

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending June 30, 2021
(Six Months Ended December 31, 2020)

[Japanese GAAP]

February 12, 2021

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, Executive Officer in charge of Administration Division

Tel: +81-(0)6-6227-5577

Scheduled date of filing of Quarterly Report: February 12, 2021

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, 2021
(July 1, 2020 to December 31, 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	%
Six months ended Dec. 31, 2020	1,399	(58.8)	(381)	-	(378)	-	(280)	-
Six months ended Dec. 31, 2019	3,391	-	(52)	-	(47)	-	(64)	-

Note: Comprehensive income (millions of yen) Six months ended Dec. 31, 2020: (280) (-%)

Six months ended Dec. 31, 2019: (64) (-%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended Dec. 31, 2020	(28.03)	-
Six months ended Dec. 31, 2019	(6.53)	-

Note: Diluted net income per share 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, 2020	3,798	3,237	85.2
As of Jun. 30, 2020	4,692	3,583	76.4

Reference: Shareholders' equity (millions of yen) As of Dec. 31, 2020: 3,237 As of Jun. 30, 2020: 3,583

2. Dividends

	Dividend per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Jun. 30, 2020	-	0.00	-	8.00	8.00
Fiscal year ending Jun. 30, 2021	-	0.00	-	-	-
Fiscal year ending Jun. 30, 2021 (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, 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
Full year	4,773	(19.9)	(82)	-	(81)	-	(93)	-	(9.40)

Note: Revisions to the most recently announced consolidated earnings forecast: None

*** 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, 2020:	10,264,800 shares	As of Jun. 30, 2020:	10,264,800 shares
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2) Number of treasury shares at the end of the period

As of Dec. 31, 2020:	251,890 shares	As of Jun. 30, 2020:	300,690 shares
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3) Average number of shares outstanding during the period

Six months ended Dec. 31, 2020:	10,010,230 shares	Six months ended Dec. 31, 2019:	9,940,626 shares
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* 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 5 of the attachments regarding preconditions or other related matters for the forecasts.

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1. Qualitative Information on Quarterly Consolidated Financial Performance

(1) Explanation of Results of Operations

The Japanese economy continued to be impacted by the global COVID-19 pandemic during the first half of the fiscal year ending June 30, 2021. Signs of an economic recovery are emerging as countries take actions to stop the spread of infections. Consumer spending in Japan is sluggish in some sectors because of increased government requests to reduce various activities and a decline in consumer sentiment. The outlook is becoming increasingly uncertain as there is a risk of a global economic downturn caused by another wave of the COVID-19 pandemic.

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.” Reorganizing business operations is currently our highest priority. We believe that taking measures to focus resources on carefully selected businesses to an even higher level will be essential for the growth of corporate value. This is the reason for the sale of the mobile data communication hardware sales agent business on March 31, 2020. In addition, we shifted resources to the Cloud Solutions Business to aim for more growth. Although these actions temporarily lowered sales and earnings, group companies are taking actions aimed at using the foundation for business operations to build a business model capable of sustained growth. Establishing sources of consistent earnings is one goal. There are also many actions to create highly profitable businesses by strengthening our positions in business domains with excellent prospects for growth and launching businesses that can take the Smartvalue Group in new directions.

In the first half, consolidated net sales decreased 58.8% to 1,399 million yen. There were an operating loss of 381 million yen compared with a loss of 52 million yen one year earlier, an ordinary loss of 378 million yen compared with a loss of 47 million yen one year earlier, and loss attributable to owners of parent of 280 million yen compared with a loss of 64 million yen one year earlier.

The Smartvalue Group has been reorganized for the purposes of minimizing the negative impact of the COVID-19 pandemic and setting the stage for a rapid recovery in sales and earnings after the crisis ends. We are focusing resources on carefully selected businesses and building the best possible production framework for the Group in order to establish a more powerful base for generating earnings.

Business segment performance was as follows. As mentioned above, 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 Smartvalue Group’s reportable segments have been changed beginning with the first quarter of the current fiscal year. Comparisons with results of operations in the first half of the previous fiscal year are based on the revised business segments. For more information, please see “Segment and Other Information, First six months of FY6/21, 4. Information related to revisions to reportable segments.”

Digital Government

This business provides products and services that are a platform for digital government, which involves the digitalization of government services (e-government) linked to a new concept for public services. One activity is Smart L-Gov (note 1), a cloud solution for open government (note 2) that distributes information in order to increase the transparency of local governments. Another component of this digital government platform is GaaS (note 3), a cloud service that increases participation and linkage by providing online ties between governments and the people they serve.

