

## Consolidated Financial Results for the Fiscal Year Ended June 30, 2020

[Japanese GAAP]

August 14, 2020

Company name: Smartvalue Co., Ltd.

Listing: Tokyo Stock Exchange, First Section

Securities code: 9417

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Scheduled date of Annual General Meeting of Shareholders: September 24, 2020

Scheduled date of payment of dividend: September 25, 2020

Scheduled date of filing of Annual Securities Report: September 25, 2020

Preparation of supplementary materials for financial results: Yes

Holding of 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 Fiscal Year Ended June 30, 2020 (July 1, 2019 to June 30, 2020)

(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	%
Fiscal year ended Jun. 30, 2020	5,958	(23.0)	(239)	-	(223)	-	32	(83.0)
Fiscal year ended Jun. 30, 2019	7,743	-	320	-	344	-	193	-

Note: Comprehensive income (millions of yen) Fiscal year ended Jun. 30, 2020: 32 (down 83.0%)

Fiscal year ended Jun. 30, 2019: 193 (-%)

	Net income per share	Diluted net income per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
	Yen	Yen	%	%	%
Fiscal year ended Jun. 30, 2020	3.31	3.28	0.9	(4.9)	(4.0)
Fiscal year ended Jun. 30, 2019	19.48	19.19	5.4	7.5	4.1

Reference: Equity in earnings of affiliates (millions of yen) Fiscal year ended Jun. 30, 2020: - Fiscal year ended Jun. 30, 2019: -

Note: Year-on-year changes for the fiscal year ended June 30, 2019 are not presented because Smartvalue started preparing consolidated financial statements from the fiscal year ended June 30, 2019.

### (2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of Jun. 30, 2020	4,692	3,583	76.4	359.65
As of Jun. 30, 2019	4,487	3,613	80.5	364.74

Reference: Shareholders' equity (millions of yen)

As of Jun. 30, 2020: 3,583

As of Jun. 30, 2019: 3,612

### (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
Fiscal year ended Jun. 30, 2020	392	1,007	(83)	2,022
Fiscal year ended Jun. 30, 2019	174	(1,766)	(83)	705

## 2. Dividends

	Dividend per share					Total dividends	Dividend payout ratio (consolidated)	Dividends on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended Jun. 30, 2019	-	0.00	-	8.00	8.00	79	41.1	2.2
Fiscal year ended Jun. 30, 2020	-	0.00	-	8.00	8.00	79	241.7	2.2
Fiscal year ending Jun. 30, 2021 (forecasts)	-	0.00	-	8.00	8.00		-	

## 3. Consolidated Earnings Forecast for the Fiscal Year Ending June 30, 2021 (July 1, 2020 to June 30, 2021)

(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
First half	1,688	(50.2)	(330)	-	(330)	-	(342)	-	(34.44)
Full year	4,773	(19.9)	(82)	-	(81)	-	(93)	-	(9.40)

**\* Notes**

(1) Changes in significant subsidiaries during the period (changes in scope of consolidation): None

(2) 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

(3) Number of shares outstanding (common shares)

1) Number of shares outstanding at the end of the period (including treasury shares)

As of Jun. 30, 2020: 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 Jun. 30, 2020: 300,690 shares As of Jun. 30, 2019: 359,690 shares

3) Average number of shares outstanding during the period

Fiscal year ended Jun. 30, 2020: 9,951,249 shares Fiscal year ended Jun. 30, 2019: 9,943,259 shares

**Reference: Summary of Non-consolidated Financial Results**

**1. Non-consolidated Financial Results for the Fiscal Year Ended June 30, 2020 (July 1, 2019 to June 30, 2020)**

(1) Non-consolidated results of operations (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year ended Jun. 30, 2020	5,657	(25.6)	(182)	-	(156)	-	50	(78.2)
Fiscal year ended Jun. 30, 2019	7,608	4.1	352	(7.7)	379	1.0	233	(28.2)

	Net income per share		Diluted net income per share	
	Yen		Yen	
Fiscal year ended Jun. 30, 2020	5.10		5.05	
Fiscal year ended Jun. 30, 2019	23.46		23.11	

(2) Non-consolidated financial condition

	Total assets		Net assets		Equity ratio		Net assets per share	
	Millions of yen		Millions of yen		%		Yen	
As of Jun. 30, 2020	4,695		3,641		77.5		365.41	
As of Jun. 30, 2019	4,470		3,652		81.7		368.73	

Reference: Shareholders' equity (millions of yen) As of Jun. 30, 2020: 3,641 As of Jun. 30, 2019: 3,652

\* The current financial report is not subject to audit by certified public accountants or auditing firm.

