

**Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2020
(Six Months Ended December 31, 2019)**

[Japanese GAAP]

February 14, 2020

Company name: Smartvalue Co., Ltd.

Listing: Tokyo Stock Exchange, First Section

Securities code: 9417

URL: <https://www.smartvalue.ad.jp/>

Representative: Jun Shibuya, President and CEO

Contact: Yoshitaka Fujihara, Director in charge of Administration Division

Tel: +81-(0)6-6448-1711

Scheduled date of filing of Quarterly Report:

February 14, 2020

Scheduled date of payment of dividend:

-

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly financial results meeting:

Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

**1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2020
(July 1, 2019 to December 31, 2019)**

(1) Consolidated results of operations

(Percentages represent 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 Dec. 31, 2019	3,391	-	(52)	-	(47)	-	(64)	-
Six months ended Dec. 31, 2018	-	-	-	-	-	-	-	-

Note: Comprehensive income (millions of yen) Six months ended Dec. 31, 2019: (64) (-%)

Six months ended Dec. 31, 2018: - (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Dec. 31, 2019	(6.53)	-
Six months ended Dec. 31, 2018	-	-

Notes: 1. Figures for the six months ended December 31, 2018 and year-on-year changes are not presented because Smartvalue started preparing quarterly consolidated financial statements from the nine months ended March 31, 2019.

2. Diluted net income per share for the six months ended December 31, 2019 is not presented, because net loss was posted despite the existence of latent shares with a dilution effect.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of Dec. 31, 2019	4,331	3,483	80.4
As of Jun. 30, 2019	4,487	3,613	80.5

Reference: Shareholders' equity (millions of yen)

As of Dec. 31, 2019: 3,482

As of Jun. 30, 2019: 3,612

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2019	-	0.00	-	8.00	8.00
Fiscal year ending Jun. 30, 2020	-	0.00	-	-	-
Fiscal year ending Jun. 30, 2020 (forecast)	-	-	-	8.00	8.00

Note: Revisions to the most recently announced dividend forecast: None

3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2020 (July 1, 2019 to June 30, 2020)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	6,904	(10.8)	91	(71.4)	101	(70.5)	1,029	431.6	103.49

Note: Revisions to the most recently announced consolidated earnings forecast: Yes

Regarding revisions to the consolidated earnings forecast, please refer to the press release dated February 14, 2020 titled "Notice of Differences between First Half Performance and Forecast, Posting of Extraordinary Income, and Revision to Consolidated Earnings Forecast."

*** Notes**

- (1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None
- (2) Application of special accounting methods for presenting quarterly consolidated financial statements: None
- (3) Changes in accounting policies and accounting-based estimates, and restatements
- 1) Changes in accounting policies due to revisions in accounting standards, others: None
 - 2) Changes in accounting policies other than 1) above: None
 - 3) Changes in accounting-based estimates: None
 - 4) Restatements: None

(4) Number of shares outstanding (common shares)

1) Number of shares outstanding at the end of the period (including treasury shares)			
As of Dec. 31, 2019:	10,264,800 shares	As of Jun. 30, 2019:	10,264,800 shares
2) Number of treasury shares at the end of the period			
As of Dec. 31, 2019:	310,690 shares	As of Jun. 30, 2019:	359,690 shares
3) Average number of shares outstanding during the period			
Six months ended Dec. 31, 2019:	9,940,626 shares	Six months ended Dec. 31, 2018:	9,933,125 shares

* The current quarterly financial report is not subject to the quarterly review by certified public accountants or auditing firms.

* Explanation of appropriate use of earnings forecast and other special items

Cautionary statement with respect to forecasts

Forecasts of future performance in these materials are based on assumptions judged to be valid and information available to Smartvalue's management at the time these materials were prepared. Actual results may differ significantly from these forecasts for a number of reasons. Please refer to the section "1. Qualitative Information on Quarterly Consolidated Financial Performance, (3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements" on page 4 of the attachments regarding preconditions or other related matters for the forecasts.

