

Translation

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## Summary of Consolidated Financial Results for the Six Months Ended September 30, 2017 (Based on Japanese GAAP)

November 9, 2017

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 03-6254-5231  
 Scheduled date to file Quarterly Securities Report: November 10, 2017  
 Scheduled date to commence dividend payments: –  
 Preparation of supplementary material on quarterly financial results: Yes  
 Holding of quarterly financial results meeting: Yes (for analysts and institutional investors)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Net sales		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, 2017	3,920	(7.1)	438	(49.4)	444	(49.4)	327	(45.0)
Six months ended September 30, 2016	4,221	28.1	865	17.3	879	18.2	595	17.8

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2017	10.58		–	
Six months ended September 30, 2016	18.92		–	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of September 30, 2017	8,883	5,830	64.9	186.22
As of March 31, 2017	9,873	5,409	54.2	172.81

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen				
Year ended March 31, 2017	–	0.00	–	6.19	6.19
Year ending March 31, 2018	–	0.00			
Year ending March 31, 2018 (Forecast)			–	5.79	5.79

3. Forecast of consolidated financial results for the year ending March 31, 2018 (from April 1, 2017 to March 31, 2018)

Percentages indicate year-on-year changes

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	9,444	1.1	1,717	9.1	1,720	8.0	1,195	11.7	38.63

4. Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2017  
(changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) 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: No
  - Changes in accounting policies due to other reasons: No
  - Changes in accounting estimates: No
  - Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

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

As of September 30, 2017	31,732,000 shares	As of March 31, 2017	31,732,000 shares
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Number of treasury shares at the end of the period

As of September 30, 2017	772,006 shares	As of March 31, 2017	772,006 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2017	30,959,994 shares	Six months ended September 30, 2016	31,462,286 shares
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**Quarterly consolidated financial statements**  
**Consolidated balance sheets**

(Thousands of yen)

	As of March 31, 2017	As of September 30, 2017
<b>Assets</b>		
Current assets		
Cash and deposits	3,699,654	1,824,330
Accounts receivable - trade	1,648,116	1,778,394
Merchandise and finished goods	152,134	205,868
Raw materials and supplies	28,256	35,003
Advance payments - trade	602,297	303,847
Deferred tax assets	179,068	80,905
Other	89,160	153,501
Total current assets	6,398,688	4,381,852
Non-current assets		
Property, plant and equipment		
Property, plant and equipment	384,103	417,231
Accumulated depreciation	(97,370)	(144,964)
Total property, plant and equipment	286,733	272,267
Intangible assets		
Software	899,970	983,263
Goodwill	41,919	654,352
Contract based intangible assets	1,546,242	1,506,175
Other	208,883	144,394
Total intangible assets	2,697,016	3,288,186
Investments and other assets		
Investment securities	238,699	678,081
Deferred tax assets	47,465	45,857
Other	206,203	219,381
Allowance for doubtful accounts	(1,800)	(1,800)
Total investments and other assets	490,568	941,521
Total non-current assets	3,474,318	4,501,975
Total assets	9,873,006	8,883,827
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	414,210	440,832
Short-term loans payable	1,940,000	–
Current portion of long-term loans payable	–	322,000
Accounts payable - other	919,025	540,697
Income taxes payable	517,912	55,560
Provision for bonuses	15,464	28,586
Provision for sales returns	271,951	30,491
Provision for after service cost	18,802	20,778
Other	346,366	265,915
Total current liabilities	4,443,734	1,704,863
Non-current liabilities		
Long-term loans payable	–	1,248,000
Deferred tax liabilities	–	71,549
Other	19,797	29,227
Total non-current liabilities	19,797	1,348,776
Total liabilities	4,463,531	3,053,639

(Thousands of yen)

	As of March 31, 2017	As of September 30, 2017
Net assets		
Shareholders' equity		
Capital stock	1,771,226	1,771,226
Capital surplus	1,611,226	1,611,226
Retained earnings	2,401,478	2,537,532
Treasury shares	(438,355)	(438,355)
Total shareholders' equity	5,345,576	5,481,631
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	1,373	279,787
Foreign currency translation adjustment	3,364	3,866
Total accumulated other comprehensive income	4,737	283,654
Subscription rights to shares	59,159	64,902
Total net assets	5,409,474	5,830,187
Total liabilities and net assets	9,873,006	8,883,827

**Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)**

**Consolidated statements of income (cumulative)**

(Thousands of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Net sales	4,221,405	3,920,232
Cost of sales	1,237,738	1,352,227
Gross profit	2,983,667	2,568,005
Provision for sales returns	125,279	30,491
Reversal of provision for sales returns	72,745	271,951
Gross profit - net	2,931,134	2,809,465
Selling, general and administrative expenses	2,065,274	2,371,168
Operating profit	865,859	438,296
Non-operating income		
Interest income	447	185
Dividend income	160	231
Foreign exchange gains	11,516	5,004
Contribution for development	2,916	2,916
Gain on redemption of investment securities	–	2,745
Other	767	577
Total non-operating income	15,808	11,661
Non-operating expenses		
Interest expenses	–	4,862
Commission fee	2,268	–
Other	–	143
Total non-operating expenses	2,268	5,005
Ordinary profit	879,399	444,952
Extraordinary income		
Gain on reversal of subscription rights to shares	–	398
Total extraordinary income	–	398
Extraordinary losses		
Loss on valuation of Advance payments	13,169	6,282
Total extraordinary losses	13,169	6,282
Profit before income taxes	866,229	439,068
Income taxes - current	271,693	13,039
Income taxes - deferred	(885)	98,332
Total income taxes	270,807	111,371
Profit	595,421	327,696
Profit attributable to owners of parent	595,421	327,696

**Consolidated statements of comprehensive income (cumulative)**

(Thousands of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Profit	595,421	327,696
Other comprehensive income		
Valuation difference on available-for-sale securities	5	278,413
Foreign currency translation adjustment	(3,193)	502
Total other comprehensive income	(3,188)	278,916
Comprehensive income	592,233	606,612
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	592,233	606,612
Comprehensive income attributable to non-controlling interests	—	—

## Consolidated statements of cash flows

(Thousands of yen)

	Six months ended September 30, 2016	Six months ended September 30, 2017
Cash flows from operating activities		
Profit before income taxes	866,229	439,068
Depreciation	115,038	174,511
Amortization of software	143,496	191,344
Amortization of goodwill	–	61,818
Share-based compensation expenses	8,374	6,140
Amortization of trademark right	12,096	14,035
Increase (decrease) in provision for bonuses	3,133	(11,354)
Increase (decrease) in provision for sales returns	52,533	(241,459)
Provison for after cost periods adustment	(2,240)	1,976
Gain on reversal of subscription rights to shares	–	(398)
Interest and dividend income	(607)	(417)
Interest expenses	–	4,862
Loss (gain) on redemption of investment securities	–	(2,745)
Decrease (increase) in notes and accounts receivable - trade	(438,314)	(114,581)
Decrease (increase) in inventories	(399,619)	(48,767)
Decrease (increase) in advance payments	(383,362)	(42,301)
Increase (decrease) in notes and accounts payable - trade	396,478	34,024
Increase (decrease) in accounts payable - other	30,600	(45,711)
Other, net	11,962	(253,184)
Subtotal	415,799	166,859
Interest and dividend income received	612	417
Interest expenses paid	–	(4,871)
Income taxes paid	(189,686)	(459,468)
Net cash provided by (used in) operating activities	226,725	(297,062)
Cash flows from investing activities		
Purchase of property, plant and equipment	(7,053)	(1,421)
Purchase of software	(366,929)	(210,095)
Purchase of contract based intangible assets-InvCF	–	(392,395)
Amortization of trademark right	(115,000)	–
Purchase of investment securities	(133,813)	(70,513)
Proceeds from redemption of investment securities	–	36,558
Purchase of shares of subsidiaries resulting in change in scope of consolidation	–	(51,003)
Payments from collection of lease and guarantee deposits	–	2,363
Net cash provided by (used in) investing activities	(622,795)	(686,507)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	–	(2,070,000)
Proceeds from long-term loans payable	–	1,610,000
Repayments of long-term loans payable	–	(252,229)
Purchase of treasury shares	(438,353)	–
Cash dividends paid	(148,045)	(190,951)
Net cash provided by (used in) financing activities	(586,399)	(903,180)
Effect of exchange rate change on cash and cash equivalents	(7,496)	1,426
Net increase (decrease) in cash and cash equivalents	(989,965)	(1,885,324)
Cash and cash equivalents at beginning of period	3,176,956	3,699,654
Cash and cash equivalents at end of period	2,186,990	1,814,330