

Translation

Notice: This document is an excerpt translation of the original Japanese document and is only for reference purposes. In the event of any discrepancy between this translated document and the original Japanese document, the latter shall prevail.

Summary of Consolidated Financial Results for the Nine Months Ended December 31, 2015 (Based on Japanese GAAP)

January 28, 2016

Company name: SMS CO., LTD.
 Stock exchange listing: Tokyo
 Stock code: 2175 URL: <http://www.bm-sms.co.jp/>
 Representative: CEO Natsuki Goto
 Inquiries: Director, Corporate Planning Department Masato Sugizaki TEL 03-6721-2400
 Scheduled date to file Quarterly Securities Report: February 12, 2016
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: Yes
 Holding of quarterly financial results meeting: Yes (for institutional investors and analysts)

(Amounts less than one million yen are rounded down)

1. Consolidated financial results for the nine months ended December 31, 2015 (from April 1, 2015 to December 31, 2015)

(1) Consolidated operating results (cumulative)

Percentages indicate year-on-year changes

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended December 31, 2015	12,842	20.4	1,572	16.7	2,170	20.7	1,371	(0.5)
Nine months ended December 31, 2014	10,666	22.3	1,347	23.4	1,798	23.4	1,378	47.9

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended December 31, 2015	33.83		33.73	
Nine months ended December 31, 2014	33.74		33.64	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of December 31, 2015	33,053	7,813	23.2
As of March 31, 2015	11,421	6,923	59.7

2. Cash dividends

	Annual dividends per share				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Fiscal year-end	Total
	Yen				
Year ended March 31, 2015	–	0.00	–	7.00	7.00
Year ending March 31, 2016	–	0.00	–		
Year ending March 31, 2016 (Forecast)				–	–

3. Forecast of consolidated financial results for the year ending March 31, 2016 (from April 1, 2015 to March 31, 2016)

Percentages indicate year-on-year changes

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	19,102	26.9	2,740	31.8	3,429	27.3	2,265	24.1	55.85

4. Notes

- (1) Changes in significant subsidiaries during the nine months ended December 31, 2015
(changes in specified subsidiaries resulting in the change in scope of consolidation): Yes
- (2) Application of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements
- Changes in accounting policies due to revisions to accounting standards and other regulations: No
- Changes in accounting policies due to other reasons: No
- Changes in accounting estimates: No
- Restatement of prior period financial statements: No

(4) Number of issued shares (common shares)

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

As of December 31, 2015	41,887,200 shares	As of March 31, 2015	41,887,200 shares
-------------------------	-------------------	----------------------	-------------------

Number of treasury shares at the end of the period

As of December 31, 2015	1,330,272 shares	As of March 31, 2015	1,330,272 shares
-------------------------	------------------	----------------------	------------------

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

Nine months ended December 31, 2015	40,556,928 shares	Nine months ended December 31, 2014	40,868,674 shares
-------------------------------------	-------------------	-------------------------------------	-------------------

Quarterly consolidated financial statements
Consolidated balance sheets

(Thousands of yen)

	As of March 31, 2015	As of December 31, 2015
Assets		
Current assets		
Cash and deposits	2,708,623	4,249,024
Accounts receivable - trade	2,486,428	2,910,223
Merchandise and finished goods	109,185	97,676
Work in process	7,784	35,141
Supplies	12,721	37,041
Accounts receivable - other	1,306,471	1,800,694
Prepaid expenses	572,957	670,009
Deferred tax assets	214,454	179,864
Other	38,232	136,559
Allowance for doubtful accounts	(93,840)	(178,361)
Total current assets	7,363,018	9,937,873
Non-current assets		
Property, plant and equipment		
Buildings	208,087	339,185
Accumulated depreciation	(71,655)	(156,429)
Buildings, net	136,432	182,756
Tools, furniture and fixtures	275,425	543,624
Accumulated depreciation	(164,006)	(384,351)
Tools, furniture and fixtures, net	111,419	159,273
Machinery, equipment and vehicles	11,871	58,445
Accumulated depreciation	(3,322)	(24,019)
Machinery, equipment and vehicles, net	8,548	34,426
Total property, plant and equipment	256,400	376,456
Intangible assets		
Goodwill	1,318,296	19,279,633
Software	730,608	1,417,864
Other	50	50
Total intangible assets	2,048,954	20,697,547
Investments and other assets		
Investment securities	1,240,328	1,248,075
Deferred tax assets	101,309	203,905
Lease and guarantee deposits	382,489	503,361
Other	28,629	86,529
Total investments and other assets	1,752,757	2,041,872
Total non-current assets	4,058,113	23,115,876
Total assets	11,421,131	33,053,750

(Thousands of yen)

	As of March 31, 2015	As of December 31, 2015
Liabilities		
Current liabilities		
Accounts payable - trade	131,641	376,337
Short-term loans payable	188	19,004,226
Accounts payable - other	2,604,033	3,318,079
Accrued expenses	207,408	290,274
Income taxes payable	554,460	508,141
Accrued consumption taxes	371,521	137,446
Advances received	52,158	1,185,698
Deposits received	56,556	22,216
Provision for bonuses	241,572	84,284
ProvisionForRepayment	135,835	111,131
Other	38,713	39,309
Total current liabilities	4,394,091	25,077,145
Non-current liabilities		
Net defined benefit liability	89,634	96,954
Other	14,163	65,902
Total non-current liabilities	103,797	162,856
Total liabilities	4,497,889	25,240,002
Net assets		
Shareholders' equity		
Capital stock	304,166	304,166
Retained earnings	7,249,161	8,339,106
Treasury shares	(1,036,485)	(1,036,485)
Total shareholders' equity	6,516,843	7,606,788
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,403	9,396
Foreign currency translation adjustment	287,523	40,633
Total accumulated other comprehensive income	297,926	50,029
Subscription rights to shares	47,339	71,165
Non-controlling interests	61,133	85,764
Total net assets	6,923,242	7,813,748
Total liabilities and net assets	11,421,131	33,053,750

