

Translation

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## Summary of Consolidated Financial Results for the Six Months Ended September 30, 2016 (Based on Japanese GAAP)

October 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: CFO Masato Sugizaki TEL 03-6721-2400  
 Scheduled date to file Quarterly Securities Report: November 11, 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 six months ended September 30, 2016 (from April 1, 2016 to September 30, 2016)

(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	%
Six months ended September 30, 2016	11,990	28.6	2,311	21.7	2,930	22.5	1,843	15.0
Six months ended September 30, 2015	9,325	24.5	1,899	46.2	2,391	44.3	1,602	23.7

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Six months ended September 30, 2016	45.44		45.29	
Six months ended September 30, 2015	39.50		39.40	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of September 30, 2016	40,503	10,828	17.5
As of March 31, 2016	41,689	13,157	20.5

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, 2016	–	0.00	–	7.00	7.00
Year ending March 31, 2017	–	0.00			
Year ending March 31, 2017 (Forecast)			–	–	–

3. Forecast of consolidated financial results for the year ending March 31, 2017 (from April 1, 2016 to March 31, 2017)

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	24,051	26.1	3,650	32.4	4,450	26.8	2,800	23.6	69.03

4. Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2016  
(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: Yes
- (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: Yes
- Changes in accounting policies due to other reasons: Yes
- 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 September 30, 2016	41,906,400 shares	As of March 31, 2016	41,887,200 shares
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Number of treasury shares at the end of the period

As of September 30, 2016	1,330,272 shares	As of March 31, 2016	1,330,272 shares
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Average number of shares during the period (cumulative from the beginning of the fiscal year)

Six months ended September 30, 2016	40,561,195 shares	Six months ended September 30, 2015	40,556,928 shares
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**Quarterly consolidated financial statements**  
**Consolidated balance sheets**

(Thousands of yen)

	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and deposits	5,291,707	8,166,769
Accounts receivable - trade	3,982,752	3,544,818
Merchandise and finished goods	95,830	82,465
Work in process	31,185	19,607
Supplies	6,770	66,536
Accounts receivable - other	1,891,531	2,309,886
Prepaid expenses	685,224	791,676
Deferred tax assets	268,219	249,906
Other	140,001	26,293
Allowance for doubtful accounts	(217,510)	(145,852)
Total current assets	12,175,712	15,112,108
Non-current assets		
Property, plant and equipment		
Buildings	383,400	370,257
Accumulated depreciation	(151,756)	(168,937)
Buildings, net	231,643	201,319
Tools, furniture and fixtures	515,019	529,666
Accumulated depreciation	(366,414)	(368,397)
Tools, furniture and fixtures, net	148,605	161,269
Machinery, equipment and vehicles	110,080	40,992
Accumulated depreciation	(61,999)	(17,530)
Machinery, equipment and vehicles, net	48,081	23,461
Total property, plant and equipment	428,330	386,051
Intangible assets		
Goodwill	12,874,322	10,191,203
Software	1,335,532	1,386,843
Trademark right	10,046,813	8,572,403
Customer-related assets	3,046,910	2,489,135
Other	50	50
Total intangible assets	27,303,627	22,639,635
Investments and other assets		
Investment securities	1,025,966	1,498,799
Deferred tax assets	211,138	287,368
Lease and guarantee deposits	516,448	558,903
Other	28,578	20,598
Total investments and other assets	1,782,132	2,365,670
Total non-current assets	29,514,090	25,391,356
Total assets	41,689,802	40,503,465

(Thousands of yen)

	As of March 31, 2016	As of September 30, 2016
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	451,116	328,860
Short-term loans payable	19,002,638	7,000,000
Current portion of long-term loans payable	–	1,201,200
Accounts payable - other	3,443,188	4,011,893
Accrued expenses	232,160	188,348
Income taxes payable	947,942	1,206,984
Accrued consumption taxes	100,331	259,625
Advances received	1,102,636	1,338,602
Deposits received	45,718	46,901
Provision for bonuses	373,715	272,534
Provision for repayment	129,785	158,080
Other	85,266	319,620
Total current liabilities	25,914,499	16,332,652
Non-current liabilities		
Long-term loans payable	–	10,810,800
Net defined benefit liability	111,938	111,449
Deferred tax liabilities	2,442,393	2,402,419
Other	63,305	17,663
Total non-current liabilities	2,617,637	13,342,331
Total liabilities	28,532,136	29,674,984
Net assets		
Shareholders' equity		
Capital stock	304,166	307,288
Retained earnings	9,145,508	10,723,338
Treasury shares	(1,036,485)	(1,036,485)
Total shareholders' equity	8,413,190	9,994,142
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,888	7
Foreign currency translation adjustment	135,593	(2,899,159)
Total accumulated other comprehensive income	145,482	(2,899,151)
Subscription rights to shares	80,108	95,449
Non-controlling interests	4,518,884	3,638,040
Total net assets	13,157,666	10,828,481
Total liabilities and net assets	41,689,802	40,503,465