Contents of Attachments

1. Qualitative Information on Quarterly Consolidated Financial Performance	2
(1) Explanation of Results of Operations	2
(2) Explanation of Financial Position	3
(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements	4
2. Quarterly Consolidated Financial Statements and Notes	5
(1) Quarterly Consolidated Balance Sheet	5
(2) Quarterly Consolidated Statements of Income and Comprehensive Income	7
(3) Quarterly Consolidated Statement of Cash Flows	9
(4) Notes to Quarterly Consolidated Financial Statements	10
Going Concern Assumption	10
Significant Changes in Shareholders' Equity	10
Segment and Other Information	10
Subsequent Events	10

1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

The Japanese economy recovered slowly during the first half of the fiscal year ending June 30, 2020 due to increasing corporate earnings, an improving labor market and other positive trends. However, the outlook for the economy remained uncertain. In Japan, there are concerns about consumer sentiment following the October 2019 consumption tax hike and a negative impact on consumer spending. There is also growing uncertainty about the global economy because of U.S.-China trade friction, Britain's departure from the EU and other events.

The activities of the Smartvalue Group are guided by the goal of "combining 'smart' systems and technologies to create social systems that can thrive for many years." Group companies are taking actions aimed at using the foundation for business operations to build a business model capable of sustained growth. Many actions are under way to create highly profitable businesses by establishing sources of consistent earnings and making substantial investments to create new business domains.

The Cloud Solutions Business is a key source of growth that the Smartvalue Group plans to make even stronger. During the first half, the digital government and mobility IoT services sectors continued to grow. However, there was a big decline in sales of the Mobile Business because of extremely challenging market conditions.

In the first half of the fiscal year ending June 30, 2020, the Smartvalue Group had consolidated net sales of 3,391 million yen, operating loss of 52 million yen, ordinary loss of 47 million yen, and loss attributable to owners of parent of 64 million yen.

Results by business segment were as follows.

Cloud Solutions Business

The digital government (note 1) of this business provides products and services in order to create e-government. One product is Smart L-Gov (note 2), a cloud solution for open government (note 3) that distributes information in order to increase the transparency of local governments. Another activity is GaaS (note 4), a cloud service centered on resident ID platforms that increases participation and linkage.

Mobility services is the other category of this business. Car solutions, which dates back to Smartvalue's establishment, involves the sale of safety assistance equipment placed in automobiles. These devices target opportunities created by the growing use of electrical equipment in automobiles, often viewed as an automobile industry revolution on a scale that happens only once in a century. Other activities include the CiEMS Series (note 5), which is a connected car (note 6) service, a platform for the utilization of automobile data, software products, and Kuruma Base (note 7), which is a platform that supports car sharing and other car-as-a-service applications. This category also includes a diverse mobility IoT business.

In the first half, digital government sales were 709 million yen as Smart L-Gov, a cloud solution for distributing information provided by Smartvalue for local governments, continued to perform well. Mobility services sales totaled 1,227 million yen. Sales were lower in the car solutions sector, which handles products for driving safety, as intense competition with other companies and other factors exerted downward pressure on prices throughout this market sector. However, there was a big increase in sales in the IoT sector, which includes telematics services (note 8). There was a substantial increase in sales of hardware for the CiEMS 3G mobility IoT service and the number of contracts continued to climb. Performance benefited from the growing provision of platforms centered on data utilization and the growth of contract development projects for other companies backed by the increasing use of MaaS (note 9) and EV (note 10).

As a result, segment sales totaled 1,936 million yen. The segment profit was 64 million yen because of the strong performances of digital government and the IoT sector of mobility services.

Mobile Business

This business has been operating six docomo shops in Osaka prefecture since the first mobile phones went on the market. The business has used a variety of measures for sales growth, including activities closely tied to the areas serviced by each store and actions to increase customer satisfaction, such as more improvements to smartphone

classes.

During the first half, there was a sharp decline in the number of phones sold to new subscribers. The primary causes were the requirement to offer service plans that separate communication charges and the cost of phones, the result of the October 2019 enactment of the amended Telecommunications Business Act, and a general reluctance to make purchases following the October 2019 consumption tax hike. As a result, sales decreased. Earnings were lower because of the decline in the gross profit caused by the downturn in sales.