\* 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. Overview of Results of Operations, (4) Outlook" on page 5 of the attachments regarding preconditions or other related matters for the forecasts.

## Contents of Attachments

1. Overview of Results of Operations	2
(1) Results of Operations	2
(2) Financial Position	4
(3) Cash Flows	5
(4) Outlook	5
2. Basic Approach to the Selection of Accounting Standards	6
3. Consolidated Financial Statements and Notes	7
(1) Consolidated Balance Sheet	7
(2) Consolidated Statements of Income and Comprehensive Income	9
(3) Consolidated Statement of Changes in Equity	11
(4) Consolidated Statement of Cash Flows	12
(5) Notes to Consolidated Financial Statements	13
Going Concern Assumption	13
Changes in Accounting Policies	13
Additional Information	13
Segment and Other Information	13
Per-share Information	16
Subsequent Events	16

## 1. Overview of Results of Operations

### (1) Results of Operations

The Japanese economy initially recovered slowly in the current fiscal year because of improvements in the labor market and personal income. Following the October 2019 consumption tax hike, the recovery weakened as consumer sentiment declined. Later in the fiscal year, the Japanese economy was severely disrupted by the COVID-19 outbreak that started in February 2020. Overseas, there was turmoil in financial markets due to worsening U.S.-China trade friction, Britain's departure from the EU and other events. Furthermore, the COVID-19 pandemic has greatly impacted economic activity worldwide and the outlook is unclear.

As the new fiscal year begins, the outlook for the economy remains extremely uncertain. Depending on the magnitude of upcoming changes in the business climate, the activities of the Smartvalue Group alone may not be enough to completely shield business operations from the effects of the COVID-19 crisis.

In this challenging business climate, 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 current fiscal year, COVID-19 had a negative impact on all businesses segments and the performance of mobility services was held down by a much larger than planned volume of work for developing new services. Consolidated net sales decreased 23.0% to 5,958 million yen. There was an operating loss of 239 million yen compared with a profit of 320 million yen one year earlier and an ordinary loss of 223 million yen compared with a profit of 344 million yen one year earlier.

Increasing the focus of resources on carefully selected business fields is needed to increase corporate value. Consequently, the decision was made to focus resources on the Cloud Solutions Business in order to aim for more growth of this business. Due to this decision, the mobile data communication hardware sales agent business was sold on March 31, 2020, which resulted in extraordinary income of 1,482 million yen for the gain on this sale. Following a thorough assessment of the utilization of software and other assets, the decision was made to post an impairment loss of 102 million yen due to a decline in the profitability of non-current assets and a valuation loss of 107 million yen on investment securities. In the non-consolidated financial statements, there is a related company stock valuation loss of 650 million yen due to a reexamination of the business plan of consolidated subsidiary North Detail Co., Ltd., which has been performing below expectations. As a result, all goodwill on the consolidated balance sheet that resulted from the acquisition of North Detail has been written off in accordance with the Practical Policy for Equity Consolidation Procedures in Consolidated Financial Statements. Due to this action, there is a consolidated income statement extraordinary loss of 342 million yen for the amortization of goodwill. Furthermore, a rigorous examination based on the performance of North Detail of the prospects for recovering deferred tax assets resulted in the reversal of deferred tax assets of 230 million yen at the end of June 2020 and in deferred income taxes of 238 million yen. As a result, profit attributable to owners of parent decreased 83.0% to 32 million yen.

Results by business segment were as follows.

#### Cloud Solutions Business

Many activities are under way to strengthen the Cloud Solutions Business, which is a growth business sector at Smartvalue Group. The operations of this business are divided into the digital government and mobility services categories.

