

**Non-Consolidated Financial Results
for the Three Months Ended July 31, 2019
[Japanese GAAP]**



September 6, 2019

Company name: Asukanet Co., Ltd.
 Stock exchange listing: Tokyo Stock Exchange
 Code number: 2438
 URL: <https://www.asukanet.co.jp>
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 Scheduled date of filing quarterly securities report: September 13, 2019
 Scheduled date of commencing dividend payments: -
 Availability of supplementary briefing material on quarterly financial results: Not available
 Schedule of quarterly financial results briefing session: Not scheduled

(Amounts of less than one million yen are rounded down.)

1. Non-Consolidated Financial Results for the Three Months Ended July 31, 2019

(May 1, 2019 to July 31, 2019)

(1) Non-Consolidated Operating Results (% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three months ended July 31, 2019	1,541	6.9	155	11.3	155	9.2	109	13.1
July 31, 2018	1,441	3.8	139	(1.1)	142	(0.6)	96	(1.8)

	Basic earnings per share	Diluted earnings per share
Three months ended July 31, 2019	Yen 6.48	Yen -
July 31, 2018	5.74	5.73

(Note) Diluted earnings per share for the three months ended July 31, 2019 is not presented as there were no potential shares.

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of July 31, 2019	6,211	5,352	86.2
As of April 30, 2019	6,271	5,431	86.6

(Reference) Equity: As of July 31, 2019: ¥5,352 million

As of April 30, 2019: ¥5,431 million

2. Dividends

	Annual dividends				
	1st quarter-end	2nd quarter-end	3rd quarter-end	Year-end	Total
Fiscal year ended April 30, 2019	Yen -	Yen 0.00	Yen -	Yen 11.00	Yen 11.00
Fiscal year ending April 30, 2020	-				
Fiscal year ending April 30, 2020 (Forecast)		0.00	-	10.00	10.00

(Note) Revision to the forecast for dividends announced most recently: No

3. Non-Consolidated Financial Results Forecast for the Fiscal Year Ending April 30, 2020
(May 1, 2019 to April 30, 2020)

(% indicates changes from the previous corresponding period.)

	Net sales		Operating income		Ordinary income		Profit		Basic earnings per share
Full year	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
	6,738	7.0	824	(5.1)	829	(5.1)	545	(9.0)	32.36

(Note) Revision to the financial results forecast announced most recently: No
As the Company manages its financial results at an annual base, the financial results forecast for the first half is not disclosed.

*** Notes:**

(1) Accounting policies adopted specially for the preparation of quarterly financial statements: Yes

(2) Changes in accounting policies, changes in accounting estimates and retrospective restatement

1) Changes in accounting policies due to the revision of accounting standards: No

2) Changes in accounting policies other than 1) above: No

3) Changes in accounting estimates: No

4) Retrospective restatement: No

(3) Total number of issued shares (common shares)

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

July 31, 2019: 17,464,000 shares

April 30, 2019: 17,464,000 shares

2) Total number of treasury shares at the end of the period:

July 31, 2019: 623,016 shares

April 30, 2019: 622,941 shares

3) Average number of shares during the period:

Three months ended July 31, 2019: 16,841,018 shares

Three months ended July 31, 2018: 16,822,602 shares

* These quarterly financial results are outside the scope of quarterly review procedures by a certified public accountant or an audit corporation.

* Explanation of the proper use of financial results forecast and other notes

The earnings forecasts and other forward-looking statements herein are based on information currently available to the Company and certain assumptions that the Company believes are reasonable, and actual results may differ significantly from these forecasts due to a wide range of factors.

4. Overview of Business Results

(1) Overview of Business Results for this Fiscal Year

Asukanet operates three business areas, each with different positioning and characteristics. They are (1) the memorial design service business, which adds digital processing and remote output services for photos of the deceased to a funeral business that is largely unaffected by economic trends, (2) the personal publishing business, which provides ideas for new photo output methods that allow users to create complete photo collections beginning from just a single book, and (3) the aerial imaging business, which is utilizing unique, recently-developed technologies aiming to create a new market and achieve dreams.

Following is an overview of the business results for each segment. The results figures for each segment include internal inter-segment sales.

(1) Memorial design service business

In this business, although sales in our primary business areas – processing photos of the deceased and sales of video and other funeral production services – were strong, sales of frames and supplies slackened. In addition, following the strong sales in the previous quarter of the *Asuka Altar* product which was produced in collaboration with the aerial imaging business, there was a rebound drop in this quarter and sales were down from the same period in the previous year. In addition, we also worked to improve the functions and expand the use of the “tsunagoo” service that was released as into the funeral market “funeral tech” that allows users to easily order condolence messages and other items from their smartphones.