In the first half, the priorities of this business were capturing orders from new customers and expanding relationships with existing customers. In addition, this business continued to implement many cost-cutting measures. Sales to local governments and other public-sector organizations resulting from orders received through competitive bids were negatively affected by cancelations of purchases and postponements of deliveries due to COVID-19. The business climate is currently beginning to recover because of government measures during

the first half for the resumption of economic activities.

Segment sales decreased 17.3% to 586 million yen and the segment loss was 63 million yen compared with a profit of 2 million yen one year earlier.

Mobility Services

The car solutions business, which dates back to Smartvalue's establishment, involves the sale of safety assistance equipment and information devices 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. The diverse activities of the mobility IoT business include the CiEMS Series (note 4), which is a connected car (note 5) service, the provision of platforms and software products for the utilization of automobile data, and Kuruma Base (note 6), which is a platform that supports car sharing and other car-as-a-service applications.

In the first half, performance was negatively affected by the decline in sales activities by client companies because of COVID-19. In the car solutions category, which sells vehicle safety assistance equipment, the number of orders was low and sales decreased more than expected. In the telematics service (note 7) and other IoT sectors, performance was held down by the decline in the use of automobiles for business activities and in other business operations. The number of new orders was low and sales fell more than expected.

In the car sharing sector, the Kuruma Base business is benefiting from the dramatic shift in car utilization from ownership to sharing. Many companies have contacted us about this service. As interest in carbon neutral (note 8) grows, demand is increasing for electric vehicles and sharing economy services. We will acquire more knowledge and strengthen our ability to provide solutions to clients as we continue to create more car-as-a-service applications.

The number of sales meetings is slowly recovering and there are activities in the car solutions sector concerning the addition of new products. In addition, we are taking actions aimed at a recovery in sales and earnings by raising prices and profitability. In the mobility IoT sector, there is a diverse array of activities to identify and meet customers' needs. Examples of these initiatives include the use of the CiEMS Series to reduce traffic accidents and the upgrading of our ability to create ideas for the use of data for administrative operations.

The digital transformation (DX) of the mobility industry is accelerating even during the COVID-19 pandemic. As a result, the number of companies and other organizations considering the use of a Smartvalue connected or sharing platform is increasing. Our primary target is automobile dealers and automobile maintenance and repair companies because of our many years of experience serving these two market categories. We plan to continue making progress with our business plan while making substantial investments in this market sector.

Segment sales decreased 33.0% to 812 million yen and the segment loss was 63 million yen compared with a profit of 76 million yen one year earlier.

Explanation of terms

Notes:

1. Smart L-Gov: A local information cloud platform provided by Smartvalue for local governments and public-sector agencies
2. 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
3. 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.
4. 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.

- 5. Connected car: Automobiles that use the internet to send and receive information
- 6. Kuruma Base: An integrated platform provided by Smartvalue that encompasses car connectivity and car-as-a-service applications
- 7. 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.
- 8. Carbon neutral: Net zero carbon dioxide emissions over an entire life cycle by balancing emissions and removal .

(2) Explanation of Financial Position

1. Assets, liabilities and net assets

1) Assets

Total assets at the end of the second quarter decreased 894 million yen from the end of the previous fiscal year to 3,798 million yen.

Current assets decreased 1,122 million yen to 1,803 million yen. Major items include an increase of 140 million yen in merchandise and a decrease of 1,293 million yen in cash and deposits.

Non-current assets increased 227 million yen to 1,994 million yen. Major items include increases of 101 million yen in software in progress and 106 million yen in deferred tax assets.

2) Liabilities

Total liabilities decreased 548 million yen from the end of the previous fiscal year to 560 million yen.

Current liabilities decreased 542 million yen to 487 million yen. Major items include decreases of 385 million yen in income taxes payable and 168 million yen in accrued consumption taxes.

Non-current liabilities decreased 5 million yen to 73 million yen. Major items include a decrease of 5 million yen in lease obligations.

3) Net assets

Net assets decreased 345 million yen from the end of the previous fiscal year to 3,237 million yen. This decrease was mainly the result of dividend payments of 79 million yen and a decrease in retained earnings of 280 million yen due to the first half loss attributable to owners of parent, and a decrease of 28 million yen in treasury shares due to exercise of share acquisition rights.