The digital government (note 1) of this business aims to provide 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 digital technology for government activities, online procedures and 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, the provision of platforms and software products for the utilization of automobile data, 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 current fiscal year, digital government sales decreased 9.9% to 1,211 million yen as Smart L-Gov, a cloud solution for distributing information provided by Smartvalue for local governments, continued to perform well. An increase in sales from sources of steady-income also contributed to sales growth. However, sales linked to orders received through competitive bids for public-sector contracts were lower as local governments and other public-sector organizations postponed purchases and deliveries due to COVID-19.

Mobility services sales decreased 10.5% to 2,224 million yen. In the IoT sector, which includes a telematics service (note 8) and other activities, there was an increase in sales of hardware for the CiEMS Series and the number of contracts for this service increased. But sales decreased in the fiscal year's second half because of delivery postponements and other problems as COVID-19 restricted the sales activities of companies and the mobility of the public. The Kuruma Base car-as-a-service (CaaS) business, which includes car sharing, started operations. However, this new business was not profitable because of the larger than expected volume of work required for software development. Sales decreased in the car solutions sector, which handles products for driving safely. Demand for these products plummeted as the number of new cars sold in Japan fell along with automobile production because of COVID-19. A shift in some sales to the following fiscal year also held down sales in this sector.

The performance of consolidated subsidiary North Detail fell short of the fiscal year plan. Delays in establishing an efficient framework for developing IT systems and higher expenses at this company's development operations were the main reasons.

Although these activities resulted in consistent growth of steady-income in all service categories, sales and earnings declined because of the negative effects of COVID-19 in every category. Segment sales decreased 5.7% to 3,736 million yen and segment profit fell 72.8% to 84 million yen.

#### 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 current fiscal year, the number of phones sold to new subscribers and fee income declined because of challenging market conditions. Sales in this segment decreased 41.2% to 2,222 million yen and segment profit decreased 48.0% to 240 million yen.

The highest priorities of Smartvalue were the reduction of risk associated with this business and the restructuring of business operations. As a result, the mobile data communication hardware sales agent business was sold on March 31, 2020.

Business segment sales were as follows:

(Thousands of yen)

Business segments and categories	FY6/19		FY6/20		Year-on-year changes (%)
	Sales	Composition (%)	Sales	Composition (%)	
Cloud Solutions Business					
Digital Government	1,344,030	17.4	1,211,080	20.3	(9.9)
Mobility Services	2,483,567	32.1	2,224,017	37.3	(10.5)
Other	134,645	1.7	301,481	5.1	123.9
Total	3,962,244	51.2	3,736,579	62.7	(5.7)
Mobile Business	3,780,812	48.8	2,222,082	37.3	(41.2)
Total	7,743,057	100.0	5,958,661	100.0	(23.0)

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. Smartvalue provides a suite of cloud services for governments that use digital technology for government activities, online government procedures, a resident ID platform and other 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 traffic 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 such as car sharing 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.

## (2) Financial Position

Assets

Total assets at the end of the current fiscal year increased 205 million yen from the end of the previous fiscal year to 4,692 million yen.

Current assets increased 843 million yen to 2,925 million yen. There were decreases of 337 million yen in notes and accounts receivable-trade and 146 million yen in merchandise due to the sale of the Mobile segment sales agent business, and an increase of 1,317 million yen in cash and deposits.

Non-current assets decreased 638 million yen to 1,767 million yen. There were decreases of 427 million yen in goodwill due to the revision of the business plan of consolidated subsidiary North Detail and 238 million yen in deferred tax assets.

Liabilities

Total liabilities increased 234 million yen from the end of the previous fiscal year to 1,108 million yen.

Current liabilities increased 249 million yen to 1,030 million yen. Major items include an increase of 394 million

yen in income taxes payable due to higher taxable income resulting from a gain on the sale of the Mobile segment sales agent business and a decrease of 214 million yen in accounts payable-trade mainly due to the sale of the sales agent business.

Non-current liabilities decreased 14 million yen to 78 million yen. Major items are a decrease of 15 million yen in lease obligations.

Net assets

Net assets decreased 29 million yen from the end of the previous fiscal year to 3,583 million yen. This decrease was mainly the result of a decrease of 79 million yen due to dividend payments and booking of 32 million yen in profit attributable to owners of parent.

