

Translation

Notice: This document is an excerpt translation of the original Japanese document and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

Summary of Consolidated Financial Results for the Year Ended March 31, 2016 (Based on Japanese GAAP)

May 12, 2016

Company name: SOURCENEXT CORPORATION
 Stock exchange listing: Tokyo
 Stock code: 4344 URL <http://www.sourcenext.com>
 Representative: President and CEO Noriyuki Matsuda
 Inquiries: Managing Director Fumihiko Aoyama TEL 03-6430-6406
 Scheduled date of ordinary general meeting of shareholders: June 27, 2016
 Scheduled date to file Securities Report: June 28, 2016
 Scheduled date to commence dividend payments: June 28, 2016
 Preparation of supplementary material on financial results: Yes
 Holding of financial results meeting: Yes (for analysts and institutional investors)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the year ended March 31, 2016 (from April 1, 2015 to March 31, 2016)

(1) Consolidated operating results

Percentages indicate year-on-year changes

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2016	7,025	15.4	1,445	11.0	1,463	11.5	990	(18.4)
Year ended March 31, 2015	6,088	6.1	1,302	4.6	1,312	7.1	1,214	(0.5)

	Earnings per share	Diluted earnings per share	Profit attributable to owners of parent/equity	Ordinary income/total assets	Operating income/net sales
	Yen	Yen	%	%	%
Year ended March 31, 2016	31.23	—	22.4	26.4	20.6
Year ended March 31, 2015	38.27	—	35.8	28.6	21.4

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2016	6,047	4,905	80.4	153.29
As of March 31, 2015	5,044	4,022	79.2	126.77

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2016	1,623	(600)	(121)	3,176
Year ended March 31, 2015	1,649	(645)	(539)	2,278

2. Cash dividends

	Annual dividends per share					Total cash dividends (Total)	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2015	—	0.00	—	3.83	3.83	121	10.0	3.6
Year ended March 31, 2016	—	0.00	—	4.68	4.68	148	15.0	3.3
Year ending March 31, 2017 (Forecast)	—	0.00	—	6.09	6.09		17.9	

3. Forecast of consolidated financial results for the year ending March 31, 2017 (from April 1, 2016 to March 31, 2017)

Percentages indicate year-on-year changes

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Six months ending September 30, 2016	3,897	18.3	757	2.7	763	2.7	525	4.0	16.56
Full year	8,090	15.2	1,552	7.4	1,562	6.7	1,077	8.7	33.96

4. Notes

(1) Changes in significant subsidiaries during the year ended March 31, 2016

(changes in specified subsidiaries resulting in the change in scope of consolidation): No

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements

Changes in accounting policies due to revisions to accounting standards and other regulations: Yes

Changes in accounting policies due to other reasons: No

Changes in accounting estimates: No

Restatement of prior period financial statements: No

(3) Number of issued shares (common shares)

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

As of March 31, 2016	31,732,000 shares	As of March 31, 2015	31,732,000 shares
----------------------	-------------------	----------------------	-------------------

Number of treasury shares at the end of the period

As of March 31, 2016	6 shares	As of March 31, 2015	6 shares
----------------------	----------	----------------------	----------

Average number of shares during the period

Year ended March 31, 2016	31,731,994 shares	Year ended March 31, 2015	31,731,994 shares
---------------------------	-------------------	---------------------------	-------------------

Consolidated financial statements

Consolidated balance sheets

(Thousands of yen)

