

Non-Consolidated Financial Results
for the Nine Months Ended January 31, 2019
[Japanese GAAP]



March 6, 2019

Company name: Asukanet Co., Ltd.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2438
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 Scheduled date of filing quarterly securities report: March 14, 2019
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: Not available
 Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Non-Consolidated Financial Results for the Nine Months Ended January 31, 2019
(May 1, 2018 to January 31, 2019)

(1) Non-Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Nine months ended January 31, 2019	4,676	5.6	699	15.7	702	14.9	479	16.1
January 31, 2018	4,429	9.9	604	(7.0)	611	(6.4)	413	(7.0)

	Basic earnings per share	Diluted earnings per share
Nine months ended	Yen	Yen
January 31, 2019	28.50	28.49
January 31, 2018	24.64	24.55

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of January 31, 2019	5,891	5,313	90.2
As of April 30, 2018	5,715	5,000	87.4

(Reference) Equity: As of January 31, 2019: ¥5,313 million
 As of April 30, 2018: ¥4,997 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended April 30, 2018	Yen -	Yen 0.00	Yen -	Yen 10.00	Yen 10.00
Fiscal year ending April 30, 2019	-	0.00	-		
Fiscal year ending April 30, 2019 (Forecast)				10.00	10.00

(Note) Revision to the forecast for dividends announced most recently: No

**3. Non-Consolidated Financial Results Forecast for the Fiscal Year Ending April 30, 2019
(May 1, 2018 to April 30, 2019)**

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	6,111	3.5	806	2.2	811	1.9	567	1.8	33.74

(Note) Revision to the financial results forecast announced most recently: No

*** Notes:**

(1) Accounting policies adopted specially for the preparation of quarterly financial statements: Yes

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(3) Total number of issued shares (common shares)

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

January 31, 2019: 17,464,000 shares

April 30, 2018: 17,464,000 shares

2) Total number of treasury shares at the end of the period:

January 31, 2019: 622,941 shares

April 30, 2018: 662,541 shares

3) Average number of shares during the period:

Nine months ended January 31, 2019: 16,834,906 shares

Nine months ended January 31, 2018: 16,768,281 shares

* These quarterly financial results are outside the scope of quarterly review procedures by a certified public accountant or an audit corporation.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that the Company believes are reasonable, and actual results may differ significantly from these forecasts due to a wide range of factors.

4. Qualitative Information Concerning the Business Results

(1) Explanation of business results

During the cumulative first 3 quarters of this fiscal year, the economy of Japan overall continued a gradual recovery as a result of continuing economic stimulus by the government and financial measures by the Bank of Japan. However the future outlook remains unpredictable due to uncertainty in overseas economies resulting from the growing trade dispute between the United States and China, and to concerns of an economic slowdown resulting from an increase in the consumption tax in Japan.

Asukanet operates three business areas, each with different positioning and characteristics. They are (1) the memorial design service business, which adds digital processing and remote output services for photos of the deceased to a funeral business that is largely unaffected by economic trends, (2) the personal publishing business, which provides ideas for new photo output methods that allow users to create complete photo collections beginning from just a single book, and (3) the aerial imaging business, which is utilizing unique, recently-developed technologies aiming to create a new market and achieve dreams.

Following is an overview of the business results for each segment. The results figures for each segment include internal inter-segment sales.

(1) Memorial design service business

In this business, although revenue from our primary business area – processing of photos of the deceased – was up from the previous year, growth was less than expected, and sales of hardware devices also suffered a rebound drop from the previous year. As a result, there was only small growth in sales.

As one program, we have proceeded with the introduction of our “tsunagoo” service for funeral companies that connects the bereaved family and other mourners. It was released as one of our “So-Tech” services – services using IT technologies for the funeral market. In addition to the “Asuka Altar” collaboration project with the aerial imaging business that targets funeral companies, we also developed and released the “Omokage” product that targets ordinary households.

In terms of income, in addition to an increase in personnel costs resulting from expanding the staff of the Image Processing Division and from higher shipping expenses due to price hikes starting from autumn of last year, there was also an increase in R&D expenses. As a result, there was a small decrease in segment income.

As a result, sales were 1,895,540 thousand yen (101.6% year-on-year), and segment income was 527,213 thousand yen (96.7% year-on-year).

(2) Personal publishing service business

This business operates “AsukaBook” for the professional photographer market, and “MyBook” for the general consumer market. We are also engaged in OEM supply of photo albums and photo prints based on photos that were taken with smartphones.