### **(3) Cash Flows**

Cash and cash equivalents (hereinafter, “cash”) at the end of the current fiscal year increased 1,317 million yen from the end of the previous fiscal year to 2,022 million yen, compared with 705 million yen at the end of the previous fiscal year. 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 392 million yen, compared with 174 million yen provided in the previous fiscal year. Positive factors include profit before income taxes of 675 million yen, goodwill amortization of 427 million yen, a 338 million yen decrease in trade receivables and depreciation of 246 million yen. Negative factors include a gain on sale of businesses of 1,482 million yen.

Cash flows from investing activities

Net cash provided by investing activities was 1,007 million yen, compared with 1,766 million yen used in the previous fiscal year. Positive factors include proceeds from sale of businesses of 1,767 million yen. Negative factors include purchase of intangible assets of 414 million yen, purchase of property, plant and equipment of 183 million yen and payments of leasehold and guarantee deposits of 160 million yen.

Cash flows from financing activities

Net cash used in financing activities was 83 million yen, compared with 83 million yen used in the previous fiscal year. Negative factors include dividends paid of 79 million yen.

### **(4) Outlook**

The business climate is likely to remain extremely uncertain with the risk of a further downturn of the global economy because of COVID-19.

The cloud market is expected to continue to grow. One reason is that the cloud has become a vital platform for the provision of IoT services. The “cloud first” trend and increasing use of open government are also expected to continue to make contribution to this growth.

In the fiscal year ending in June 2021, the effects of COVID-19 may decrease but will probably remain significant at least until the end of the fiscal year’s first half. Our outlook then assumes that market conditions will slowly return to normal during the second half of the fiscal year.

The digital government category of the Cloud Solutions Business provides cloud services that function as a social system for creating lines of communication between local governments and other public-sector entities and regional communities and the residents. The goals for this category are to add new e-government services and to create a social system capable of establishing a profit model for public-sector assets by expanding to encompass the smart city domain, including health care, sports and other sectors.

The mobility services category is looking ahead to the emerging next-generation “mobility society” that will include connected cars. One step was the development and launch of our own IoT service for motor vehicles. Next, we plan to create innovative social systems that enable the utilization of data for establishing platforms for services linked to mobility.

We will train engineers and other people who are vital to our ability to grow, start using a core IT system for

upgrading development process and quality management and improving efficiency, and add functions while making improvements to existing ones. In addition, in order to build a framework for a larger workforce as we grow and improve workplace environment, we plan to offer creative office environment where they can produce innovative ideas that generate meaningful value. Our goal is to increase the productivity of our workforce while ensuring that they have the proper work-life balance.

Another goal is to strengthen governance in order to clearly define roles and responsibilities concerning the operation of business activities and facilitate the management of these activities with speed and agility.

By taking these actions, we are aiming for growth of the Smartvalue Group's sales and earnings, an even stronger foundation for business activities, and more progress toward building a base for sustained growth.

Based on this outlook, we forecast a 19.9% decrease in net sales to 4,773 million yen, operating loss of 82 million yen (compared with a 239 million yen loss in the previous fiscal year), ordinary loss of 81 million yen (compared with a 223 million yen loss in the previous fiscal year), and a loss attributable to owners of parent to 93 million yen (compared with 32 million yen profit in the previous fiscal year) in the fiscal year ending on June 30, 2021.

These projections are based on information available at the time this report was released. Actual results may differ for a variety of reasons.

## **2. Basic Approach to the Selection of Accounting Standards**

The Smartvalue Group will continue to prepare consolidated financial statements using generally accepted accounting principles in Japan for the time being to permit comparisons with prior years and with the financial data of other companies. We will take suitable actions with regard to the application of International Financial Reporting Standards (IFRS) by taking into account associated factors in Japan and other countries.