Consolidated statements of income (cumulative) and consolidated statements of comprehensive income (cumulative)

Consolidated statements of income (cumulative)

(Thousands of yen)

	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Net sales	10,666,917	12,842,667
Cost of sales	855,713	1,031,735
Gross profit	9,811,204	11,810,932
Selling, general and administrative expenses	8,463,457	10,238,544
Operating income	1,347,746	1,572,388
Non-operating income		
Share of profit of entities accounted for using equity method	434,827	605,904
Other	29,219	35,655
Total non-operating income	464,046	641,559
Non-operating expenses		
Interest expenses	2,730	21,321
Foreign exchange losses	8,825	19,424
Commission for purchase of treasury shares	1,053	-
Other	431	2,668
Total non-operating expenses	13,041	43,414
Ordinary income	1,798,751	2,170,534
Extraordinary income		
Gain on step acquisitions	185,084	-
Gain on sales of investment securities	1,434	-
Total extraordinary income	186,519	-
Extraordinary losses		
Loss on sales and retirement of non-current assets	-	1,468
Loss on valuation of investment securities	-	55,201
Total extraordinary losses	-	56,669
Income before income taxes and minority interests	1,985,271	2,113,864
Income taxes - current	550,770	735,192
Income taxes - deferred	55,226	1,498
Total income taxes	605,996	736,691
Profit	1,379,274	1,377,173
Profit attributable to non-controlling interests	429	5,274
Profit attributable to owners of parent	1,378,844	1,371,898

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Profit	1,379,274	1,377,173
Other comprehensive income		
Valuation difference on available-for-sale securities	10,454	(1,047)
Foreign currency translation adjustment	213,154	(264,975)
Share of other comprehensive income of entities accounted for using equity method	(10,489)	11,599
Total other comprehensive income	213,118	(254,422)
Comprehensive income	1,592,393	1,122,750
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,588,492	1,124,001
Comprehensive income attributable to non-controlling interests	3,900	(1,251)

Consolidated statements of cash flows

(Thousands of yen)

	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Cash flows from operating activities		
Income before income taxes and minority interests	1,985,271	2,113,864
Depreciation	177,628	308,136
Amortization of goodwill	250,274	222,562
Loss (gain) on step acquisitions	(185,084)	-
Loss (gain) on sales and retirement of non-current assets	-	1,468
Loss (gain) on valuation of investment securities	-	55,201
Share of (profit) loss of entities accounted for using equity method	(121,492)	(43,383)
Increase (decrease) in allowance for doubtful accounts	3,074	(13,344)
Increase (decrease) in provision for bonuses	(61,443)	(157,288)
Increase (decrease) in repayment for bonuses	(7,652)	(24,704)
Increase (decrease) in net defined benefit liability	9,772	7,320
Decrease (increase) in notes and accounts receivable - trade	210,949	790,618
Increase (decrease) in accrued consumption taxes	157,657	(240,120)
Decrease (increase) in prepaid expenses	117,954	40,022
Increase (decrease) in advances received	40,408	(9,229)
Increase (decrease) in accounts payable - other	1,292,075	122,014
Decrease (increase) in lease and guarantee deposits	(64,890)	(12,689)
Other, net	2,887	(616,582)
Subtotal	<u>3,807,387</u>	<u>2,543,865</u>
Interest and dividend income received	3,653	7,260
Interest expenses paid	(3,144)	(21,924)
Income taxes paid	(907,098)	(1,121,659)
Net cash provided by (used in) operating activities	<u>2,900,798</u>	<u>1,407,541</u>
Cash flows from investing activities		
Payments into time deposits	-	(65,700)
Purchase of property, plant and equipment	(90,573)	(55,094)
Proceeds from sales of property, plant and equipment	-	881
Purchase of intangible assets	(474,556)	(533,823)
Proceeds from sales of investment securities	8,934	-
Purchase of investment securities	(50)	-
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(225,415)	(17,907,051)
Purchase of shares of subsidiaries and associates	(120,670)	-
Payments of loans receivable	-	(37,680)
Other, net	1,341	2,470
Net cash provided by (used in) investing activities	<u>(900,991)</u>	<u>(18,595,998)</u>

(Thousands of yen)

	Nine months ended December 31, 2014	Nine months ended December 31, 2015
Cash flows from financing activities		
Increase in short-term loans payable	–	19,004,038
Proceeds from issuance of common shares	495	–
Purchase of treasury shares	(417,274)	–
Cash dividends paid	(204,272)	(281,323)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(534,229)	(4,692)
Other, net	–	(13,007)
Net cash provided by (used in) financing activities	(1,155,281)	18,705,014
Effect of exchange rate change on cash and cash equivalents	10,428	(55,094)
Net increase (decrease) in cash and cash equivalents	854,954	1,461,463
Cash and cash equivalents at beginning of period	1,897,846	2,694,008
Increase in cash and cash equivalents from newly consolidated subsidiary	3,828	–
Cash and cash equivalents at end of period	2,756,629	4,155,471