Sales in this segment totaled 1,454 million yen and segment profit was 141 million yen.

Explanation of terms

Notes:

1. Digital government: Services for simplifying procedures for government agencies as well as people and companies by using the internet to conduct procedures, building a database for the centralization of information, and other measures
2. Smart L-Gov: A local information cloud platform provided by Smartvalue for local governments and public-sector agencies
3. Open government: A concept for measures aimed at making national and local government activities more open that is based on three basic principles: (1) Transparency, (2) Participation of the public, and (3) Public/private-sector cooperation
4. GaaS: Government as a Service is Smartvalue's resident ID platform, the first of its type in Japan, that uses digital technology incorporating blockchain technology for government procedures and services.
5. CiEMS Series: The Car intelligent Energy Management System analyzes and utilizes a broad array of data associated with the operation of motor vehicles to eliminate accidents, reduce traffic jams, operate vehicles more efficiently and provide other benefits. By fully utilizing data obtained from the operation of cars, this system also has the goal of helping solve a variety of social issues.
6. Connected car: Automobiles that use the internet to send and receive information
7. Kuruma Base: An integrated platform provided by Smartvalue that encompasses car connectivity and car-as-a-service applications
8. Telematics service: Telematics (a combination of "telecommunications" and "informatics") services for automobiles and other motor vehicles provided by using mobile phones and other mobile communication devices.
9. MaaS: Mobility-as-a-Service is a new seamlessly linked concept for movement from one place to another that uses the cloud to store transportation data in order to treat all types of transportation (cars, bicycles, buses, trains and so on) as a single service rather than simply as individual transportation methods.
10. EV: Electric vehicles are vehicles powered by electric motors.

(2) Explanation of Financial Position

1. Assets, liabilities and net assets

1) Assets

Total assets at the end of the second quarter decreased 156 million yen from the end of the previous fiscal year to 4,331 million yen.

Current assets decreased 327 million yen to 1,754 million yen. Major items are decreases of 263 million yen in cash and deposits, 55 million yen in merchandise and 52 million yen in notes and accounts receivable-trade, while there was an increase of 63 million yen in work in process.

Non-current assets increased 171 million yen to 2,577 million yen. Major items include an increase of 156 million yen in leasehold and guarantee deposits included in other under investments and other assets.

2) Liabilities

Total liabilities decreased 26 million yen from the end of the previous fiscal year to 848 million yen.

Current liabilities increased 0 million yen to 781 million yen. Major items include an increase of 22 million yen in income taxes payable, while there was a decrease of 20 million yen in accounts payable-trade.

Non-current liabilities decreased 26 million yen to 66 million yen. Major items are decreases of 17 million yen in asset retirement obligations and 9 million yen in lease obligations included in other under non-current liabilities.

3) Net assets

Net assets decreased 130 million yen from the end of the previous fiscal year to 3,483 million yen. Net assets increased 27 million yen due to a decrease in treasury shares but retained earnings decreased 79 million yen due to dividend payments and 64 million yen due to the first half loss attributable to owners of parent.

2. Cash Flows

Cash and cash equivalents (hereinafter, “cash”) at the end of the second quarter decreased 263 million yen from the end of the previous fiscal year to 442 million yen. The cash flow components and the main reasons for changes are as follows.

Cash flows from operating activities

Net cash provided by operating activities was 167 million yen. Positive factors include depreciation of 119 million yen, a 56 million yen decrease in trade receivables and goodwill amortization of 42 million yen. Negative factors include loss before income taxes of 55 million yen and a 20 million yen decrease in trade payables.

Cash flows from investing activities

Net cash used in investing activities was 354 million yen. The major uses of cash are purchase of intangible assets of 186 million yen and payments of leasehold and guarantee deposits of 158 million yen.

Cash flows from financing activities

Net cash used in financing activities was 76 million yen. Positive factors include proceeds from disposal of treasury shares of 14 million yen. Negative factors include dividends paid of 78 million yen and repayments of lease obligations of 11 million yen.

(3) Explanation of Consolidated Earnings Forecast and Other Forward-looking Statements

Smartvalue has revised the full-year consolidated earnings forecast for the fiscal year ending June 30, 2020 that was announced in the “Consolidated Financial Results for the Fiscal Year Ended June 30, 2019 (Japanese GAAP)” on August 14, 2019.