### 3. Consolidated Financial Statements and Notes

#### (1) Consolidated Balance Sheet

	(Thousands of yen)	
	FY6/19 (As of Jun. 30, 2019)	FY6/20 (As of Jun. 30, 2020)
<b>Assets</b>		
Current assets		
Cash and deposits	705,393	2,022,481
Electronically recorded monetary claims-operating	3,110	1,452
Notes and accounts receivable-trade	782,215	444,818
Merchandise	441,332	294,580
Work in process	49,044	32,407
Other	100,777	129,838
Total current assets	2,081,872	2,925,579
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	215,909	199,114
Tools, furniture and fixtures, net	96,398	94,897
Leased assets, net	54,117	37,024
Construction in progress	7,107	18,641
Total property, plant and equipment	373,532	349,678
Intangible assets		
Goodwill	817,121	389,617
Software	245,613	218,426
Software in progress	127,212	297,628
Other	1,911	1,854
Total intangible assets	1,191,858	907,527
Investments and other assets		
Investment securities	129,009	21,593
Deferred tax assets	517,701	279,431
Other	193,821	209,190
Allowance for doubtful accounts	-	(83)
Total investments and other assets	840,531	510,130
Total non-current assets	2,405,922	1,767,337
Total assets	4,487,795	4,692,916
<b>Liabilities</b>		
Current liabilities		
Accounts payable-trade	401,518	187,291
Lease obligations	21,050	17,530
Income taxes payable	763	394,863
Provision for bonuses	42,189	42,329
Allowance for short-term cancellation loss	153	-
Other	315,388	388,078
Total current liabilities	781,062	1,030,092
Non-current liabilities		
Lease obligations	38,656	23,643
Asset retirement obligations	54,399	55,156
Other	347	53
Total non-current liabilities	93,403	78,853
Total liabilities	874,466	1,108,945

	(Thousands of yen)	
	FY6/19 (As of Jun. 30, 2019)	FY6/20 (As of Jun. 30, 2020)
Net assets		
Shareholders' equity		
Share capital	959,454	959,454
Capital surplus	949,720	949,720
Retained earnings	1,904,349	1,841,718
Treasury shares	(200,755)	(167,303)
Total shareholders' equity	3,612,768	3,583,589
Share acquisition rights	561	381
Total net assets	3,613,329	3,583,970
Total liabilities and net assets	4,487,795	4,692,916

**(2) Consolidated Statements of Income and Comprehensive Income****Consolidated Statement of Income**

(Thousands of yen)

	FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)	FY6/20 (Jul. 1, 2019 – Jun. 30, 2020)
Net sales	7,743,057	5,958,661
Cost of sales	5,540,287	4,286,528
Gross profit	2,202,769	1,672,132
Selling, general and administrative expenses	1,882,514	1,911,882
Operating profit (loss)	320,255	(239,750)
Non-operating income		
Interest income	239	156
Subsidy income	14,698	8,676
Insurance claim income	5,520	-
Penalty income	-	1,903
Cash contribution income	-	2,055
Other	4,418	3,690
Total non-operating income	24,876	16,482
Non-operating expenses		
Interest expenses	180	124
Commission for purchase of treasury shares	185	-
Other	0	-
Total non-operating expenses	365	124
Ordinary profit (loss)	344,766	(223,392)
Extraordinary income		
Gain on sales of non-current assets	1,741	-
Gain on sale of businesses	-	1,482,122
Support income of shop	4,000	-
Reversal of allowance for restructuring charges	1,259	-
Other	42	-
Total extraordinary income	7,042	1,482,122
Extraordinary losses		
Loss on sales of non-current assets	-	276
Loss on retirement of non-current assets	7,593	22,148
Impairment loss	19,643	102,220
Loss on valuation of investment securities	20,858	107,416
Amortization of goodwill	-	342,973
Other	350	8,650
Total extraordinary losses	48,445	583,685
Profit before income taxes	303,363	675,045
Income taxes-current	74,525	403,873
Income taxes-deferred	35,178	238,269
Total income taxes	109,703	642,143
Profit	193,660	32,901
Profit attributable to owners of parent	193,660	32,901

**Consolidated Statement of Comprehensive Income**

(Thousands of yen)

	FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)	FY6/20 (Jul. 1, 2019 – Jun. 30, 2020)
Profit	193,660	32,901
Comprehensive income	193,660	32,901
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	193,660	32,901
Comprehensive income attributable to non-controlling interests	-	-

**(3) Consolidated Statement of Changes in Equity**

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)

(Thousands of yen)

	Shareholders' equity					Share acquisition rights	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of period	959,454	951,136	1,763,336	(168,571)	3,505,356	739	3,506,095
Changes during period							
Dividends of surplus			(49,639)		(49,639)		(49,639)
Profit attributable to owners of parent			193,660		193,660		193,660
Purchase of treasury shares				(61,680)	(61,680)		(61,680)
Disposal of treasury shares		(4,424)		29,495	25,071		25,071
Transfer of loss on disposal of treasury shares		3,008	(3,008)		-		-
Net changes in items other than shareholders' equity					-	(177)	(177)
Total changes during period	-	(1,416)	141,012	(32,184)	107,412	(177)	107,234
Balance at end of period	959,454	949,720	1,904,349	(200,755)	3,612,768	561	3,613,329

