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August 3, 2023

Consolidated Financial Results for the Three Months Ended June 30, 2023 (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: August 4, 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 three months ended June 30, 2023 (from April 1, 2023 to June 30, 2023)

(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	%
Three months ended June 30, 2023	1,715	26.7	267	68.6	287	59.1	597	270.1
June 30, 2022	1,353	28.1	158	556.2	180	616.8	161	459.8

Note: Comprehensive income For the three months ended June 30, 2023: ¥574 million [329.8%]
 For the three months ended June 30, 2022: ¥133 million [425.2%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended June 30, 2023	3.61	3.61
June 30, 2022	0.98	0.97

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of June 30, 2023	3,008	2,112	66.3	12.08
March 31, 2023	3,040	1,534	46.1	8.50

Reference: Equity
 As of June 30, 2023: ¥1,993 million
 As of March 31, 2023: ¥1,402 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, 2023	–	0.00	–	0.00	0.00
Fiscal year ending March 31, 2024	–				
Fiscal year ending March 31, 2024 (Forecast)		0.00	–	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, 2024

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 ensure a stable revenue base with continuous evolution in the SIM business and to invest the revenue in the local 4G/5G business and FPoS business in order to develop them into pillars of future earnings. In the local 4G/5G business, the Company aims to build advanced showcases in the U.S. and leverage this experience to expand in Japan.

In the FPoS business, the Company has acquired a certification under the Digital Signature Act for “my Digital Certificate” (issued by my FinTech Inc., a subsidiary of the Company) based on its patented FPoS technology, and develops the “my Digital Certificate” to be actually utilized as a safe, secure, and convenient digital ID that can be used on smartphones.

Considering the factors described above, one of the Company’s management priorities is to grow the scale of its business to a market capitalization of 500 billion yen in three to five years from the launch of the commercial service of FPoS (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: None
 - (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 June 30, 2023	165,009,239 shares
As of March 31, 2023	165,009,239 shares

- (ii) Number of treasury shares at the end of the period

As of June 30, 2023	15,004 shares
As of March 31, 2023	15,004 shares

- (iii) Average number of shares outstanding during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2023	164,994,235 shares
Three months ended June 30, 2022	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 Three Months Ended June 30

(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 ensure a stable revenue base with continuous evolution in the SIM business and to invest the revenue in the local 4G/5G business and FPoS business in order to develop them into pillars of future earnings.

(i) Mobile Communications Business (SIM business)

Upon a ruling by the Minister of Internal Affairs and Communications in June 2020, the Company launched the “Nihon Tsushin SIM” which provides flat-rate voice plans equivalent to that of major mobile phone operators in July 2020, and the Company has continued to achieve growth both in the number of subscribed lines and quarterly revenue.

The Company has been improving the product specifications of “Nihon Tsushin SIM” to strengthen its product competitiveness. In April 2022, the Company started supporting eSIM, which is embedded in devices such as smartphones, in advance of other MVNOs (announced on April 6, 2022). In addition, by March 2023, the Company had introduced an identification method using electronic certificates stored in “My Number Card” in 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 April 2023, the Company enhanced “Reasonable Minna-no Plan,” which is a flagship plan of “Nihon Tsushin SIM.” While keeping basic monthly fees unchanged, the Company increased the basic data limit for data communications from 6 GB to 10 GB. Besides, the Company made two options for free domestic voice calling, one is 70 minutes of free voice calls and another is an “all-you-can-calls” for calls no longer than 5 minutes. By these options available, customers can compare the price of the “Reasonable Minna-no Plan” with the price of other companies’ plan.

