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February 9, 2023

Consolidated Financial Results for the Nine Months Ended December 31, 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: February 10, 2023
 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 nine months ended December 31, 2022 (from April 1, 2022 to December 31, 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	%
Nine months ended								
December 31, 2022	4,321	27.6	542	171.5	568	176.3	511	135.0
December 31, 2021	3,386	39.9	199	–	205	–	217	–

Note: Comprehensive income For the nine months ended December 31, 2022: ¥464 million [139.2%]
 For the nine months ended December 31, 2021: ¥194 million [–%]

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
December 31, 2022	3.10	3.07
December 31, 2021	1.32	1.31

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2022	2,735	1,337	44.5	7.38
March 31, 2022	1,944	785	33.6	3.97

Reference: Equity
 As of December 31, 2022: ¥1,217 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: Yes
 - (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 December 31, 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 December 31, 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)

Nine months ended December 31, 2022	164,622,831 shares
Nine months ended December 31, 2021	164,243,235 shares

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

1. Qualitative Information on Results for the Nine Months Ended December 31

(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 on which subscriber identity information (profiles) necessary for using telecommunication services can be remotely written in eSIM-embedded devices such as smartphones so that customers can change mobile service operators without replacing SIM cards, as was the case before. This will enable customers to use multiple lines of different mobile operators and/or use separate phone numbers, such as for private and business purposes, on the same smartphone.

Besides, as of January 2023, the Company has started an identification by the electronic certificates stored in “My Number Card” as an identification under the Act on Identification, etc. by Mobile Voice Communications Carriers of their Subscribers, etc. and for Prevention of Improper Use of Mobile Voice Communications Services. In this approach, an identification will be completed upon customer’s reading their “My Number Card” with their smartphone and they can start using our service on the day of application, in case of that they choose eSIM. This will improve customer’s convenience and will contribute to prevent improper use of mobile phones by strict identification.

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 (“Mebuku Ground Inc.”), which was established with the joint investment by prominent companies and financial institutions in Gunma Prefecture, released the “mebuku App,” which utilizes digital ID (“mebuku ID”), in October 2022. Customers can use “mebuku ID” on their smartphone for both public services (such as administrative procedures) and private services. At the “Maebashi BOOK FES,” an event held in Maebashi City at the end of October 2022 where people bring their books and have a relationship with new readers, it was utilized as the digital ID to connect each book and person.

The “mebuku ID” platform is FPoS based, and the Company has supported the “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 nine months ended December 31, 2022 were 4,321 million yen, an increase of 935 million yen (up 27.6%) compared to the nine months ended December 31, 2021 (hereinafter referred to as the “same period of the previous year”). This was because of the growth of the flat-rate or semi-flat rate voice services of “Nihon Tsushin SIM” in the MVNO Business (up 22.6% from the same period of the previous year), and the growth of the voice services of partner brands in the Enabler Business (up 33.6% from the same period of the previous year).

Cost of sales was 2,388 million yen, an increase of 370 million yen (up 18.3%) compared to the same period of the previous year. This was mainly due to an increase in mobile network usage fees in association with the growth of “Nihon Tsushin SIM.” Nevertheless, increase in cost of sales compared to increases in net revenue are largely avoidable because the mobile networks of both data and voice communications procured by the Company from NTT DOCOMO, INC. have been set to not exceed the amount of the appropriate costs under efficient management plus appropriate profit. In addition, there were partial adjustment of bandwidth costs for past fiscal years retroactively by mobile operators during the nine months ended December 31, 2022.

As a result, gross profit amounted to 1,933 million yen, an increase of 564 million yen (up 41.3%), compared to the same period of the previous year.

Operating profit amounted to 542 million yen (199 million yen for the same period of the previous year) and profit attributable to owners of parent amounted to 511 million yen (217 million yen for the same period of the previous year).

Financial results by business are as follows:

(Millions of yen)				
Net revenue	For nine months ended December 31, 2021	For nine months ended December 31, 2022	Year-on-year change	Year-on-year change (%)
MVNO Business	1,842	2,258	416	22.6
Enabler Business	1,544	2,063	518	33.6
Total	3,386	4,321	935	27.6

Revenue of 97 million yen (93 million yen in the same period of the previous year) from overseas operations in the segment information is 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 third quarter were 2,011 million yen, an increase of 601 million yen compared to the end of the previous year. This was mainly due to increases of 370 million yen in cash and deposits and 101 million yen in accounts receivable - trade. Non-current assets were 723 million yen, an increase of 191 million yen compared to the end of the previous year. This was mainly due to increases of 66 million yen in intangible assets and 102 million yen in investments and other assets.