In terms of income, in addition to the decline in sales, there was also an increase in personnel expenses for image processing operators and an increase in expenses for R&D aimed at AI applications. As a result, segment income was down.

As a result, sales were 582,379 thousand yen (97.8% year-on-year), and segment income was 134,837 thousand yen (94.8% year-on-year).

(2) Personal publishing service business

This business operates *AsukaBook* for the professional photography market in Japan, and *MyBook* for the general Japanese consumer market. We are also engaged in OEM supply of photo albums and photo prints based on photos that were taken with smartphones.

In the professional photographer market, in addition to acquiring contracts through our own marketing activities, there was also strong growth in sales as a result of activities such as conducting *AsukaBook* seminars and the release of the *GLAMPiC* data delivery service. We also conducted a promotion aimed at expanding our “Life-Size Baby Photos” service.

In the general consumer market, we worked to obtain orders primarily among photography enthusiasts and knowledgeable customers through various campaigns, effective internet advertising, and other means. In a fiercely competitive environment, we continued to achieve strong sales of the full-flat type photo album that opens up so it is completely flat – a product that was released in the last quarter. Overall sales in the general consumer market exceeded expectations. On the other hand, sales of OEM products grew as the presence of our services expanded in the market, although there was some rebound from the end of the campaign that we conducted in the previous year.

In June 6 2019, we completed construction of the new plant located adjacent to our headquarters. This plant was constructed with the aim of expanding production capacity, We are now preparing for the start of production equipment operation.

In terms of income, despite higher expenses including a shipping price hike and higher personnel expenses, growing sales centering on OEM divisions helped boost the operating rate and produced an increase in segment income.

As a result, sales were 935,833 thousand yen (114.4% year-on-year), and segment income was 212,278 thousand yen (118.9% year-on-year).

(3) Aerial imaging business

This business was launched in March 2011, aiming to create a market through new image and video expressions utilizing aerial imaging technologies. We are developing, manufacturing, and selling both glass and plastic “ASKA3D plates” that utilize our original technologies to project images in mid-air.

For glass ASKA3D plates, although sufficient cost reductions have not yet been achieved, we are providing large-size plates that are capable of high-quality aerial imaging. Although still in small lots, sales for signage and aerial system operations are

increasing. We are also working to develop new manufacturing technologies that can provide both quality and high productivity.

For plastic ASKA3D plates, we established the first stage production system in May of this year, starting from monthly production of 3,000 plates. We will continue working to improve quality, reduce production costs, and increase yield, and engage in production to meet to customer needs.

In terms of marketing, we engaged in sales of sample plastic ASKA3D plates and strove to obtain orders that fit our current production scale and our price range. However there are still issues to overcome before we can achieve this goal. We will continue to exhibit at exhibitions of suitable sizes in Japan and overseas to directly communicate the possibilities of aerial imaging. Based on the diverse range of needs for the use of ASKA3D plates that we have confirmed through past exhibitions and other programs, we will work to resolve these issues and acquire mass production orders. In terms of sales, because we are focusing on sales of inexpensive plastic plates, sales of high-priced glass plates declined. As a result, sales were down from the same period in the previous year.

In terms of profit and loss, because we succeeded in reducing advertising expenses and R&D expenses, the segment loss was smaller than the same period in the previous year.

As a result, sales were 24,605 thousand yen (70.9% year-on-year), and segment loss was 48,262 thousand yen (compared to a loss of 52,499 thousand yen in the same quarter of the previous year).

As a result of the above, sales were 1,541,557 thousand yen (106.9% year-on-year). In terms of income, as a result of steady growth in segment income in the personal publishing business, ordinary income was 155,279 thousand yen (109.2% year-on-year) and net income was 109,118 thousand yen (113.1% year-on-year).

(2) Overview of the Financial Status during this Quarter.

(Assets)

Current assets at the end of this first quarter decreased by 60,003 thousand yen from the end of the previous fiscal year to reach 6,211,510 thousand yen. Despite an increase in tangible fixed assets of 288,931 thousand yen resulting from construction of the new plant (West Building) and other factors, and an increase in investment and other securities of 199,357 thousand yen resulting from the purchase of corporate bonds and other factors, this decrease was primarily due to a decrease in cash and savings of 518,933 thousand yen.

(Liabilities)

Current liabilities at the end of this first quarter increased by 18,926 thousand yen from the end of the previous fiscal year to reach 859,406 thousand yen. Despite a decrease in income taxes payable of 133,400 thousand yen and a decrease in the provision for bonuses of 70,200 thousand yen, this increase was primarily due to an increase in accounts payable of 232,056 thousand yen.