For the professional photographer market, in addition to our own marketing activities, we also acquired new customers and conducted new product promotions through seminars and workshops across Japan. We also expanded the functions of the “ASUKABOOK Maker” photo album ordering software. As a result, sales in the professional photographer market were strong. In addition, we held the “Life Size Baby Photo Award” contest and worked to expand our life size photo service in the market.

For the general consumer market, we conducted efficient internet advertising and a variety of campaigns, and also worked to expand the presence of our services by utilizing SNS and other means. The introduction of our new full-flat type photo album that opens up so it is completely flat was effective, and despite the intense competitive environment, sales in the general consumer market grew beyond the level of the previous year. There was also steady growth in sales related to OEM supply as a result of the growing presence of our services in the market. We also continued preparations for exhibiting at the CP+ exhibition.

In terms of income, despite higher expenses including a shipping price hike last autumn and growing personnel expenses, there was steady growth in segment income due to the higher gross profit margin

resulting from the improved operating rate and to suitable control of advertising expenses and sales promotion expenses.

As a result, sales were 2,687,439 thousand yen (108.5% year-on-year) and segment income was 698,974 thousand yen (115.9% year-on-year).

(3) Aerial imaging business

This business was launched in March 2011, aiming to create a market through new image and video expressions utilizing aerial imaging technologies. We are developing, manufacturing, and selling both glass and plastic “ASKA3D plates” that utilize our original technologies to project images in mid-air.

For glass ASKA3D plates, sufficient cost reductions have still not yet been achieved, however we are providing large-size plates that are capable of high-quality aerial imaging. Although still for small lots, we are receiving growing numbers of inquiries both from Japan and overseas. We are also working on new manufacturing development that will ensure both quality and productivity.

For resin ASKA3D plates, in addition to sales of the upgraded versions that were developed and released in November of last year, we also carried out mass production trials aimed at improving quality stability and yield in preparation for future mass production. Since their release, we have sold samples to around 200 companies in Japan and overseas, and these companies are conducting studies for incorporating these plates into their own products. In the production area, we have conducted repeated mass production trials, and are making progress in improving the production methods and calibrating the production conditions. At the same time, we are expanding and improving our equipment to enable production of quantities ranging from several thousand to 10 thousand plates per month.

In terms of marketing, we are focusing primarily on the supply of sample resin ASKA3D plates, which are expected to be used in large lots in customer products in the future. We exhibited at 2 domestic exhibitions including FINETECH JAPAN and overseas at C-Touch & Display Shenzhen in Shenzhen, China. At these events, we primarily exhibited our resin ASKA3D plates and have conducted follow-up of event inquiries.

In terms of expenses, as a result of concentrated research and development aimed at improving the quality of plastic ASKA3D plates, there was an increase in R&D expenses including prototyping and die costs. Personnel expenses were higher as a result of reinforcing our staff, and there was also an increase in travel expenses, primarily as a result of events held overseas. However because the number of exhibitions was less than the same period in the previous fiscal year, advertising expenses were lower.

As a result, sales were 102,537 thousand yen (105.3% year-on-year) and segment loss was 163,133 thousand yen (compared to a loss of 187,792 thousand yen in the same period of the previous year).

As a result of the above, sales during these consolidated 3 quarters were 4,676,804 thousand yen (105.6% year-on-year). In terms of income, as a result of steady growth in segment income in the personal publishing business and a reduction in the segment loss in the aerial imaging business, ordinary income was 702,107 thousand yen (114.9% year-on-year) and net income was 479,817 thousand yen (116.1% year-on-year).

(2) Overview of the Financial Status during this Fiscal Year

(Assets)

Assets at the end of these consolidated 3 quarters increased by 175,170 thousand yen from the end of the previous fiscal year to reach 5,891,068 thousand yen. Despite a decrease in cash and savings of 447,715 thousand yen, this result was primarily due to an increase in notes and accounts receivable of 114,184 thousand yen, and an increase in tangible fixed assets of 505,953 thousand yen as a result of land and other asset purchases.

(Liabilities)

Current liabilities at the end of this 3Q decreased by 137,854 thousand yen from the end of the previous fiscal year to reach 578,029 thousand yen. This was primarily due a decrease of 23,000 thousand yen in income taxes payable and a decrease of 65,300 thousand yen in provision for bonuses.

(Net assets)

Net assets at the end of this 3Q increased by 313,025 thousand yen from the end of the previous fiscal year to reach 5,313,039 thousand yen. This was primarily due to net income of 479,817 thousand yen, and a decrease of 168,014 thousand yen in dividend of surplus.