2. Cash Flows

Cash and cash equivalents (hereinafter, “cash”) at the end of the second quarter decreased 1,293 million yen from the end of the previous fiscal year to 728 million yen, compared with 442 million yen at the end of the second quarter 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 used in operating activities was 1,082 million yen, compared with 167 million yen provided in the same period of the previous fiscal year. Negative factors include loss before income taxes of 383 million yen, a 190 million yen increase in inventories, a 178 million yen decrease in accrued consumption taxes and a 366 million yen of income taxes paid.

Cash flows from investing activities

Net cash used in investing activities was 140 million yen, compared with 354 million yen used in the same period of the previous fiscal year. Positive factors include proceeds from refund of leasehold and guarantee deposits of 64 million yen. Negative factors include purchase of intangible assets of 196 million yen.

Cash flows from financing activities

Net cash used in financing activities was 71 million yen, compared with 76 million yen used in the same period of the previous fiscal year. Positive factors include proceeds from disposal of treasury shares of 14 million yen. Negative factors include dividends paid of 75 million yen and repayments of lease obligations of 9 million yen.

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

There are no revisions to the full-year consolidated earnings forecast for the fiscal year ending June 30, 2021 that was announced in the “Consolidated Financial Results for the Fiscal Year Ended June 30, 2020 (Japanese GAAP)” on August 14, 2020.

An announcement will be made promptly if a revision to the forecast is required due to upcoming changes in the operating environment.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheet

(Thousands of yen)

	FY6/20 (As of Jun. 30, 2020)	Second quarter of FY6/21 (As of Dec. 31, 2020)
Assets		
Current assets		
Cash and deposits	2,022,481	728,637
Notes and accounts receivable-trade	444,818	464,789
Electronically recorded monetary claims-operating	1,452	-
Merchandise	294,580	435,448
Work in process	32,407	81,600
Other	129,838	93,102
Allowance for doubtful accounts	-	(21)
Total current assets	2,925,579	1,803,557
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	199,114	230,713
Other, net	150,563	117,304
Total property, plant and equipment	349,678	348,017
Intangible assets		
Goodwill	389,617	367,139
Software	218,426	258,957
Software in progress	297,628	398,666
Other	1,854	2,379
Total intangible assets	907,527	1,027,144
Investments and other assets		
Deferred tax assets	279,431	385,586
Other	230,783	234,152
Allowance for doubtful accounts	(83)	(83)
Total investments and other assets	510,130	619,655
Total non-current assets	1,767,337	1,994,817
Total assets	4,692,916	3,798,374
Liabilities		
Current liabilities		
Accounts payable-trade	187,291	158,294
Income taxes payable	394,863	9,290
Provision for bonuses	42,329	42,226
Other	405,608	277,388
Total current liabilities	1,030,092	487,199
Non-current liabilities		
Asset retirement obligations	55,156	55,224
Other	23,696	17,953
Total non-current liabilities	78,853	73,178
Total liabilities	1,108,945	560,377

	(Thousands of yen)	
	FY6/20 (As of Jun. 30, 2020)	Second quarter of FY6/21 (As of Dec. 31, 2020)
Net assets		
Shareholders' equity		
Share capital	959,454	959,454
Capital surplus	949,720	949,720
Retained earnings	1,841,718	1,467,652
Treasury shares	(167,303)	(139,058)
Total shareholders' equity	3,583,589	3,237,768
Share acquisition rights	381	229
Total net assets	3,583,970	3,237,997
Total liabilities and net assets	4,692,916	3,798,374

(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)	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)
Net sales	3,391,809	1,399,024
Cost of sales	2,395,071	1,148,185
Gross profit	996,737	250,838
Selling, general and administrative expenses	1,049,061	632,365
Operating loss	(52,323)	(381,527)
Non-operating income		
Interest income	106	5
Subsidy income	1,884	875
Penalty income	1,732	1,481
Other	1,324	1,123
Total non-operating income	5,047	3,486
Ordinary loss	(47,275)	(378,041)
Extraordinary losses		
Loss on retirement of non-current assets	336	7
Loss on valuation of investment securities	7,416	-
Early termination fee	-	5,220
Total extraordinary losses	7,752	5,227
Loss before income taxes	(55,027)	(383,268)
Income taxes-current	9,144	3,523
Income taxes-deferred	743	(106,155)
Total income taxes	9,887	(102,631)
Loss	(64,915)	(280,636)
Loss attributable to owners of parent	(64,915)	(280,636)