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

**Consolidated statements of income (cumulative)**

(Thousands of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	9,325,242	11,990,790
Cost of sales	697,246	1,762,776
Gross profit	8,627,995	10,228,014
Selling, general and administrative expenses	6,728,567	7,916,715
Operating income	1,899,428	2,311,299
Non-operating income		
Share of profit of entities accounted for using equity method	496,586	609,155
Other	21,732	54,410
Total non-operating income	518,319	663,566
Non-operating expenses		
Foreign exchange losses	19,292	–
Interest expenses	4,489	24,965
Other	2,086	19,443
Total non-operating expenses	25,867	44,409
Ordinary income	2,391,880	2,930,456
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	–	58,645
Total extraordinary income	–	58,645
Extraordinary losses		
Loss on sales and retirement of non-current assets	1,479	–
Loss on sales of investment securities	–	20,000
Loss on sales of shares of subsidiaries and associates	–	143,543
Total extraordinary losses	1,479	163,543
Profit before income taxes	2,390,401	2,825,557
Income taxes	788,550	988,604
Profit	1,601,851	1,836,953
Loss attributable to non-controlling interests	(329)	(6,074)
Profit attributable to owners of parent	1,602,180	1,843,028

**Consolidated statements of comprehensive income (cumulative)**

(Thousands of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Profit	1,601,851	1,836,953
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,012)	(9,742)
Foreign currency translation adjustment	(97,406)	(3,822,382)
Share of other comprehensive income of entities accounted for using equity method	19,320	(22,157)
Total other comprehensive income	<u>(79,098)</u>	<u>(3,854,282)</u>
Comprehensive income	<u>1,522,752</u>	<u>(2,017,329)</u>
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,529,473	(1,201,605)
Comprehensive income attributable to non-controlling interests	(6,721)	(815,723)

## Consolidated statements of cash flows

(Thousands of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Cash flows from operating activities		
Profit before income taxes	2,390,401	2,825,557
Depreciation	195,819	501,879
Amortization of goodwill	178,870	334,050
Loss (gain) on sales of investment securities	–	20,000
Loss (gain) on sales of shares of subsidiaries and associates	–	84,898
Loss (gain) on sales and retirement of non-current assets	1,479	–
Share of (profit) loss of entities accounted for using equity method	65,934	(427,093)
Increase (decrease) in allowance for doubtful accounts	(17,647)	(25,161)
Increase (decrease) in provision for bonuses	(78,169)	(101,180)
Increase (decrease) in provision for repayment	22,406	28,295
Increase (decrease) in net defined benefit liability	3,926	(488)
Decrease (increase) in notes and accounts receivable - trade	287,848	437,934
Increase (decrease) in accrued consumption taxes	(185,283)	159,293
Decrease (increase) in accounts receivable - other	(296,509)	(418,355)
Decrease (increase) in prepaid expenses	33,728	(105,386)
Increase (decrease) in advances received	32,410	235,965
Increase (decrease) in accounts payable - other	(85,735)	556,917
Decrease (increase) in lease and guarantee deposits	(36,542)	(83,425)
Other, net	(131,386)	203,519
Subtotal	2,381,552	4,227,218
Interest and dividend income received	4,089	6,673
Interest expenses paid	(4,692)	(26,031)
Income taxes paid	(580,272)	(825,572)
Net cash provided by (used in) operating activities	1,800,676	3,382,288
Cash flows from investing activities		
Payments into time deposits	(78,882)	–
Proceeds from withdrawal of time deposits	–	85,285
Purchase of property, plant and equipment	(44,766)	(67,769)
Proceeds from sales of property, plant and equipment	911	–
Purchase of intangible assets	(329,873)	(430,101)
Purchase of investment securities	–	(33,187)
Proceeds from sales of shares of subsidiaries and associates	–	391,892
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(14,789)	–
Payments of loans receivable	(28,416)	(20,000)
Other, net	1,643	1,203
Net cash provided by (used in) investing activities	(494,174)	(72,676)

(Thousands of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Cash flows from financing activities		
Decrease in short-term loans payable	–	(12,000,000)
Proceeds from long-term loans payable	–	12,012,000
Proceeds from issuance of subscription rights to shares	–	1,236
Proceeds from issuance of shares resulting from exercise of subscription rights to shares	–	4,089
Cash dividends paid	(281,068)	(286,688)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(4,692)	(3,311)
Other, net	(13,007)	–
Net cash provided by (used in) financing activities	(298,768)	(272,673)
Effect of exchange rate change on cash and cash equivalents	(51,168)	(76,591)
Net increase (decrease) in cash and cash equivalents	956,565	2,960,346
Cash and cash equivalents at beginning of period	2,694,008	5,147,343
Cash and cash equivalents at end of period	3,650,573	8,107,690