FY6/20 (Jul. 1, 2019 – Jun. 30, 2020)

(Thousands of yen)

	Shareholders' equity					Share acquisition rights	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity		
Balance at beginning of period	959,454	949,720	1,904,349	(200,755)	3,612,768	561	3,613,329
Changes during period							
Dividends of surplus			(79,240)		(79,240)		(79,240)
Profit attributable to owners of parent			32,901		32,901		32,901
Disposal of treasury shares		(16,292)		33,452	17,160		17,160
Transfer of loss on disposal of treasury shares		16,292	(16,292)		-		-
Net changes in items other than shareholders' equity					-	(180)	(180)
Total changes during period	-	-	(62,631)	33,452	(29,179)	(180)	(29,359)
Balance at end of period	959,454	949,720	1,841,718	(167,303)	3,583,589	381	3,583,970

**(4) Consolidated Statement of Cash Flows**

(Thousands of yen)

	FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)	FY6/20 (Jul. 1, 2019 – Jun. 30, 2020)
Cash flows from operating activities		
Profit before income taxes	303,363	675,045
Depreciation	232,583	246,769
Impairment loss	19,643	102,220
Amortization of goodwill	29,914	427,503
Increase (decrease) in allowance for doubtful accounts	-	83
Increase (decrease) in provision for bonuses	(4,383)	139
Increase (decrease) in allowance for short-term cancellation loss	(331)	(153)
Increase (decrease) in provision for business restructuring	(63,664)	-
Interest and dividend income	(239)	(156)
Interest expenses	180	124
Loss (gain) on sales of non-current assets	(1,741)	276
Loss on retirement of non-current assets	5,979	22,148
Loss (gain) on valuation of investment securities	20,858	107,416
Loss (gain) on sale of businesses	-	(1,482,122)
Decrease (increase) in trade receivables	146,478	338,971
Decrease (increase) in inventories	(171,327)	61,393
Increase (decrease) in trade payables	(118,871)	(214,226)
Increase (decrease) in accounts payable-other	(51,931)	16,679
Other, net	87,671	97,555
Subtotal	434,182	399,668
Interest and dividends received	239	156
Interest paid	(180)	(124)
Income taxes paid	(259,284)	(7,241)
Net cash provided by (used in) operating activities	174,956	392,459
Cash flows from investing activities		
Purchase of property, plant and equipment	(110,239)	(183,955)
Proceeds from sales of property, plant and equipment	1,741	9
Purchase of intangible assets	(237,828)	(414,323)
Proceeds from sale of businesses	-	1,767,962
Purchase of investment securities	(120,000)	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(1,300,000)	-
Payments of leasehold and guarantee deposits	(11,700)	(160,118)
Proceeds from refund of leasehold and guarantee deposits	9,660	13,411
Payments for asset retirement obligations	-	(16,425)
Other, net	1,839	1,388
Net cash provided by (used in) investing activities	(1,766,527)	1,007,948
Cash flows from financing activities		
Proceeds from short-term borrowings	300,000	300,000
Repayments of short-term borrowings	(300,000)	(300,000)
Purchase of treasury shares	(61,680)	-
Proceeds from disposal of treasury shares	12,791	16,980
Repayments of lease obligations	(26,184)	(21,279)
Proceeds from sale and leaseback transactions	40,800	-
Dividends paid	(49,422)	(79,019)
Net cash provided by (used in) financing activities	(83,695)	(83,319)
Net increase (decrease) in cash and cash equivalents	(1,675,266)	1,317,088
Cash and cash equivalents at beginning of period	2,380,659	705,393
Cash and cash equivalents at end of period	705,393	2,022,481

**(5) Notes to Consolidated Financial Statements****Going Concern Assumption**

Not applicable.

**Changes in Accounting Policies**

Not applicable.

