

Translation

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Summary of Consolidated Financial Results for the Three Months Ended June 30, 2016 (Based on Japanese GAAP)

July 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: August 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 three months ended June 30, 2016 (from April 1, 2016 to June 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	%
Three months ended June 30, 2016	6,618	22.1	1,668	14.6	2,165	15.8	1,570	21.5
Three months ended June 30, 2015	5,421	23.5	1,456	17.7	1,869	24.1	1,292	6.8

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Three months ended June 30, 2016	38.73		38.60	
Three months ended June 30, 2015	31.87		31.79	

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2016	41,644	12,549	20.2
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	–	–	–	–	–
Year ending March 31, 2017 (Forecast)	–	0.00	–	–	–

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
Six months ending September 30, 2016	12,112	29.9	1,956	3.0	2,493	4.2	1,731	8.1	42.69
Full year	24,051	26.1	3,432	24.5	4,215	20.1	2,718	20.0	67.03

4. Notes

- (1) Changes in significant subsidiaries during the three months ended June 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 June 30, 2016	41,887,200 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 June 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)

Three months ended June 30, 2016	40,556,928 shares	Three months ended June 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 June 30, 2016
Assets		
Current assets		
Cash and deposits	5,291,707	6,916,446
Accounts receivable - trade	3,982,752	3,278,323
Merchandise and finished goods	95,830	91,526
Work in process	31,185	39,037
Supplies	6,770	56,119
Accounts receivable - other	1,891,531	2,192,744
Prepaid expenses	685,224	759,904
Deferred tax assets	268,219	257,396
Other	140,001	37,111
Allowance for doubtful accounts	(217,510)	(160,086)
Total current assets	12,175,712	13,468,523
Non-current assets		
Property, plant and equipment		
Buildings	383,400	384,280
Accumulated depreciation	(151,756)	(162,684)
Buildings, net	231,643	221,595
Tools, furniture and fixtures	515,019	548,282
Accumulated depreciation	(366,414)	(372,299)
Tools, furniture and fixtures, net	148,605	175,982
Machinery, equipment and vehicles	110,080	81,050
Accumulated depreciation	(61,999)	(52,188)
Machinery, equipment and vehicles, net	48,081	28,861
Total property, plant and equipment	428,330	426,439
Intangible assets		
Goodwill	12,874,322	11,767,356
Software	1,335,532	1,418,735
Trademark right	10,046,813	9,386,313
Customer-related assets	3,046,910	2,786,013
Other	50	50
Total intangible assets	27,303,627	25,358,468
Investments and other assets		
Investment securities	1,025,966	1,530,229
Deferred tax assets	211,138	288,307
Lease and guarantee deposits	516,448	548,753
Other	28,578	24,140
Total investments and other assets	1,782,132	2,391,431
Total non-current assets	29,514,090	28,176,339
Total assets	41,689,802	41,644,863

(Thousands of yen)

	As of March 31, 2016	As of June 30, 2016
Liabilities		
Current liabilities		
Accounts payable - trade	451,116	372,090
Short-term loans payable	19,002,638	19,002,648
Accounts payable - other	3,443,188	3,676,276
Accrued expenses	232,160	217,685
Income taxes payable	947,942	1,047,416
Accrued consumption taxes	100,331	319,840
Advances received	1,102,636	1,246,301
Deposits received	45,718	194,048
Provision for bonuses	373,715	185,477
ProvisionForRepayment	129,785	185,902
Other	85,266	34,754
Total current liabilities	25,914,499	26,482,444
Non-current liabilities		
Net defined benefit liability	111,938	114,523
Deferred tax liabilities	2,442,393	2,434,974
Other	63,305	63,437
Total non-current liabilities	2,617,637	2,612,935
Total liabilities	28,532,136	29,095,379
Net assets		
Shareholders' equity		
Capital stock	304,166	304,166
Retained earnings	9,145,508	10,462,352
Treasury shares	(1,036,485)	(1,036,485)
Total shareholders' equity	8,413,190	9,730,033
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	9,888	9,796
Foreign currency translation adjustment	135,593	(1,334,988)
Total accumulated other comprehensive income	145,482	(1,325,191)
Subscription rights to shares	80,108	89,052
Non-controlling interests	4,518,884	4,055,589
Total net assets	13,157,666	12,549,483
Total liabilities and net assets	41,689,802	41,644,863