As a result, total assets amounted to 2,735 million yen, an increase of 791 million yen compared to the end of the previous year.

Liabilities

Current liabilities at the end of the current third quarter were 1,328 million yen, an increase of 222 million yen compared to the end of the previous year. This was mainly due to increases of 90 million yen in accounts payable - trade, 37 million yen in accounts payable - other and 32 million yen in deposits received. Non-current liabilities were 70 million yen, an increase of 17 million yen compared to the end of the previous year. This was mainly due to an increase of 11 million yen in lease liabilities.

As a result, liabilities amounted to 1,398 million yen, an increase of 239 million yen compared to the end of the previous year.

Net assets

Net assets at the end of the current third quarter were 1,337 million yen, an increase of 551 million yen compared to the end of the previous year. This was mainly due to recording 511 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 44.5% (33.6% at the end of the previous year).

(ii) Status of cash flows

Cash and cash equivalents at the end of the nine months ended December 31, 2022 were 1,299 million yen, an increase of 370 million yen compared to the end of the previous year.

The status of cash flows and their factors during the nine months ended December 31, 2022 are as follows:

Cash flows from operating activities

Net cash provided by operating activities totaled 534 million yen (an outflow of 259 million yen in the same period of the previous year). This was mainly due to recording 568 million yen in profit before income taxes.

Cash flows from investing activities

Net cash used in investing activities totaled 166 million yen (an outflow of 243 million yen in the same period of the previous year). This was mainly due to payments for purchase of investment securities of 50 million yen, and purchase of intangible assets of 85 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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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 December 31, 2022
Assets		
Current assets		
Cash and deposits	928,688	1,299,413
Accounts receivable - trade	378,641	480,089
Merchandise	47,552	53,451
Supplies	71	40
Accounts receivable - other	576	63,988
Other	57,440	120,235
Allowance for doubtful accounts	△2,692	△5,290
Total current assets	1,410,277	2,011,929
Non-current assets		
Property, plant and equipment		
Buildings	84,111	106,019
Accumulated depreciation	△83,292	△84,495
Buildings, net	818	21,524
Vehicles	7,027	7,027
Accumulated depreciation	△4,881	△5,417
Vehicles, net	2,145	1,609
Tools, furniture and fixtures	795,689	901,013
Accumulated depreciation	△766,969	△792,730
Tools, furniture and fixtures, net	28,719	108,282
Leased assets	263,727	277,702
Accumulated depreciation	△263,727	△264,659
Leased assets, net	—	13,043
Construction in progress	90,093	—
Total property, plant and equipment	121,777	144,459
Intangible assets		
Patent right	3,834	4,698
Trademark right	2,097	3,327
Software	73,999	251,972
Software in progress	125,984	12,311
Total intangible assets	205,916	272,310
Investments and other assets		
Investment securities	63,281	125,751
Leasehold and guarantee deposits	140,335	139,088
Other	456	42,079
Total investments and other assets	204,073	306,919
Total non-current assets	531,767	723,689
Deferred assets		
Share issuance costs	376	—
Bond issuance costs	1,937	352
Total deferred assets	2,313	352
Total assets	1,944,359	2,735,971

(Thousands of yen)

	As of March 31, 2022	As of December 31, 2022
Liabilities		
Current liabilities		
Accounts payable - trade	421,105	511,548
Accounts payable - other	85,270	123,046
Income taxes payable	62,055	74,704
Unearned revenue	117,785	108,826
Deposits received	27,918	60,155
Valuation Reserve For Inventory Purchase		
Commitments	263,951	286,184
Other	127,992	163,710
Total current liabilities	1,106,078	1,328,175
Non-current liabilities		
Long-term accounts payable - other	2,149	3,064
Long-term unearned revenue	50,920	56,448
Lease liabilities	—	11,184
Total non-current liabilities	53,070	70,698
Total liabilities	1,159,149	1,398,874
Net assets		
Shareholders' equity		
Share capital	4,528,440	529,260
Capital surplus	2,977,376	225,749
Retained earnings	△6,977,888	351,110
Treasury shares	△2,192	△2,192
Total shareholders' equity	525,737	1,103,927
Accumulated other comprehensive income		
Foreign currency translation adjustment	126,815	114,052
Total accumulated other comprehensive income	126,815	114,052
Share acquisition rights	67,864	88,912
Non-controlling interests	64,792	30,204
Total net assets	785,210	1,337,097
Total liabilities and net assets	1,944,359	2,735,971