	As of March 31, 2015	As of March 31, 2016
Assets		
Current assets		
Cash and deposits	1,778,758	2,677,004
Accounts receivable - trade	919,199	1,052,248
Securities	499,931	499,951
Merchandise and finished goods	82,904	129,683
Raw materials and supplies	32,791	25,945
Advance payments - trade	115,484	166,998
Deferred tax assets	288,897	75,436
Other	87,190	89,423
Total current assets	3,805,157	4,716,692
Non-current assets		
Property, plant and equipment		
Buildings	79,417	81,820
Accumulated depreciation	(75,215)	(79,445)
Buildings, net	4,202	2,374
Vehicles	6,134	5,752
Accumulated depreciation	(2,862)	(3,834)
Vehicles, net	3,271	1,917
Tools, furniture and fixtures	108,811	107,482
Accumulated depreciation	(94,084)	(84,169)
Tools, furniture and fixtures, net	14,727	23,313
Total property, plant and equipment	22,200	27,605
Intangible assets		
Software	848,065	820,216
Other	118,920	61,522
Total intangible assets	966,985	881,738
Investments and other assets		
Investment securities	109,530	108,658
Deferred tax assets	92,372	67,325
Other	50,319	247,709
Allowance for doubtful accounts	(1,800)	(1,800)
Total investments and other assets	250,422	421,892
Total non-current assets	1,239,608	1,331,236
Total assets	5,044,766	6,047,929

(Thousands of yen)

	As of March 31, 2015	As of March 31, 2016
Liabilities		
Current liabilities		
Accounts payable - trade	259,290	274,070
Accounts payable - other	341,326	328,005
Income taxes payable	59,464	205,282
Provision for bonuses	14,044	14,807
Provision for sales returns	55,026	72,745
Provision for after service cost	20,362	19,952
Other	225,288	191,765
Total current liabilities	974,803	1,106,630
Non-current liabilities		
Other	47,302	35,320
Total non-current liabilities	47,302	35,320
Total liabilities	1,022,106	1,141,950
Net assets		
Shareholders' equity		
Capital stock	1,771,226	1,771,226
Capital surplus	1,611,226	1,611,226
Retained earnings	609,822	1,479,156
Treasury shares	(1)	(1)
Total shareholders' equity	3,992,274	4,861,607
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	116	(488)
Foreign currency translation adjustment	5,337	3,136
Total accumulated other comprehensive income	5,453	2,648
Subscription rights to shares	24,932	41,722
Total net assets	4,022,659	4,905,978
Total liabilities and net assets	5,044,766	6,047,929

Consolidated statements of income and consolidated statements of comprehensive income
Consolidated statements of income

(Thousands of yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Net sales	6,088,755	7,025,334
Cost of sales	1,631,567	1,969,558
Gross profit	4,457,188	5,055,775
Provision for sales returns	55,026	72,745
Reversal of provision for sales returns	55,306	55,026
Gross profit - net	4,457,468	5,038,056
Selling, general and administrative expenses		
Promotion expenses	449,517	408,703
Salaries	453,450	571,615
Provision of allowance for doubtful accounts	(5,195)	—
Provision for bonuses	14,044	14,807
Business consignment expenses	899,904	1,008,955
Other	1,343,004	1,588,501
Total selling, general and administrative expenses	3,154,725	3,592,584
Operating income	1,302,742	1,445,471
Non-operating income		
Interest income	394	1,744
Dividend income	160	160
Refunded consumption taxes	3,719	—
Foreign exchange gains	—	8,729
Gain on adjustment of account payable	5,098	—
Contribution for development	5,833	7,362
Other	677	190
Total non-operating income	15,882	18,186
Non-operating expenses		
Interest expenses	872	—
Foreign exchange losses	5,295	—
Other	324	—
Total non-operating expenses	6,491	—
Ordinary income	1,312,133	1,463,657
Extraordinary income		
Gain on sales of patent right	18,000	—
Gain on reversal of subscription rights to shares	—	341
Total extraordinary income	18,000	341
Extraordinary losses		
Loss on valuation of advance payments	3,476	197
Total extraordinary losses	3,476	197
Profit before income taxes	1,326,656	1,463,802
Income taxes - current	104,847	234,152
Income taxes - deferred	7,382	238,782
Total income taxes	112,230	472,935
Profit	1,214,426	990,867
Profit attributable to owners of parent	1,214,426	990,867

Consolidated statements of comprehensive income

(Thousands of yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Profit	1,214,426	990,867
Other comprehensive income		
Valuation difference on available-for-sale securities	1,222	(604)
Foreign currency translation adjustment	3,129	(2,200)
Total other comprehensive income	4,352	(2,805)
Comprehensive income	1,218,778	988,061
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,218,778	988,061
Comprehensive income attributable to non-controlling interests	—	—