For details, please refer to the press release dated February 14, 2020 titled “Notice of Differences between First Half Performance and Forecast, Posting of Extraordinary Income, and Revision to Consolidated Earnings Forecast.”

2. Quarterly Consolidated Financial Statements and Notes**(1) Quarterly Consolidated Balance Sheet**

(Thousands of yen)

	FY6/19 (As of Jun. 30, 2019)	Second quarter of FY6/20 (As of Dec. 31, 2019)
Assets		
Current assets		
Cash and deposits	705,393	442,149
Electronically recorded monetary claims-operating	3,110	-
Notes and accounts receivable-trade	782,215	729,259
Merchandise	441,332	385,761
Work in process	49,044	112,089
Other	100,777	85,275
Total current assets	2,081,872	1,754,535
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	215,909	193,636
Other, net	157,623	127,529
Total property, plant and equipment	373,532	321,166
Intangible assets		
Goodwill	817,121	774,856
Other	374,737	496,385
Total intangible assets	1,191,858	1,271,241
Investments and other assets		
Deferred tax assets	517,701	516,957
Other	322,830	467,774
Total investments and other assets	840,531	984,731
Total non-current assets	2,405,922	2,577,140
Total assets	4,487,795	4,331,675

	(Thousands of yen)	
	FY6/19 (As of Jun. 30, 2019)	Second quarter of FY6/20 (As of Dec. 31, 2019)
Liabilities		
Current liabilities		
Accounts payable-trade	401,518	380,876
Income taxes payable	763	22,820
Provision for bonuses	42,189	55,385
Allowance for short-term cancellation loss	153	178
Asset retirement obligations	-	18,628
Other	336,438	303,751
Total current liabilities	781,062	781,640
Non-current liabilities		
Asset retirement obligations	54,399	36,821
Other	39,004	29,890
Total non-current liabilities	93,403	66,711
Total liabilities	874,466	848,352
Net assets		
Shareholders' equity		
Share capital	959,454	959,454
Capital surplus	949,720	949,720
Retained earnings	1,904,349	1,746,601
Treasury shares	(200,755)	(172,863)
Total shareholders' equity	3,612,768	3,482,912
Share acquisition rights	561	411
Total net assets	3,613,329	3,483,323
Total liabilities and net assets	4,487,795	4,331,675

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
Quarterly Consolidated Statement of Income
(For the Six-month Period)

	(Thousands of yen)
	First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)
Net sales	3,391,809
Cost of sales	2,395,071
Gross profit	996,737
Selling, general and administrative expenses	1,049,061
Operating loss	(52,323)
Non-operating income	
Interest income	106
Subsidy income	1,884
Penalty income	1,732
Other	1,324
Total non-operating income	5,047
Ordinary loss	(47,275)
Extraordinary losses	
Loss on retirement of non-current assets	336
Loss on valuation of investment securities	7,416
Total extraordinary losses	7,752
Loss before income taxes	(55,027)
Income taxes-current	9,144
Income taxes-deferred	743
Total income taxes	9,887
Loss	(64,915)
Loss attributable to owners of parent	(64,915)

Quarterly Consolidated Statement of Comprehensive Income
(For the Six-month Period)

	(Thousands of yen)
	First six months of FY6/20
	(Jul. 1, 2019 – Dec. 31, 2019)
Loss	(64,915)
Comprehensive income	(64,915)
Comprehensive income attributable to:	
Comprehensive income attributable to owners of parent	(64,915)
Comprehensive income attributable to non-controlling interests	-