5. Financial Statements for the First Quarter

(1) Balance sheet

(Units: 1,000s yen)

	Previous fiscal year (ended April 30, 2018)	First three quarters of the current fiscal year (ended Jan. 31, 2019)
Asset		
Current assets		
Cash and deposits	2,311,781	1,864,065
Accounts receivable-trade and notes	726,531	840,716
Merchandise and products	191,123	201,394
Work in progress	14,325	16,919
Raw materials and supplies	62,206	72,015
Others	33,559	25,362
Allowance for doubtful accounts	(2,617)	(3,586)
Total current assets	3,336,909	3,016,886
Fixed assets		
Tangible fixed assets		
Buildings, net	512,558	516,155
Machinery and equipment, net	396,538	441,851
Land	611,507	844,060
Others, net	172,702	397,192
Total tangible fixed assets	1,693,306	2,199,260
Total intangible fixed assets	206,851	202,261
Total investments and other assets	478,829	472,660
Total fixed assets	2,378,988	2,874,181
Total assets	5,715,897	5,891,068
Liabilities		
Current liabilities		
Accounts payable-trade	126,270	126,474
Income taxes payable	137,900	114,900
Provision for bonuses	136,500	71,200
Others	303,512	255,546
Total current liabilities	704,183	568,121
Fixed liabilities		
Provision for retirement benefits	6,482	6,112
Others	5,217	3,794
Total fixed liabilities	11,700	9,907
Total liabilities	715,883	578,029
Net assets		
Shareholders' equity		
Capital stock	490,300	490,300
Capital reserves	606,585	606,585
Retained earnings	4,183,583	4,488,968
Treasury stock	(285,940)	(268,850)
Total shareholders' equity	4,994,527	5,317,003
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	3,129	(3,963)
Total valuation and translation adjustments	3,129	(3,963)
Subscription rights to shares	2,356	—
Total net assets	5,000,014	5,313,039
Total liabilities and net assets	5,715,897	5,891,068

(2) Profit and loss statement

First two quarters of the fiscal year

(unit: 1000s yen)

	First three quarters of the previous fiscal year (May 1, 2017 – Jan. 31, 2018)	First three quarters of the current fiscal year (May 1, 2018 – Jan. 31, 2019)
Net Sales	4,429,265	4,676,804
Cost of sales	2,137,661	2,252,871
Gross profit	2,291,604	2,423,932
Selling, general, and administrative expenses	1,687,396	1,724,696
Operating income	604,207	699,235
Non-operating income		
Interest received	410	348
Dividends received	1,060	1,010
Commissions received	327	381
Foreign exchange gains	141	—
Income from insurance	3,999	960
Income on disposal of unpaid dividend	825	950
Others	112	467
Total non-operating income	6,878	4,118
Non-operating expenses		
Foreign exchange losses	—	1,246
Total non-operating expenses	—	1,246
Ordinary income	611,086	702,107
Extraordinary losses		
Loss on retirement of fixed assets	15,174	424
Total extraordinary losses	15,174	424
Net income before taxes	595,911	701,682
Income taxes	182,728	221,865
Net income	413,182	479,817

[Segment information]

Cumulative first 3 quarters of the previous fiscal year (May 1, 2017 – Jan. 31, 2018)

Information related to the amounts of sales, income, and loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Adjustments	Amount recorded in profit and loss statement
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	1,865,125	2,477,095	87,044	4,429,265	—	4,429,265
Inter-segment internal sales and transfers	—	—	10,350	10,350	(10,350)	—
Total	1,865,125	2,477,095	97,394	4,439,615	(10,350)	4,429,265
Segment income (loss)	545,087	602,935	(187,792)	960,230	(356,022)	604,207

Cumulative first 3 quarters of the current fiscal year (May 1, 2018 – Jan. 31, 2019)

Information related to the amounts of sales, income, and loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Adjustments	Amount recorded in profit and loss statement
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	1,895,540	2,687,439	93,823	4,676,804	—	4,676,804
Inter-segment internal sales and transfers	—	—	8,714	8,714	(8,714)	—
Total	1,895,540	2,687,439	102,537	4,685,518	(8,714)	4,676,804
Segment income (loss)	527,213	698,974	(163,133)	1,063,054	(363,819)	699,235

This is the summarized translation of released report for your reference.
Please refer to the original Japanese financial document.