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

(Thousands of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Net sales	3,386,845	4,321,916
Cost of sales	2,017,990	2,388,282
Gross profit	1,368,855	1,933,634
Selling, general and administrative expenses	1,168,917	1,390,847
Operating profit	199,937	542,787
Non-operating income		
Interest income	5	4
Foreign exchange gains	7,074	13,366
Share of profit of entities accounted for using equity method	4,690	12,289
Miscellaneous income	2,763	2,234
Total non-operating income	14,533	27,894
Non-operating expenses		
Interest expenses	28	318
Amortization of share issuance costs	839	376
Amortization of bond issuance costs	1,585	1,585
Miscellaneous losses	6,297	49
Total non-operating expenses	8,751	2,330
Ordinary profit	205,719	568,351
Extraordinary income		
Gain on sale of non-current assets	100	—
Total extraordinary income	100	—
Profit before income taxes	205,819	568,351
Income taxes - current	6,131	91,471
Total income taxes	6,131	91,471
Profit	199,687	476,879
Loss attributable to non-controlling interests	△17,936	△34,587
Profit attributable to owners of parent	217,624	511,467

(Thousands of yen)

	3rd quarter ended December 31, 2021	3rd quarter ended December 31, 2022
Net sales	1,182,776	1,558,967
Cost of sales	655,001	811,158
Gross profit	527,775	747,809
Selling, general and administrative expenses	380,467	498,863
Operating profit	147,308	248,945
Non-operating income		
Foreign exchange gains	4,610	—
Share of profit of entities accounted for using equity method	2,938	4,717
Miscellaneous income	1,619	483
Total non-operating income	9,167	5,201
Non-operating expenses		
Interest expenses	—	31
Amortization of share issuance costs	263	63
Amortization of bond issuance costs	528	528
Foreign exchange losses	—	20,245
Miscellaneous losses	6,281	—
Total non-operating expenses	7,073	20,869
Ordinary profit	149,402	233,277
Extraordinary income		
Gain on sale of non-current assets	100	—
Total extraordinary income	100	—
Profit before income taxes	149,502	233,277
Income taxes - current	4,086	37,822
Total income taxes	4,086	37,822
Profit	145,415	195,454
Loss attributable to non-controlling interests	△7,413	△14,888
Profit attributable to owners of parent	152,829	210,343

Quarterly consolidated statements of comprehensive income

(Thousands of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Profit	199,687	476,879
Other comprehensive income		
Foreign currency translation adjustment	△5,681	△12,763
Total other comprehensive income	△5,681	△12,763
Comprehensive income	194,006	464,116
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	211,942	498,704
Comprehensive income attributable to non- controlling interests	△17,936	△34,587

(Thousands of yen)

	3rd quarter ended December 31, 2021	3rd quarter ended December 31, 2022
Profit	145,415	195,454
Other comprehensive income		
Foreign currency translation adjustment	△4,292	16,887
Total other comprehensive income	△4,292	16,887
Comprehensive income	141,123	212,342
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	148,537	227,231
Comprehensive income attributable to non- controlling interests	△7,413	△14,888

Quarterly consolidated statement of cash flows

(Thousands of yen)

	Nine months ended December 31, 2021	Nine months ended December 31, 2022
Cash flows from operating activities		
Profit before income taxes	205,819	568,351
Depreciation	14,842	45,369
Interest and dividend income	△5	△4
Interest expenses	28	318
Share of loss (profit) of entities accounted for using equity method	△4,690	△12,289
Foreign exchange losses (gains)	△6,576	△15,180
Decrease (increase) in trade receivables	△41,709	△96,451
Decrease (increase) in inventories	33,273	△7,182
Increase (decrease) in trade payables	△351,726	89,405
Decrease (increase) in accounts receivable - other	△111,118	△63,409
Increase (decrease) in unearned revenue	△43,185	△11,235
Increase (decrease) in Long-term unearned revenue	11,980	2,023
Increase/decrease in consumption taxes payable/consumption taxes refund receivable	△7,274	△4,058
Other, net	45,533	80,276
Subtotal	△254,810	575,933
Interest and dividends received	5	4
Interest paid	△28	△99
Income taxes paid	△4,630	△41,305
Net cash provided by (used in) operating activities	△259,464	534,532
Cash flows from investing activities		
Purchase of property, plant and equipment	△92,838	△30,158
Purchase of intangible assets	△148,495	△85,479
Purchase of investment securities	-	△50,000
Payments of leasehold and guarantee deposits	△2,203	△3,690
Proceeds from refund of leasehold and guarantee deposits	-	3,038
Other, net	△336	-
Net cash provided by (used in) investing activities	△243,874	△166,290
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	943	2,482
Net increase (decrease) in cash and cash equivalents	△351,944	370,725
Cash and cash equivalents at beginning of period	1,025,466	928,688
Cash and cash equivalents at end of period	673,521	1,299,413