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)	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)
Loss	(64,915)	(280,636)
Comprehensive income	(64,915)	(280,636)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	(64,915)	(280,636)
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)	First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)
Cash flows from operating activities		
Loss before income taxes	(55,027)	(383,268)
Depreciation	119,238	89,935
Amortization of goodwill	42,264	22,477
Increase (decrease) in allowance for doubtful accounts	-	21
Increase (decrease) in provision for bonuses	13,196	(103)
Increase (decrease) in allowance for short-term cancellation loss	25	-
Interest and dividend income	(106)	(5)
Loss on retirement of non-current assets	336	7
Loss (gain) on valuation of investment securities	7,416	-
Decrease (increase) in trade receivables	56,065	(18,519)
Decrease (increase) in inventories	(7,474)	(190,061)
Increase (decrease) in trade payables	(20,641)	(28,996)
Increase (decrease) in accrued consumption taxes	(7,193)	(178,826)
Other, net	(10,149)	(28,440)
Subtotal	137,949	(715,777)
Interest and dividends received	106	5
Income taxes (paid) refund	29,683	(366,949)
Net cash provided by (used in) operating activities	167,738	(1,082,722)
Cash flows from investing activities		
Purchase of property, plant and equipment	(12,343)	(6,946)
Purchase of intangible assets	(186,658)	(196,279)
Payments of leasehold and guarantee deposits	(158,288)	(1,482)
Proceeds from refund of leasehold and guarantee deposits	1,625	64,636
Other, net	920	-
Net cash provided by (used in) investing activities	(354,745)	(140,071)
Cash flows from financing activities		
Proceeds from disposal of treasury shares	14,150	14,376
Repayments of lease obligations	(11,471)	(9,571)
Dividends paid	(78,916)	(75,855)
Net cash provided by (used in) financing activities	(76,237)	(71,050)
Net increase (decrease) in cash and cash equivalents	(263,244)	(1,293,844)
Cash and cash equivalents at beginning of period	705,393	2,022,481
Cash and cash equivalents at end of period	442,149	728,637

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

Not applicable.

Significant Changes in Shareholders' Equity

Not applicable.

Additional Information

There are no significant changes in the assumptions about the effect of COVID-19, in the supplementary information section of the Securities Report for the fiscal year that ended on June 30, 2020.

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

	Reportable segment				Adjustment (Note 1)	(Thousands of yen)
	Digital Government	Mobility Services	Mobile Data Communication Hardware Sales Agent	Total		Amounts shown on quarterly consolidated statement of income (Note 2)
Net sales						
External sales	709,656	1,211,625	1,470,528	3,391,809	-	3,391,809
Inter-segment sales and transfers	-	-	-	-	-	-
Total	709,656	1,211,625	1,470,528	3,391,809	-	3,391,809
Segment profit	2,549	76,523	136,661	215,734	(268,057)	(52,323)

Notes: 1. The negative adjustment of 268 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 and goodwill amortization 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.

First six months of FY6/21 (Jul. 1, 2020 – Dec. 31, 2020)

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)
	Digital Government	Mobility Services	Mobile Data Communication Hardware Sales Agent	Total		
Net sales						
External sales	586,917	812,107	-	1,399,024	-	1,399,024
Inter-segment sales and transfers	-	-	-	-	-	-
Total	586,917	812,107	-	1,399,024	-	1,399,024
Segment loss	(63,875)	(63,468)	-	(127,343)	(254,183)	(381,527)

Notes: 1. The negative adjustment of 254 million yen to segment loss includes corporate expenses that are not allocated to any of the reportable segments and mainly consist of general and administrative expenses and goodwill amortization that cannot be attributed to any reportable segments.

2. Segment loss 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.

4. Information related to revisions to reportable segments

Changes in the classification of reportable segments

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 Smartvalue Group's reportable segments have been changed from the Cloud Solutions Business and Mobility Business to the Digital Government Business and Mobility Services Business beginning with the first quarter of FY6/21.

The segment information for the Mobile Data Communications Hardware Sales Agent Business, which has been sold, includes the Mobile Business which has been deleted, and the sales agent business for the sale of data communications hardware to companies, an activity that was included in the Cloud Solutions Business in prior years.

The segment information for the first six months of FY6/20 is prepared based on the revised business segments.

* 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.