

Translation

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**Summary of Consolidated Financial Results
for the Nine Months Ended December 31, 2016
(Based on Japanese GAAP)**

January 30, 2017

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: February 13, 2017
 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, 2016 (from April 1, 2016 to December 31, 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 | % |
| Nine months ended December 31, 2016 | 16,713 | 30.1 | 2,332 | 48.4 | 3,045 | 40.3 | 1,805 | 31.6 |
| Nine months ended December 31, 2015 | 12,842 | 20.4 | 1,572 | 16.7 | 2,170 | 20.7 | 1,371 | (0.5) |

| | Earnings per share | | Diluted earnings per share | |
|-------------------------------------|--------------------|--|----------------------------|--|
| | Yen | | Yen | |
| Nine months ended December 31, 2016 | 44.18 | | 44.04 | |
| Nine months ended December 31, 2015 | 33.83 | | 33.73 | |

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio |
|-------------------------|-----------------|-----------------|--------------|
| | Millions of yen | Millions of yen | % |
| As of December 31, 2016 | 39,195 | 17,470 | 35.1 |
| 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 | 68.50 |

4. Notes

- (1) Changes in significant subsidiaries during the nine months ended December 31, 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 December 31, 2016 | 43,379,400 shares | As of March 31, 2016 | 41,887,200 shares |
|-------------------------|-------------------|----------------------|-------------------|

Number of treasury shares at the end of the period

| | | | |
|-------------------------|------------|----------------------|------------------|
| As of December 31, 2016 | 113 shares | As of March 31, 2016 | 1,330,272 shares |
|-------------------------|------------|----------------------|------------------|

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

| | | | |
|-------------------------------------|-------------------|-------------------------------------|-------------------|
| Nine months ended December 31, 2016 | 40,878,346 shares | Nine months ended December 31, 2015 | 40,556,928 shares |
|-------------------------------------|-------------------|-------------------------------------|-------------------|

Quarterly consolidated financial statements
Consolidated balance sheets

(Thousands of yen)

| | As of March 31, 2016 | As of December 31, 2016 |
|--|----------------------|-------------------------|
| Assets | | |
| Current assets | | |
| Cash and deposits | 5,291,707 | 7,988,006 |
| Accounts receivable - trade | 3,982,752 | 2,745,469 |
| Merchandise and finished goods | 95,830 | 81,090 |
| Work in process | 31,185 | 25,941 |
| Supplies | 6,770 | 42,764 |
| Accounts receivable - other | 1,891,531 | 2,434,729 |
| Prepaid expenses | 685,224 | 810,572 |
| Deferred tax assets | 268,219 | 251,307 |
| Other | 140,001 | 19,374 |
| Allowance for doubtful accounts | (217,510) | (147,204) |
| Total current assets | 12,175,712 | 14,252,052 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 383,400 | 367,142 |
| Accumulated depreciation | (151,756) | (178,327) |
| Buildings, net | 231,643 | 188,814 |
| Tools, furniture and fixtures | 515,019 | 535,115 |
| Accumulated depreciation | (366,414) | (383,741) |
| Tools, furniture and fixtures, net | 148,605 | 151,373 |
| Machinery, equipment and vehicles | 110,080 | 39,569 |
| Accumulated depreciation | (61,999) | (16,696) |
| Machinery, equipment and vehicles, net | 48,081 | 22,872 |
| Total property, plant and equipment | 428,330 | 363,061 |
| Intangible assets | | |
| Goodwill | 12,874,322 | 9,886,010 |
| Software | 1,335,532 | 1,461,314 |
| Trademark right | 10,046,813 | 8,423,296 |
| Customer-related assets | 3,046,910 | 2,391,488 |
| Other | 50 | 50 |
| Total intangible assets | 27,303,627 | 22,162,159 |
| Investments and other assets | | |
| Investment securities | 1,025,966 | 1,491,295 |
| Deferred tax assets | 211,138 | 287,251 |
| Lease and guarantee deposits | 516,448 | 613,006 |
| Other | 28,578 | 27,155 |
| Total investments and other assets | 1,782,132 | 2,418,708 |
| Total non-current assets | 29,514,090 | 24,943,928 |
| Total assets | 41,689,802 | 39,195,981 |

(Thousands of yen)

| | As of March 31, 2016 | As of December 31, 2016 |
|---|----------------------|-------------------------|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 451,116 | 211,521 |
| Short-term loans payable | 19,002,638 | – |
| Current portion of long-term loans payable | – | 1,201,200 |
| Accounts payable - other | 3,443,188 | 4,207,291 |
| Accrued expenses | 232,160 | 262,887 |
| Income taxes payable | 947,942 | 884,202 |
| Accrued consumption taxes | 100,331 | 197,803 |
| Advances received | 1,102,636 | 1,093,496 |
| Deposits received | 45,718 | 30,880 |
| Provision for bonuses | 373,715 | 180,694 |
| ProvisionForRepayment | 129,785 | 115,818 |
| Other | 85,266 | 6,520 |
| Total current liabilities | 25,914,499 | 8,392,318 |
| Non-current liabilities | | |
| Long-term loans payable | – | 10,810,800 |
| Net defined benefit liability | 111,938 | 115,069 |
| Deferred tax liabilities | 2,442,393 | 2,390,150 |
| Other | 63,305 | 17,463 |
| Total non-current liabilities | 2,617,637 | 13,333,483 |
| Total liabilities | 28,532,136 | 21,725,801 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 304,166 | 2,152,525 |
| Capital surplus | – | 4,150,944 |
| Retained earnings | 9,145,508 | 10,667,757 |
| Treasury shares | (1,036,485) | (173) |
| Total shareholders' equity | 8,413,190 | 16,971,054 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 9,888 | 274 |
| Foreign currency translation adjustment | 135,593 | (3,200,761) |
| Total accumulated other comprehensive income | 145,482 | (3,200,487) |
| Subscription rights to shares | 80,108 | 100,560 |
| Non-controlling interests | 4,518,884 | 3,599,051 |
| Total net assets | 13,157,666 | 17,470,179 |
| Total liabilities and net assets | 41,689,802 | 39,195,981 |