Consolidated statements of changes in equity

Fiscal year ended March 31, 2015

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,771,226	1,611,226	(604,603)	(1)	2,777,847
Changes of items during period					
Dividends of surplus					
Profit attributable to owners of parent			1,214,426		1,214,426
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	1,214,426	–	1,214,426
Balance at end of current period	1,771,226	1,611,226	609,822	(1)	3,992,274

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	(1,106)	2,207	1,101	9,386	2,788,335
Changes of items during period					
Dividends of surplus					
Profit attributable to owners of parent					1,214,426
Net changes of items other than shareholders' equity	1,222	3,129	4,352	15,545	19,897
Total changes of items during period	1,222	3,129	4,352	15,545	1,234,324
Balance at end of current period	116	5,337	5,453	24,932	4,022,659

Fiscal year ended March 31, 2016

(Thousands of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,771,226	1,611,226	609,822	(1)	3,992,274
Changes of items during period					
Dividends of surplus			(121,533)		(121,533)
Profit attributable to owners of parent			990,867		990,867
Net changes of items other than shareholders' equity					
Total changes of items during period	–	–	869,333	–	869,333
Balance at end of current period	1,771,226	1,611,226	1,479,156	(1)	4,861,607

	Accumulated other comprehensive income			Subscription rights to shares	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	116	5,337	5,453	24,932	4,022,659
Changes of items during period					
Dividends of surplus					(121,533)
Profit attributable to owners of parent					990,867
Net changes of items other than shareholders' equity	(604)	(2,200)	(2,805)	16,790	13,985
Total changes of items during period	(604)	(2,200)	(2,805)	16,790	883,318
Balance at end of current period	(488)	3,136	2,648	41,722	4,905,978

Consolidated statements of cash flows

(Thousands of yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016
Cash flows from operating activities		
Profit before income taxes	1,326,656	1,463,802
Depreciation	185,470	212,050
Amortization of software	210,757	222,309
Share-based compensation expenses	15,545	17,131
Amortization of trademark right	5,026	5,026
Increase (decrease) in allowance for doubtful accounts	(6,756)	–
Increase (decrease) in provision for bonuses	(687)	763
Increase (decrease) in provision for sales returns	(279)	17,718
Provision for after cost periods adjustment	(5,844)	(409)
Gain on reversal of subscription rights to shares	–	(341)
Interest and dividend income	(554)	(1,904)
Interest expenses	872	–
Decrease (increase) in notes and accounts receivable - trade	(154,803)	(133,049)
Decrease (increase) in inventories	(18,630)	(39,932)
Decrease (increase) in advance payments	(26,481)	(51,514)
Increase (decrease) in notes and accounts payable - trade	52,944	14,780
Increase (decrease) in accounts payable - other	87,331	27,381
Other, net	99,102	(38,024)
Subtotal	1,769,671	1,715,789
Interest and dividend income received	657	1,899
Interest expenses paid	(2,512)	–
Income taxes paid	(118,437)	(93,751)
Net cash provided by (used in) operating activities	1,649,378	1,623,937
Cash flows from investing activities		
Purchase of property, plant and equipment	(9,807)	(21,226)
Purchase of software	(535,421)	(378,963)
Purchase of investment securities	(100,000)	(8)
Payments for lease and guarantee deposits	–	(211,350)
Payments from collection of lease and guarantee deposits	–	11,044
Net cash provided by (used in) investing activities	(645,228)	(600,503)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(20,000)	–
Repayments of long-term loans payable	(519,808)	–
Cash dividends paid	–	(121,137)
Net cash provided by (used in) financing activities	(539,808)	(121,137)
Effect of exchange rate change on cash and cash equivalents	6,929	(4,029)
Net increase (decrease) in cash and cash equivalents	471,271	898,266
Cash and cash equivalents at beginning of period	1,807,418	2,278,689
Cash and cash equivalents at end of period	2,278,689	3,176,956