Furthermore, the Company supported the MNP One Stop service in May 2023. When customers would like to switch mobile phone carriers without changing their mobile phone numbers (a process known as “Mobile Number Portability” or “MNP”), they had to start MNP process at the mobile phone carrier with which they are currently under contract, and in some cases, customers may give up on MNP due to cancellation prevention measures and other such actions taken by the mobile phone carrier with which they are currently under contract. In the MNP One Stop service, customers can start MNP process with the mobile phone carrier to which they intend to switch. The MNP One Stop service is supported by NTT DOCOMO, INC. (hereinafter, “NTT DOCOMO”), KDDI CORPORATION / OKINAWA CELLULAR TELEPHONE COMPANY, SoftBank Corp., Rakuten Mobile, Inc. and the Company.

As a result of the above, revenue from “Nihon Tsushin SIM” has been growing steadily for both individual and corporate subscribers, and the number of MNP port-ins from major mobile phone operators and major MVNOs has also been increasing. In addition, the number of subscribers for voice communication services under partner brands has also been increasing steadily, and as a result, the SIM business has seen growth both in the MVNO Business and Enabler Business.

(ii) Local 4G/5G Business through Local Mobile Networks

In the local 4G/5G business, the Company aims to build advanced showcases in the U.S. and leverage this experience to expand in Japan. 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. To connect with local mobile networks, it is necessary to write a large amount of highly specialized information to SIMs. The Company provides SIMs that can 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. The Company will continue to accumulate knowledge in Japan and the U.S., and will utilize this knowledge to develop case examples in the local 4G/5G business.

(iii) Digital ID (FPoS) Business for Use on Smartphones

Smartphones become widely used, and we can use various business operators' services with downloading their apps on smartphones. Meanwhile, we are recognizing that the various information including personal information of customers are shared with numerous business operators including service providers in an unclear state whether a sufficient security is ensured or not. On the other hand, as globalization accelerates, well-developed societies such as Japan does not have option to give up efforts to digitalize data including personal information and to generate new value by working with the digitalized data. A mechanism is required to ensure the security and privacy of data, including personal information.

Against the above background, the Company is pushing forward with a business that will establish and provide digital IDs that can be used on smartphones using FPoS, the Company's patented technology. FPoS guarantees the identity (confirmation of the person's identity) and authenticity (confirmation that the person's intent is not falsified) of a customer by examining the combination of an electronic certificate issued to the customer's smartphone (iPhone and Android) by an electronic certification authority accredited under the Digital Signature Act and a private key generated in the customer's smartphone.

In the Internet world, it is easier to impersonate or falsify than in real world. Because we cannot confirm the counterpart is who we think he or she is, and we cannot confirm the information that arrived from the counterpart is in fact sent by him or her, indications of intention or transactions over the Internet are not reliable. However, if the identity and authenticity of telecommunications via the Internet can be guaranteed using FPoS, indications of intention or transactions over the Internet can be reliable. In Internet banking, for instance, banks will be able to execute transactions under conditions that guarantee that the transacting entity is the account holder and requests for transactions such as remittances are made based on the account holder's intent and depositors can avoid the risk of having their funds transferred by a third-party impersonator.

Guaranteeing the identity and authenticity of communications via the Internet will provide a means of solving issues faced by service providers in a wide range of sectors, including not only banking (Internet banking), but also healthcare, administration, education, and transportation, etc.

Furthermore, the Company is collaborating with Mebuku Ground Inc., a private-public partnership company made up of 57 participants, including Maebashi City, private-sector business enterprises and universities. As part of this collaboration, the Company has added "Dynamic Opt-in" function to FPoS. With "Dynamic Opt-in", customers can confirm the status of their personal information provided to business operators and the status of their personal information shared with other business operators at any time. For example, customers can permit, not permit or cancel to permit to provide their personal information to Business Operator A or to share the information for Business Operator A with Business Operator B at any time. With "Dynamic Opt-in", customers can manage their personal information by themselves, and their personal information cannot be shared with others without customer's permission. Even when customers provide their personal information to apps on smartphones etc., they can use it safely and securely because they can choose which business operator they permit to use their personal information and which business operator they do not permit to use their personal information.