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

Consolidated statements of income (cumulative)

(Thousands of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Net sales	5,421,407	6,618,796
Cost of sales	381,669	891,033
Gross profit	5,039,737	5,727,762
Selling, general and administrative expenses	3,583,206	4,059,302
Operating income	1,456,531	1,668,460
Non-operating income		
Share of profit of entities accounted for using equity method	402,764	501,918
Other	17,800	12,834
Total non-operating income	420,564	514,752
Non-operating expenses		
Foreign exchange losses	5,173	–
Interest expenses	1,514	11,651
Other	907	6,529
Total non-operating expenses	7,595	18,180
Ordinary income	1,869,500	2,165,032
Extraordinary income		
Gain on sales of shares of subsidiaries and associates	–	56,609
Total extraordinary income	–	56,609
Extraordinary losses		
Loss on sales and retirement of non-current assets	676	–
Total extraordinary losses	676	–
Profit before income taxes	1,868,823	2,221,641
Income taxes	573,693	695,020
Profit	1,295,130	1,526,620
Profit (loss) attributable to non-controlling interests	2,593	(44,212)
Profit attributable to owners of parent	1,292,536	1,570,833

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Profit	1,295,130	1,526,620
Other comprehensive income		
Valuation difference on available-for-sale securities	171	(80)
Foreign currency translation adjustment	9,813	(1,846,930)
Share of other comprehensive income of entities accounted for using equity method	10,669	(9,243)
Total other comprehensive income	20,654	(1,856,254)
Comprehensive income	1,315,784	(329,634)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,314,439	100,158
Comprehensive income attributable to non-controlling interests	1,344	(429,793)

Consolidated statements of cash flows

(Thousands of yen)

	Three months ended June 30, 2015	Three months ended June 30, 2016
Cash flows from operating activities		
Profit before income taxes	1,868,823	2,221,641
Depreciation	93,355	252,559
Amortization of goodwill	117,563	171,058
Loss (gain) on sales of shares of subsidiaries and associates	-	(56,609)
Loss (gain) on sales and retirement of non-current assets	676	-
Share of (profit) loss of entities accounted for using equity method	159,757	(501,918)
Increase (decrease) in allowance for doubtful accounts	(7,936)	(10,928)
Increase (decrease) in provision for bonuses	(153,859)	(188,237)
Increase (decrease) in repayment for bonuses	39,167	56,117
Increase (decrease) in net defined benefit liability	3,101	2,584
Decrease (increase) in notes and accounts receivable - trade	408,795	704,428
Increase (decrease) in accrued consumption taxes	(94,116)	219,508
Decrease (increase) in accounts receivable - other	74,424	(301,213)
Decrease (increase) in prepaid expenses	41,769	(74,301)
Increase (decrease) in advances received	59,967	143,665
Increase (decrease) in accounts payable - other	(263,737)	221,300
Decrease (increase) in lease and guarantee deposits	(41,152)	(70,319)
Other, net	(52,720)	35,396
Subtotal	2,253,879	2,824,733
Interest and dividend income received	1,161	2,522
Interest expenses paid	(1,609)	(12,029)
Income taxes paid	(557,993)	(667,431)
Net cash provided by (used in) operating activities	1,695,438	2,147,795
Cash flows from investing activities		
Payments into time deposits	(77,384)	-
Proceeds from withdrawal of time deposits	-	47,879
Purchase of property, plant and equipment	(12,596)	(13,355)
Proceeds from sales of property, plant and equipment	1,048	-
Purchase of intangible assets	(162,574)	(223,196)
Purchase of investment securities	-	(13,187)
Proceeds from sales of shares of subsidiaries and associates	-	46,640
Payments of loans receivable	(29,108)	(20,000)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(14,789)	-
Other, net	819	1,203
Net cash provided by (used in) investing activities	(294,586)	(174,016)
Cash flows from financing activities		
Cash dividends paid	(267,422)	(268,803)
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	(285,122)	(272,114)
Effect of exchange rate change on cash and cash equivalents	(2,371)	(29,046)
Net increase (decrease) in cash and cash equivalents	1,113,357	1,672,618
Cash and cash equivalents at beginning of period	2,694,008	5,147,343
Cash and cash equivalents at end of period	3,807,366	6,819,961