

Translation

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**Summary of Consolidated Financial Results
for the Six Months Ended September 30, 2018
(Based on Japanese GAAP)**

October 30, 2018

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 13, 2018
 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, 2018 (from April 1, 2018 to September 30, 2018)

(1) Consolidated operating results (cumulative)

Percentages indicate 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 September 30, 2018 | 15,040 | 14.3 | 1,953 | (9.0) | 2,905 | 8.0 | 2,157 | 16.0 |
| Six months ended September 30, 2017 | 13,162 | 9.8 | 2,146 | (7.1) | 2,690 | (8.2) | 1,859 | 0.9 |

| | Earnings per share | | Diluted earnings per share | |
|-------------------------------------|--------------------|--|----------------------------|--|
| | Yen | | Yen | |
| Six months ended September 30, 2018 | 24.84 | | 24.75 | |
| Six months ended September 30, 2017 | 21.42 | | 21.35 | |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|--------------------------|-----------------|-----------------|--------------|
| | Millions of yen | Millions of yen | % |
| As of September 30, 2018 | 47,425 | 13,297 | 27.7 |
| As of March 31, 2018 | 46,087 | 23,641 | 41.8 |

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, 2018 | – | 0.00 | – | 6.50 | 6.50 |
| Year ending March 31, 2019 | – | 0.00 | | | |
| Year ending March 31, 2019 (Forecast) | | | – | – | – |

3. Forecast of consolidated financial results for the year ending March 31, 2019 (from April 1, 2018 to March 31, 2019)

Percentages indicate year-on-year changes

| | Net sales | | Operating profit | | Ordinary profit | | Profit attributable to owners of parent | | Earnings per share |
|-----------|-----------------|------|------------------|------|-----------------|------|---|------|--------------------|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| Full year | 32,273 | 21.3 | 4,827 | 20.0 | 5,803 | 15.9 | 3,905 | 16.2 | 44.95 |

4. Notes

- (1) Changes in significant subsidiaries during the six months ended September 30, 2018
(changes in specified subsidiaries resulting in the change in scope of consolidation): No
- (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: 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 September 30, 2018 | 86,950,800 shares | As of March 31, 2018 | 86,842,000 shares |
|--------------------------|-------------------|----------------------|-------------------|

Number of treasury shares at the end of the period

| | | | |
|--------------------------|------------|----------------------|------------|
| As of September 30, 2018 | 372 shares | As of March 31, 2018 | 310 shares |
|--------------------------|------------|----------------------|------------|

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

| | | | |
|-------------------------------------|-------------------|-------------------------------------|-------------------|
| Six months ended September 30, 2018 | 86,884,336 shares | Six months ended September 30, 2017 | 86,795,374 shares |
|-------------------------------------|-------------------|-------------------------------------|-------------------|

Quarterly consolidated financial statements
Consolidated balance sheets

(Millions of yen)

| | As of March 31, 2018 | As of September 30, 2018 |
|--|----------------------|--------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 9,515 | 10,431 |
| Accounts receivable - trade | 4,308 | 4,463 |
| Merchandise and finished goods | 50 | 45 |
| Work in process | 29 | 26 |
| Supplies | 20 | 45 |
| Accounts receivable - other | 3,474 | 4,408 |
| Prepaid expenses | 571 | 758 |
| Other | 12 | 15 |
| Allowance for doubtful accounts | (224) | (187) |
| Total current assets | 17,759 | 20,008 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 413 | 436 |
| Accumulated depreciation | (252) | (238) |
| Buildings, net | 160 | 198 |
| Tools, furniture and fixtures | 687 | 454 |
| Accumulated depreciation | (454) | (295) |
| Tools, furniture and fixtures, net | 233 | 158 |
| Machinery, equipment and vehicles | 39 | 309 |
| Accumulated depreciation | (27) | (231) |
| Machinery, equipment and vehicles, net | 11 | 78 |
| Total property, plant and equipment | 405 | 435 |
| Intangible assets | | |
| Goodwill | 11,539 | 10,926 |
| Software | 1,382 | 1,388 |
| Trademark right | 9,412 | 9,207 |
| Customer-related assets | 2,368 | 2,198 |
| Other | 0 | 0 |
| Total intangible assets | 24,703 | 23,721 |
| Investments and other assets | | |
| Investment securities | 1,721 | 1,692 |
| Deferred tax assets | 730 | 755 |
| Lease and guarantee deposits | 746 | 782 |
| Other | 20 | 29 |
| Total investments and other assets | 3,219 | 3,260 |
| Total non-current assets | 28,328 | 27,417 |
| Total assets | 46,087 | 47,425 |

(Millions of yen)

| | As of March 31, 2018 | As of September 30, 2018 |
|---|----------------------|--------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 292 | 236 |
| Short-term loans payable | 8 | – |
| Current portion of long-term loans payable | 1,395 | 2,488 |
| Accounts payable - other | 5,061 | 6,152 |
| Accrued expenses | 289 | 562 |
| Income taxes payable | 1,068 | 550 |
| Accrued consumption taxes | 406 | 373 |
| Advances received | 1,183 | 1,678 |
| Deposits received | 70 | 75 |
| Provision for bonuses | 445 | 466 |
| Provision for repayment | 153 | 274 |
| Other | 22 | 19 |
| Total current liabilities | 10,400 | 12,877 |
| Non-current liabilities | | |
| Long-term loans payable | 9,690 | 18,879 |
| Net defined benefit liability | 160 | 249 |
| Deferred tax liabilities | 2,175 | 2,099 |
| Other | 19 | 21 |
| Total non-current liabilities | 12,046 | 21,249 |
| Total liabilities | 22,446 | 34,127 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 2,167 | 2,195 |
| Capital surplus | 3,965 | – |
| Retained earnings | 14,545 | 12,753 |
| Treasury shares | (0) | (0) |
| Total shareholders' equity | 20,677 | 14,947 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 0 | 0 |
| Foreign currency translation adjustment | (1,423) | (1,795) |
| Total accumulated other comprehensive income | (1,423) | (1,795) |
| Share acquisition rights | 135 | 145 |
| Non-controlling interests | 4,252 | – |
| Total net assets | 23,641 | 13,297 |
| Total liabilities and net assets | 46,087 | 47,425 |