"Dynamic Opt-in" is premised on a mechanism for conducting data sharing safely and securely among business operators, which is one of the most important aspects of FPoS. FPoS works by granting access only when a public key contained in an electronic certificate correctly combines with a private key generated in a smartphone. FPoS protects customers' valuable personal information safely and shares the information with other business operators only by explicit permission by customers.

Linking data with a single number is an effective method, but the simplicity of such a method exponentially increases the associated risks. Therefore, extremely stringent technical restrictions must be placed on access to this data. For example, when accessing a mobile communication network, or in other words using a mobile phone, if access is provided using an ID/password or a one-time password, a mobile phone could be used for free if these are hacked and exploited. To prevent this from happening, mobile phone operators supply IC chips known as SIM. If this IC chip becomes ineffective, a mobile phone is rendered inoperable. Similarly, access to valuable data, such as personal information, must be rigorously restricted.

The Company is working toward its mission of transferring (communicating) data safely, securely, and conveniently. FPoS is a technology and operation that fulfills a core role in this mission.

As a result of the above, the Group's consolidated net revenue for the three months ended June 30, 2023 was 1,715 million yen, an increase of 361 million yen (up 26.7%) compared to the three months ended June 30, 2022 (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 centered on "Nihon Tsushin SIM" in the MVNO Business (up 19.5% from the same period of the previous year) and the growth of the voice services of partner brands in the Enabler Business (up 34.8% from the same period of the previous year).

Cost of revenue was 950 million yen, an increase of 183 million yen (up 23.9%) compared to the same period of the previous year. This was mainly due to an increase in mobile network procurement costs associated with the growth of "Nihon Tsushin SIM." Nevertheless, the increase in cost of revenue can be contained relative to increases in net revenue, because the mobile networks of both data and voice communications procured by the Company from NTT DOCOMO have been set not to exceed the amount of the appropriate costs under efficient management plus appropriate profit.

As a result, gross profit was 764 million yen (586 million yen in the same period of the previous year), selling, general and administrative expenses was 497 million yen (428 million yen in the same period of the previous year), and operating profit was 267 million yen (158 million yen in the same period of the previous year).

During the three months ended June 30, 2023, a final judgment was rendered in a lawsuit between the Company and Quanta Computer Inc. In conjunction with the finalization of the judgment, the Company recorded extraordinary income of 363 million yen, resulting in profit attributable to owners of parent of 597 million yen (161 million yen in the same period of the previous year).

Financial results by business are as follows:

Net revenue	For three months ended June 30, 2022	For three months ended June 30, 2023	Year-on-year change	Year-on-year change (%)
MVNO Business	713	851	138	19.5
Enabler Business	640	863	222	34.8
Total	1,353	1,715	361	26.7

Revenue of 26 million yen (41 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 first quarter were 2,277 million yen, a decrease of 35 million yen compared to the end of the previous year. This was mainly due to decreases of 66 million yen in cash and deposits and 58 million yen in accounts receivable - trade, while there was an increase of 75 million yen in accounts receivable - other. Non-current assets were 730 million yen, an increase of 2 million yen compared to the end of the previous year. This was mainly due to an increase of 10 million yen in intangible assets, while there was a decrease of 8 million yen in investments and other assets.

As a result, total assets amounted to 3,008 million yen, a decrease of 32 million yen compared to the end of the previous year.

Liabilities

Current liabilities at the end of the current first quarter were 808 million yen, a decrease of 618 million yen compared to the end of the previous year. This was mainly due to decreases of 324 million yen in accounts payable - trade and 287 million yen in valuation reserve for inventory purchase commitments. Non-current liabilities were 87 million yen, an increase of 7 million yen compared to the end of the previous year. This was mainly due to an increase of 4 million yen in long-term unearned revenue.

As a result, liabilities amounted to 896 million yen, a decrease of 610 million yen compared to the end of the previous year.

Net assets

Net assets at the end of the current first quarter were 2,112 million yen, an increase of 577 million yen compared to the end of the previous year. This was mainly due to recording 597 million yen in profit attributable to owners of parent.