(3) Quarterly Consolidated Statement of Cash Flows

	(Thousands of yen)
	First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)
Cash flows from operating activities	
Loss before income taxes	(55,027)
Depreciation	119,238
Amortization of goodwill	42,264
Increase (decrease) in provision for bonuses	13,196
Increase (decrease) in allowance for short-term cancellation loss	25
Interest and dividend income	(106)
Loss on retirement of non-current assets	336
Loss (gain) on valuation of investment securities	7,416
Decrease (increase) in trade receivables	56,065
Decrease (increase) in inventories	(7,474)
Increase (decrease) in trade payables	(20,641)
Other, net	(17,343)
Subtotal	137,949
Interest and dividends received	106
Income taxes (paid) refund	29,683
Net cash provided by (used in) operating activities	167,738
Cash flows from investing activities	
Purchase of property, plant and equipment	(12,343)
Purchase of intangible assets	(186,658)
Payments of leasehold and guarantee deposits	(158,288)
Proceeds from refund of leasehold and guarantee deposits	1,625
Other, net	920
Net cash provided by (used in) investing activities	(354,745)
Cash flows from financing activities	
Proceeds from disposal of treasury shares	14,150
Repayments of lease obligations	(11,471)
Dividends paid	(78,916)
Net cash provided by (used in) financing activities	(76,237)
Net increase (decrease) in cash and cash equivalents	(263,244)
Cash and cash equivalents at beginning of period	705,393
Cash and cash equivalents at end of period	442,149

(4) Notes to Quarterly Consolidated Financial Statements**Going Concern Assumption**

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Segment and Other Information

Segment Information

First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)

1. Information related to net sales and profit or loss for each reportable segment

(Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on quarterly consolidated statement of income (Note 2)
	Cloud Solutions	Mobile	Total		
Net sales					
External sales	1,936,825	1,454,984	3,391,809	-	3,391,809
Inter-segment sales and transfers	-	-	-	-	-
Total	1,936,825	1,454,984	3,391,809	-	3,391,809
Segment profit	64,712	141,554	206,266	(258,589)	(52,323)

Notes: 1. The negative adjustment of 258 million yen to segment profit includes corporate expenses that are not allocated to any of the reportable segments and mainly consist of general and administrative expenses that cannot be attributed to any reportable segments.

2. Segment profit is adjusted to be consistent with operating loss in the quarterly consolidated statement of income.

2. Information related to assets for each reportable segment

Not applicable.

3. Information related to impairment losses of non-current assets or goodwill, etc. for each reportable segment

Not applicable.

Subsequent Events

(Sale of significant business)

The Smartvalue Board of Directors approved a resolution on February 14, 2020 to sell the mobile data communication hardware sales agent business to Helios Net Corporation. A basic agreement for this sale was signed the same day.

1. Reason for sale

Management believes that further focusing resources on the strategically important Cloud Solutions Business will contribute to the medium to long-term growth of corporate value. As a result, the decision was made to sell the mobile data communication hardware sales agent business, where the outlook is uncertain because of the maturity of this market sector, to Helios Net Corporation.

2. Summary

(1) Activities of the mobile data communication hardware sales agent business

This business sells the mobile data communication products and associated products of NTT Docomo Inc. and provides maintenance, repair and other services for these products.

(2) Results of operations of the mobile data communication hardware sales agent business

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)

(Thousands of yen)

	Mobile data communication hardware sales agent business (a)	Consolidated sales and operating profit (b)	Pct. of consolidated sales and operating profit (a/b)
Net sales	3,879,712	7,743,057	50.1%
Operating profit	479,675	320,255	149.8%

First six months of FY6/20 (Jul. 1, 2019 – Dec. 31, 2019)

(Thousands of yen)

	Mobile data communication hardware sales agent business (a)	Consolidated sales and operating profit (b)	Pct. of consolidated sales and operating profit (a/b)
Net sales	1,463,655	3,391,809	43.2%
Operating profit	134,335	(52,323)	-

(3) Composition and value of assets and liabilities of mobile data communication hardware sales agent business

Not confirmed at this time

(4) Sale price and payment method

The price is not disclosed due to the wishes of the buyer.

Payment method: Cash

3. Timetable

(1) Resolution of the Board of Directors	February 14, 2020
(2) Signing of basic agreement	February 14, 2020
(3) Signing of contract	March 31, 2020 (plan)
(4) Transfer of ownership	March 31, 2020 (plan)

Note: There is no need for the shareholders of Smartvalue to approve a resolution to sell this business because the provisions of Article 467-1 of the Companies Act do not apply to this transaction.

* This financial report is solely a translation of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.