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

Consolidated statements of income (cumulative)

(Millions of yen)

| | Six months ended September 30, 2017 | Six months ended September 30, 2018 |
|---|--|--|
| Net sales | 13,162 | 15,040 |
| Cost of sales | 1,490 | 1,641 |
| Gross profit | 11,672 | 13,398 |
| Selling, general and administrative expenses | 9,525 | 11,445 |
| Operating profit | 2,146 | 1,953 |
| Non-operating income | | |
| Share of profit of entities accounted for using equity method | 522 | 992 |
| Other | 43 | 35 |
| Total non-operating income | 565 | 1,028 |
| Non-operating expenses | | |
| Interest expenses | 20 | 25 |
| Arrangement fee | – | 46 |
| Other | 0 | 5 |
| Total non-operating expenses | 21 | 76 |
| Ordinary profit | 2,690 | 2,905 |
| Extraordinary income | | |
| Gain on sales of non-current assets | – | 1 |
| Total extraordinary income | – | 1 |
| Extraordinary losses | | |
| Loss on sales of shares of subsidiaries and associates | 28 | – |
| Loss on sales and retirement of non-current assets | 0 | 40 |
| Total extraordinary losses | 28 | 40 |
| Profit before income taxes | 2,662 | 2,866 |
| Income taxes | 862 | 793 |
| Profit | 1,800 | 2,073 |
| Loss attributable to non-controlling interests | (59) | (84) |
| Profit attributable to owners of parent | 1,859 | 2,157 |

Consolidated statements of comprehensive income (cumulative)

(Millions of yen)

| | Six months ended September 30, 2017 | Six months ended September 30, 2018 |
|--|--|--|
| Profit | 1,800 | 2,073 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 0 | (0) |
| Foreign currency translation adjustment | (1,274) | (466) |
| Share of other comprehensive income of entities accounted for using equity method | (6) | (3) |
| Total other comprehensive income | (1,280) | (469) |
| Comprehensive income | 519 | 1,604 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 1,143 | 1,785 |
| Comprehensive income attributable to non-controlling interests | (624) | (180) |

Consolidated statements of cash flows

(Millions of yen)

| | Six months ended September 30, 2017 | Six months ended September 30, 2018 |
|---|--|--|
| Cash flows from operating activities | | |
| Profit before income taxes | 2,662 | 2,866 |
| Depreciation | 523 | 526 |
| Amortization of goodwill | 321 | 397 |
| Loss (gain) on sales and retirement of non-current assets | – | 38 |
| Loss (gain) on sales of shares of subsidiaries and associates | 28 | – |
| Share of loss (profit) of entities accounted for using equity method | 321 | 25 |
| Increase (decrease) in allowance for doubtful accounts | 3 | (36) |
| Increase (decrease) in provision for bonuses | 71 | 25 |
| Increase (decrease) in provision for repayment | 42 | 121 |
| Increase (decrease) in net defined benefit liability | 9 | 88 |
| Decrease (increase) in notes and accounts receivable - trade | 16 | (177) |
| Increase (decrease) in accrued consumption taxes | 108 | (33) |
| Decrease (increase) in accounts receivable - other | (892) | (935) |
| Decrease (increase) in prepaid expenses | 21 | (189) |
| Increase (decrease) in advances received | 544 | 506 |
| Increase (decrease) in accounts payable - other | 938 | 1,099 |
| Other, net | 223 | 191 |
| Subtotal | 4,946 | 4,517 |
| Interest and dividend income received | 1 | 5 |
| Interest expenses paid | (21) | (24) |
| Income taxes paid | (1,106) | (1,346) |
| Net cash provided by (used in) operating activities | 3,820 | 3,150 |
| Cash flows from investing activities | | |
| Payments into time deposits | (451) | (58) |
| Proceeds from withdrawal of time deposits | 357 | – |
| Purchase of property, plant and equipment | (148) | (107) |
| Purchase of intangible assets | (425) | (343) |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | (784) | (23) |
| Other, net | (8) | 3 |
| Net cash provided by (used in) investing activities | (1,461) | (529) |
| Cash flows from financing activities | | |
| Decrease in short-term loans payable | (31) | – |
| Proceeds from long-term loans payable | 933 | 10,953 |
| Repayments of long-term loans payable | (600) | (714) |
| Proceeds from issuance of share acquisition rights | 2 | 4 |
| Proceeds from issuance of shares resulting from exercise of share acquisition rights | 15 | 34 |
| Cash dividends paid | (477) | (557) |
| Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation | (230) | (11,453) |
| Other, net | – | (0) |
| Net cash provided by (used in) financing activities | (388) | (1,732) |
| Effect of exchange rate change on cash and cash equivalents | (40) | (41) |
| Net increase (decrease) in cash and cash equivalents | 1,930 | 847 |
| Cash and cash equivalents at beginning of period | 7,140 | 8,768 |
| Cash and cash equivalents at end of period | 9,071 | 9,615 |