**Additional Information**

The global COVID-19 pandemic has paralyzed economic activities in countries worldwide and triggered a deep economic downturn. In Japan, automakers have reduced production due to weak demand for new vehicles. The resulting decline in deliveries of vehicles to automobile leasing companies, the primary customer of the Smartvalue Group's mobility services business, has reduced the Group's sales.

It is impossible to predict how much more COVID-19 will spread and when this crisis will end. We have determined estimates for the impairment of non-current assets, prospects for the recovery of deferred tax assets and other accounting items based on the assumption that this crisis will probably remain significant until about the end of the first half of this fiscal year, which ends in June 2021, after which market conditions will slowly return to normal during the second half of the fiscal year.

**Segment and Other Information****Segment Information**

## 1. Overview of reportable segments

## (1) Method of determining reportable segments

Segments used for financial reporting are the Group's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

The Smartvalue Group has business divisions based on the products and services. Each division determines comprehensive strategies and conducts business operations for its products and services.

Accordingly, the Smartvalue Group has two reportable segments that are classified by products or services and based on the business divisions: Cloud Solutions business and Mobile business.

On March 31, 2020, Smartvalue sold the sales agent business that sells mobile data communication hardware to companies. This business was included in both the Mobile Business and Cloud Solutions Business.

## (2) Products and services by each reportable segment

The Cloud Solutions Business mainly has two business categories: digital government and mobility services.

The digital government provides products and services in order to create e-government. One product is Smart L-Gov, a cloud solution for open government that distributes information in order to increase the transparency of local governments. Another activity is GaaS, a cloud service centered on digital technology for government activities, online procedures and resident ID platforms that increases participation and linkage.

Mobility services is the other category. 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. Other activities include the CiEMS Series, which is a connected car service, the provision of platforms and software products for the utilization of automobile data, and Kuruma Base, which is a platform that supports car sharing and other car-as-a-service applications. This category also includes a diverse mobility IoT business.

The Mobile Business sells the mobile communications products of NTT Docomo, Inc. and other products.

On March 31, 2020, Smartvalue sold the sales agent business that sells mobile data communication hardware to companies. This business was included in both the Mobile Business and Cloud Solutions Business.

## 2. Calculation method for net sales, profit or loss, assets, liabilities and other items for each reportable segment

The accounting methods for reportable segments are the same as the methods used for preparing the consolidated financial statements.

## 3. Information related to net sales, profit or loss, assets, liabilities and other items for each reportable segment

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)

(Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Cloud Solutions	Mobile	Total		
Net sales					
External sales	3,962,244	3,780,812	7,743,057	-	7,743,057
Inter-segment sales and transfers	-	-	-	-	-
Total	3,962,244	3,780,812	7,743,057	-	7,743,057
Segment profit	312,380	462,405	774,785	(454,530)	320,255
Segment assets	2,978,848	648,571	3,627,419	860,376	4,487,795
Other items					
Depreciation	192,623	31,582	224,205	8,377	232,583
Amortization of goodwill	29,914	-	29,914	-	29,914
Impairment loss	19,643	-	19,643	-	19,643
Increase in property, plant and equipment and intangible assets	1,139,330	30,150	1,169,480	32,400	1,201,880

Notes: 1. Adjustments are as follows.

- (1) The negative adjustment of 454 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 belong to the administrative division of Smartvalue.
- (2) The 860 million yen adjustment to segment assets includes corporate assets that are not allocated to any of the reportable segments and mainly include cash and deposits and assets related to the administrative division of Smartvalue.
- (3) The 8 million yen adjustment to depreciation includes depreciation of corporate assets that are not allocated to any of the reportable segments.
- (4) The 32 million yen adjustment to the increase in property, plant and equipment and intangible assets is the sum of corporate assets that are not allocated to any of reportable segments, including software that is used by Smartvalue's administration division.

2. Segment profit is adjusted to be consistent with operating profit in the consolidated financial statements.

FY6/20 (Jul. 1, 2019 – Jun. 30, 2020)

(Thousands of yen)

	Reportable segment			Adjustment (Note 1)	Amounts shown on consolidated financial statements (Note 2)
	Cloud Solutions	Mobile	Total		
Net sales					
External sales	3,736,579	2,222,082	5,958,661	-	5,958,661
Inter-segment sales and transfers	-	-	-	-	-
Total	3,736,579	2,222,082	5,958,661	-	5,958,661
Segment profit	84,953	240,649	325,603	(565,353)	(239,750)
Segment assets	2,115,741	-	2,115,741	2,577,175	4,692,916
Other items					
Depreciation	205,156	22,979	228,136	18,633	246,769
Amortization of goodwill	427,503	-	427,503	-	427,503
Impairment loss	102,220	-	102,220	-	102,220
Increase in property, plant and equipment and intangible assets	419,504	-	419,504	214,620	634,124



Notes: 1. Adjustments are as follows.