As a result, the equity ratio was 66.3% (46.1% at the end of the previous year).

(ii) Status of cash flows

Cash and cash equivalents at the end of the three months ended June 30, 2023 were 1,514 million yen, a decrease of 66 million yen compared to the end of the previous year.

The status of cash flows and their factors during the three months ended June 30, 2023 are as follows.

Cash flows from operating activities

Net cash used in operating activities totaled 45 million yen (an inflow of 38 million yen in the same period of the previous year). This was mainly due to the recording of a reversal of valuation reserve for inventory purchase commitments of 287 million yen, a decrease in trade payables of 324 million yen, an increase in accounts receivable - other of 75 million yen and a decrease in consumption taxes payable/consumption taxes refund receivable of 20 million yen, despite recording profit before income taxes of 651 million yen.

Cash flows from investing activities

Net cash used in investing activities totaled 13 million yen (an outflow of 41 million yen in the same period of the previous year). This was mainly due to purchase of intangible assets of 17 million yen.

Cash flows from financing activities

Net cash used in financing activities totaled 9 million yen (there were no cash flows from financing activities in the same period of the previous year). This was mainly due to an outflow of 8 million yen for the purchase and cancellation of share acquisition rights.

(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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Considering the factors described above, one of the Company’s management priorities is to grow the scale of its business to a market capitalization of 500 billion yen in three to five years from the launch of the commercial service of FPoS (on October 21, 2022).

Quarterly consolidated financial statements

Quarterly consolidated balance sheets

(Thousands of yen)

	As of March 31, 2023	As of June 30, 2023
Assets		
Current assets		
Cash and deposits	1,580,619	1,514,025
Accounts receivable - trade	576,323	518,004
Merchandise	75,462	75,344
Supplies	65	45
Accounts receivable - other	103	75,973
Other	83,011	97,356
Allowance for doubtful accounts	△3,138	△3,432
Total current assets	2,312,448	2,277,317
Non-current assets		
Property, plant and equipment		
Buildings	106,085	106,993
Accumulated depreciation	△84,942	△86,210
Buildings, net	21,142	20,782
Vehicles	7,027	11,021
Accumulated depreciation	△5,596	△5,826
Vehicles, net	1,430	5,195
Tools, furniture and fixtures	876,556	903,059
Accumulated depreciation	△773,909	△805,289
Tools, furniture and fixtures, net	102,647	97,769
Leased assets	285,882	290,417
Accumulated depreciation	△266,737	△268,677
Leased assets, net	19,144	21,739
Total property, plant and equipment	144,365	145,487
Intangible assets		
Patent right	4,727	5,212
Trademark right	3,229	3,132
Software	264,297	261,613
Software in progress	9,752	22,490
Total intangible assets	282,007	292,448
Investments and other assets		
Investment securities	128,570	135,244
Leasehold and guarantee deposits	133,884	121,472
Other	39,228	36,339
Total investments and other assets	301,683	293,055
Total non-current assets	728,056	730,992
Total assets	3,040,504	3,008,309

(Thousands of yen)

	As of March 31, 2023	As of June 30, 2023
Liabilities		
Current liabilities		
Accounts payable - trade	630,125	305,781
Accounts payable - other	78,842	88,325
Income taxes payable	109,651	76,938
Unearned revenue	120,872	121,288
Deposits received	66,559	74,115
Valuation Reserve For Inventory Purchase	287,979	-
Commitments		
Other	132,150	141,645
Total current liabilities	1,426,180	808,094
Non-current liabilities		
Long-term accounts payable - other	6,102	7,139
Long-term unearned revenue	56,613	60,881
Lease liabilities	17,212	19,890
Total non-current liabilities	79,928	87,911
Total liabilities	1,506,108	896,006
Net assets		
Shareholders' equity		
Share capital	535,822	535,822
Capital surplus	224,109	229,031
Retained earnings	530,319	1,127,449
Treasury shares	△2,192	△2,192
Total shareholders' equity	1,288,058	1,890,110
Accumulated other comprehensive income		
Foreign currency translation adjustment	114,472	103,256
Total accumulated other comprehensive income	114,472	103,256
Share acquisition rights	96,218	94,588
Non-controlling interests	35,646	24,347
Total net assets	1,534,395	2,112,303
Total liabilities and net assets	3,040,504	3,008,309

