 (from April 1, 2021 to December 31, 2021)	3Q FY 2023 (from April 1, 2022 to December 31, 2022)
Net sales	339,744	328,308
Cost of sales	286,139	276,367
Gross profit	53,604	51,940
Selling, general and administrative expenses	46,402	47,281
Operating profit	7,202	4,659
Non-operating income		
Interest income	4	4
Dividend income	8	10
Share of profit of entities accounted for using equity method	8	-
Delay damages income	-	362
Hoard profit of prepaid card	3,619	2,933
Other	133	185
Total non-operating income	3,774	3,496
Non-operating expenses		
Interest expenses	63	25
Share of loss of entities accounted for using equity method	-	33
Delay damages	-	171
Other	31	35
Total non-operating expenses	94	265
Ordinary profit	10,881	7,890
Extraordinary income		
Gain on sale of non-current assets	25	19
Gain on sale of investment securities	807	-
Gain on bargain purchase	-	249
Gain on step acquisitions	-	305
Total extraordinary income	832	575
Extraordinary losses		
Loss on sale of non-current assets	5	0
Loss on retirement of non-current assets	18	53
Total extraordinary losses	24	54
Profit before income taxes	11,690	8,411
Income taxes - current	2,160	1,596
Income taxes - deferred	1,875	1,380
Total income taxes	4,035	2,976
Profit	7,654	5,435
Profit (loss) attributable to non-controlling interests	5	(58)
Profit attributable to owners of parent	7,649	5,493

(Quarterly consolidated statements of comprehensive income)
(Consolidated nine months period)

(Millions of yen)

	3Q FY 2022 (from April 1, 2021 to December 31, 2021)	3Q FY 2023 (from April 1, 2022 to December 31, 2022)
Profit	7,654	5,435
Other comprehensive income		
Valuation difference on available-for-sale securities	(63)	49
Foreign currency translation adjustment	-	234
Share of other comprehensive income of entities accounted for using equity method	29	13
Total other comprehensive income	(34)	297
Comprehensive income	7,620	5,732
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	7,614	5,712
Comprehensive income attributable to non-controlling interests	5	19

- (3) Notes to quarterly consolidated financial statements
 (Notes on the going-concern assumption)
 Not applicable.
 (Notes on significant changes in shareholders' equity)
 Not applicable.
 (Segment information)

I 3Q FY 2022 (from April 1, 2021 to December 31, 2021)

1. Information by reportable segment on net sales, profit / loss amounts and information on disaggregation of revenue

(Millions of yen)

	Consumer Mobile Business Segment	Enterprise Solutions Business Segment	Payment Service Business and Other Business Segment	Total
Net sales				
Smart device	171,346	7,222	-	178,569
Prepaid cards, etc.	-	-	10,665	10,665
Fees related Smart device	114,052	7,979	-	122,031
Sales commissions of prepaid card, etc.	-	-	9,177	9,177
Own solution services	-	4,244	-	4,244
TG Hikari & NW related	-	5,645	-	5,645
Other	3,819	237	5,351	9,408
Revenue from contracts with customers	289,218	25,329	25,194	339,742
Other revenue	-	-	2	2
Sales to external customers	289,218	25,329	25,196	339,744
Segment profit	3,799	1,354	2,495	7,649

2. The difference between total profit or loss of reportable segments and profit or loss reported in the quarterly consolidated statements of income for the period under review, and main items responsible for the difference (Matters concerning difference adjustment)

The aggregate total amount of segment profit matches the amount of profit attributable to owners of parent stated on the quarterly consolidated statements of income.

3. Matters concerning the impairment loss from non-current assets or goodwill of reportable segments
 (Material change in the goodwill amount)

Regarding the business combination with TF Mobile Solutions Corporation carried out on November 2, 2020 (it was absorbed through an absorption-type merger on February 1, 2021), the allocation of the acquisition cost had not yet been completed. Although the amount of goodwill was a provisional calculation, the allocation of the acquisition cost was completed, and the accounting treatment was confirmed in the second quarter of the current fiscal year. Therefore, the amount of goodwill in the Consumer Mobile Business Segment has been revised.

II 3Q FY 2023 (from April 1, 2022 to December 31, 2022)

1. Information by reportable segment on net sales, profit / loss amounts and information on disaggregation of revenue

(Millions of yen)

	Reportable segments				Other (Note)	Total
	Consumer Mobile Business Segment	Enterprise Solutions Business Segment	Payment Service Business and Other Business Segment	Total		
Net sales						
Smart device	163,224	8,724	–	171,948	–	171,948
Prepaid cards, etc.	–	–	7,818	7,818	–	7,818
Fees related Smart device	106,377	8,376	–	114,754	–	114,754
Sales commissions of prepaid card, etc.	–	–	11,924	11,924	–	11,924
Own solution services	–	4,927	–	4,927	–	4,927
TG Hikari & NW related	–	5,316	–	5,316	–	5,316
Other	4,395	247	6,826	11,469	52	11,522
Revenue from contracts with customers	273,997	27,590	26,570	328,158	52	328,210
Other revenue	–	–	97	97	–	97
Sales to external customers	273,997	27,590	26,667	328,255	52	328,308
Intersegment sales or transfers	184	77	86	348	1,112	1,460
Total	274,182	27,667	26,753	328,603	1,165	329,769
Segment profit	1,608	1,631	2,069	5,309	184	5,493

Note: The “Other” segment is a segment for businesses that do not fall under reportable segments and includes the Company’s systems development, operation, and maintenance operations.

2. The difference between total profit or loss of reportable segments and profit or loss reported in the quarterly consolidated statements of income for the period under review, and main items responsible for the difference (Matters concerning difference adjustment)

(Millions of yen)

Profit	Amount
Reportable segments total	5,309
Profit categorized as “Other”	184
Profit attributable to owners of parent in the quarterly consolidated statements of income	5,493

3. Changes in reportable segments, etc.

Popular-Soft Co., Ltd. (name changed to TG Solutions Corporation on April 1, 2022), which was previously included in the Enterprise Solutions Business Segment, is reported under “Other,” a segment for businesses that do not fall under reportable segments, from 1Q FY 2023 following a change in business format. Additionally, the segment information for 3Q FY 2022 has not been prepared based on segment classifications reflecting this change, as its impact on segment profit is immaterial.

4. Matters concerning the impairment loss from non-current assets or goodwill of reportable segments
(Material change in the goodwill amount)

In the Enterprise Solutions Business Segment, Relay2, Inc. was made into a consolidated subsidiary from 1Q FY 2023. The increase in the amount of goodwill caused by this event was 1,137 million yen.

(Information concerning gain on bargain purchase)

In the Consumer Mobile Business Segment, we recognized a gain on bargain purchase associated with the acquisition of shares of CCC FRONTIER Inc. (name changed to UNiCASE Inc. on October 1, 2022) and its conversion into a consolidated subsidiary in the second quarter of the current fiscal year. This gain on bargain purchase amounted to 244 million yen.