(Net assets)

Net assets at the end of this 1Q declined by 78,930 thousand yen from the end of the previous fiscal year to reach 5,352,103 thousand yen. Despite recording net income of 109,118 thousand yen, this was primarily due to a decrease of 185,251 thousand yen resulting from the payment of dividends from surplus.

5. Financial Statements for the First Quarter

(1) Balance sheet

(Units: 1,000s yen)

	Previous fiscal year (ended April 30, 2019)	Current 1 st quarter (ended July 31, 2019)
Asset		
Current assets		
Cash and deposits	2,274,763	1,755,829
Accounts receivable-trade and notes	827,239	798,875
Merchandise and products	172,942	176,289
Work in progress	23,551	17,620
Raw materials and supplies	78,072	79,139
Others	36,842	25,651
Allowance for doubtful accounts	(2,914)	(3,893)
Total current assets	3,410,498	2,849,512
Fixed assets		
Tangible fixed assets		
Buildings, net	508,636	890,323
Machinery and equipment, net	409,561	530,307
Land	844,060	844,060
Construction in progress	399,350	185,848
Total tangible fixed assets	2,161,609	2,450,541
Total intangible fixed assets	202,370	215,062
Total investments and other assets		
Investment securities	228,800	426,305
Others	268,235	270,087
Total investment and others	497,035	696,393
Total fixed assets	2,861,016	3,361,997
Total assets	6,271,514	6,211,510
Liabilities		
Current liabilities		
Accounts payable-trade	169,180	149,946
Accounts payable-other	173,963	406,019
Income taxes payable	187,900	54,500
Provision for bonuses	144,200	74,000
Others	155,905	166,084
Total current liabilities	831,149	850,550
Fixed liabilities		
Provision for retirement benefits	6,009	6,009
Others	3,320	2,846
Total fixed liabilities	9,330	8,855
Total liabilities	840,479	859,406
Net assets		
Shareholders' equity		
Capital stock	490,300	490,300
Capital surplus	606,585	606,585
Retained earnings	4,608,076	4,531,943
Treasury stock	(268,850)	(268,970)
Total shareholders' equity	5,436,110	5,359,857
Valuation and translation adjustments		
Valuation difference on available-for-sale securities	(5,076)	(7,753)
Total valuation and translation adjustments	(5,076)	(7,753)
Total net assets	5,431,034	5,352,103
Total liabilities and net assets	6,271,514	6,211,510

(2) Profit and loss statement for 1st quarter

(unit:1000s yen)

	First quarter of the previous fiscal year (May 1, 2018 – July 31, 2018)	First quarter of the current fiscal year (May 1, 2019 – July 31, 2019)
Net Sales	1,441,602	1,541,557
Cost of sales	722,976	751,892
Gross profit	718,626	789,664
Selling, general, and administrative expenses	578,631	633,825
Operating income	139,995	155,839
Non-operating income		
Interest received	88	229
Dividends received	510	500
Commissions received	190	88
Foreign exchange gains	377	—
Income from insurance	832	—
Others	144	102
Total non-operating income	2,144	919
Non-operating expenses		
Foreign exchange losses	—	1,406
Others	—	73
Total non-operating expenses	—	1,480
Ordinary income	142,139	155,279
Extraordinary losses		
Loss on retirement of fixed assets	72	—
Total extraordinary losses	72	—
Net income before taxes	142,066	155,279
Income taxes	45,574	46,160
Net income	96,492	109,118

[Segment information]

Cumulative first quarter of the current fiscal year (May 1, 2018 – July 31, 2018)

Information related to the amounts of sales, income, and loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Adjustments	Amount recorded in profit and loss statement
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	595,285	817,835	28,481	1,441,602	—	1,441,602
Inter-segment internal sales and transfers	—	—	6,240	6,240	(6,240)	—
Total	595,285	817,835	34,721	1,447,842	(6,240)	1,441,602
Segment income (loss)	142,296	178,553	(52,499)	268,350	(128,355)	139,995

Cumulative first quarter of the current fiscal year (May 1, 2019 – July 31, 2019)

Information related to the amounts of sales, income, and loss for each reporting segment

(Units: 1,000s yen)

	Reporting segment				Adjustments	Amount recorded in profit and loss statement
	Memorial design service business	Personal publishing service business	Aerial imaging business	Total		
Sales						
Sales to outside customers	582,379	935,833	23,345	1,541,557	—	1,541,557
Inter-segment internal sales and transfers	—	—	1,260	1,260	(1,260)	—
Total	582,379	935,833	24,605	1,542,817	(1,260)	1,541,557
Segment income (loss)	134,837	212,278	(48,262)	298,854	(143,014)	155,839

This is the summarized translation of released report for your reference.
Please refer to the original Japanese financial document.