- (1) The negative adjustment of 565 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 belong to the administrative division of Smartvalue.
  - (2) The 2,577 million yen adjustment to segment assets includes corporate assets that are not allocated to any of the reportable segments and mainly include cash and deposits and assets related to the administrative division of Smartvalue.
  - (3) The 18 million yen adjustment to depreciation includes depreciation of corporate assets that are not allocated to any of the reportable segments.
  - (4) The 214 million yen adjustment to the increase in property, plant and equipment and intangible assets is the sum of corporate assets that are not allocated to any of reportable segments, including facilities attached to head office buildings of Smartvalue.
  - (5) Amortization of goodwill includes goodwill amortization of 342 million yen recorded in extraordinary losses.
2. Segment profit is adjusted to be consistent with operating loss in the consolidated financial statements.

Information related to impairment loss of non-current assets for each reportable segment

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)

This information is omitted because the same information is presented in segment information.

FY6/20 (Jul. 1, 2019 – Jun. 30, 2020)

This information is omitted because the same information is presented in segment information.

Information related to goodwill amortization and the unamortized balance for each reportable segment

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)

(Thousands of yen)

	Reportable segment			Adjustment	Amounts shown on consolidated financial statements
	Cloud Solutions	Mobile	Total		
Balance at end of period	817,121	-	817,121	-	817,121

Note: Goodwill amortization is omitted because the same information is presented in segment information.

FY6/20 (Jul. 1, 2019 – Jun. 30, 2020)

(Thousands of yen)

	Reportable segment			Adjustment	Amounts shown on consolidated financial statements
	Cloud Solutions	Mobile	Total		
Balance at end of period	389,617	-	389,617	-	389,617

Note: Goodwill amortization is omitted because the same information is presented in segment information.

Information related to gain on bargain purchase for each reportable segment

FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)

Not applicable.

FY6/20 (Jul. 1, 2019 – Jun. 30, 2020)

Not applicable.

**Per-share Information**

(Yen)

	FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)	FY6/20 (Jul. 1, 2019 – Jun. 30, 2020)
Net assets per share	364.74	359.65
Net income per share	19.48	3.31
Diluted net income per share	19.19	3.28

Note: The basis of calculating net income per share and diluted net income per share is as follows:

(Thousands of yen)

	FY6/19 (Jul. 1, 2018 – Jun. 30, 2019)	FY6/20 (Jul. 1, 2019 – Jun. 30, 2020)
Net income per share		
Profit attributable to owners of parent	193,660	32,901
Amounts not attributable to common shareholders	-	-
Profit attributable to common shareholders of parent	193,660	32,901
Average number of common shares outstanding during the period (shares)	9,943,259	9,951,249
Diluted net income per share		
Adjustment to profit attributable to owners of parent	-	-
Increase in the number of common shares (shares)	149,678	91,871
[of which share acquisition rights (shares)]	[149,678]	[91,871]
Summary of dilutive shares not included in the calculation of diluted net income per share since there was no dilutive effect	-	-

**Subsequent Events**

## Changes in the classification of operating segments

The mission of the Smartvalue Group is “combining ‘smart’ systems and technologies to create social systems that can thrive for many years.” The Group has operated in two business domains that are also reportable segments: the Cloud Solutions Business and the Mobile Business. To concentrate resources on strategically important activities, the mobile data communication hardware sales agent business was sold on March 31, 2020. The Smartvalue Group is now focusing on activities for the growth of the Cloud Solutions Business. Due to the resulting change in the composition of the Group’s business activities, the Board of Directors approved a resolution on August 14, 2020 to change the Smartvalue Group’s reportable segments from the Cloud Solutions Business and Mobility Business to the Digital Government Business and Mobility Services Business. This change will be made beginning with the fiscal year ending in June 2021.

*\* 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.*