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

(Thousands of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Net sales	1,353,761	1,715,277
Cost of sales	767,235	950,762
Gross profit	586,526	764,515
Selling, general and administrative expenses	428,117	497,427
Operating profit	158,408	267,088
Non-operating income		
Share of profit of entities accounted for using equity method	1,322	6,673
Foreign exchange gains	21,241	13,919
Miscellaneous income	1,018	658
Total non-operating income	23,582	21,252
Non-operating expenses		
Interest expenses	253	212
Amortization of share issuance costs	216	—
Amortization of bond issuance costs	528	—
Miscellaneous losses	36	191
Total non-operating expenses	1,035	404
Ordinary profit	180,955	287,935
Extraordinary income		
Compensation for damage income	—	※1 75,869
Reversal of provision for valuation reserve for inventory purchase commitments	—	※2 287,979
Total extraordinary income	—	363,848
Profit before income taxes	180,955	651,784
Income taxes - current	29,256	65,952
Total income taxes	29,256	65,952
Profit	151,699	585,831
Loss attributable to non-controlling interests	△9,664	△11,298
Profit attributable to owners of parent	161,363	597,130

Quarterly consolidated statements of comprehensive income

(Thousands of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Profit	151,699	585,831
Other comprehensive income		
Foreign currency translation adjustment	△18,005	△11,216
Total other comprehensive income	△18,005	△11,216
Comprehensive income	133,693	574,615
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	143,358	585,914
Comprehensive income attributable to non- controlling interests	△9,664	△11,298

Quarterly consolidated statement of cash flows

(Thousands of yen)

	Three months ended June 30, 2022	Three months ended June 30, 2023
Cash flows from operating activities		
Profit before income taxes	180,955	651,784
Depreciation	8,161	28,509
Interest expenses	253	212
Share of loss (profit) of entities accounted for using equity method	△1,322	△6,673
Foreign exchange losses (gains)	△21,712	△14,633
Reversal of provision for valuation reserve for inventory purchase commitments	—	△287,979
Decrease (increase) in trade receivables	△75,946	59,889
Decrease (increase) in inventories	△25,049	2,823
Increase (decrease) in trade payables	2,134	△324,766
Decrease (increase) in accounts receivable - other	388	△75,869
Increase (decrease) in unearned revenue	3,567	△2,354
Increase (decrease) in Long-term unearned revenue	5,573	△559
Increase/decrease in consumption taxes payable/consumption taxes refund receivable	△35,232	△20,752
Other, net	27,577	52,277
Subtotal	69,348	61,908
Interest paid	△34	△212
Income taxes paid	△30,428	△107,283
Net cash provided by (used in) operating activities	38,885	△45,587
Cash flows from investing activities		
Purchase of property, plant and equipment	△6,080	△4,022
Purchase of intangible assets	△31,862	△17,123
Proceeds from refund of leasehold and guarantee deposits	73	7,459
Payments of leasehold and guarantee deposits	△3,624	—
Net cash provided by (used in) investing activities	△41,493	△13,685
Cash flows from financing activities		
Payments for retirement by purchase of share acquisition rights	—	△8,529
Repayments of lease liabilities	—	△959
Net cash provided by (used in) financing activities	—	△9,488
Effect of exchange rate change on cash and cash equivalents	2,969	2,168
Net increase (decrease) in cash and cash equivalents	362	△66,594
Cash and cash equivalents at beginning of period	928,688	1,580,619
Cash and cash equivalents at end of period	929,050	1,514,025