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, 2015 | Nine months ended December 31, 2016 |
|---|--|--|
| Net sales | 12,842,667 | 16,713,361 |
| Cost of sales | 1,031,735 | 2,650,807 |
| Gross profit | 11,810,932 | 14,062,553 |
| Selling, general and administrative expenses | 10,238,544 | 11,729,655 |
| Operating income | 1,572,388 | 2,332,898 |
| Non-operating income | | |
| Share of profit of entities accounted for using equity method | 605,904 | 709,069 |
| Other | 35,655 | 92,746 |
| Total non-operating income | 641,559 | 801,815 |
| Non-operating expenses | | |
| Foreign exchange losses | 19,424 | - |
| Interest expenses | 21,321 | 37,644 |
| Share issuance cost | - | 29,523 |
| Other | 2,668 | 22,066 |
| Total non-operating expenses | 43,414 | 89,234 |
| Ordinary income | 2,170,534 | 3,045,480 |
| Extraordinary income | | |
| Gain on sales of shares of subsidiaries and associates | - | 56,408 |
| Total extraordinary income | - | 56,408 |
| Extraordinary losses | | |
| Loss on sales and retirement of non-current assets | 1,468 | - |
| Loss on valuation of investment securities | 55,201 | - |
| Loss on sales of investment securities | - | 20,000 |
| Loss on sales of shares of subsidiaries and associates | - | 146,523 |
| Total extraordinary losses | 56,669 | 166,523 |
| Profit before income taxes | 2,113,864 | 2,935,364 |
| Income taxes | 736,691 | 1,036,362 |
| Profit | 1,377,173 | 1,899,002 |
| Profit attributable to non-controlling interests | 5,274 | 93,137 |
| Profit attributable to owners of parent | 1,371,898 | 1,805,864 |

Consolidated statements of comprehensive income (cumulative)

(Thousands of yen)

| | Nine months ended December 31, 2015 | Nine months ended December 31, 2016 |
|--|--|--|
| Profit | 1,377,173 | 1,899,002 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (1,047) | (9,475) |
| Foreign currency translation adjustment | (264,975) | (4,184,286) |
| Share of other comprehensive income of entities accounted for using equity method | 11,599 | (25,069) |
| Total other comprehensive income | (254,422) | (4,218,831) |
| Comprehensive income | 1,122,750 | (2,319,829) |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | 1,124,001 | (1,540,105) |
| Comprehensive income attributable to non-controlling interests | (1,251) | (779,724) |

Consolidated statements of cash flows

(Thousands of yen)

| | Nine months ended December 31, 2015 | Nine months ended December 31, 2016 |
|--|--|--|
| Cash flows from operating activities | | |
| Profit before income taxes | 2,113,864 | 2,935,364 |
| Depreciation | 308,136 | 642,559 |
| Amortization of goodwill | 222,562 | 480,162 |
| Loss (gain) on sales of investment securities | – | 20,000 |
| Loss (gain) on valuation of investment securities | 55,201 | – |
| Loss (gain) on sales of shares of subsidiaries and associates | – | 90,115 |
| Loss (gain) on sales and retirement of non-current assets | 1,468 | – |
| Share of (profit) loss of entities accounted for using equity method | (43,383) | (527,007) |
| Increase (decrease) in allowance for doubtful accounts | (13,344) | (23,810) |
| Increase (decrease) in provision for bonuses | (157,288) | (193,020) |
| Increase (decrease) in repayment for bonuses | (24,704) | (13,966) |
| Increase (decrease) in net defined benefit liability | 7,320 | 3,130 |
| Decrease (increase) in notes and accounts receivable - trade | 790,618 | 1,237,282 |
| Increase (decrease) in accrued consumption taxes | (240,120) | 97,471 |
| Decrease (increase) in accounts receivable - other | (494,195) | (543,198) |
| Decrease (increase) in prepaid expenses | 40,022 | (124,738) |
| Increase (decrease) in advances received | (9,229) | (9,139) |
| Increase (decrease) in accounts payable - other | 122,014 | 781,837 |
| Decrease (increase) in lease and guarantee deposits | (12,689) | (135,000) |
| Other, net | (122,387) | (164,152) |
| Subtotal | 2,543,865 | 4,553,892 |
| Interest and dividend income received | 7,260 | 7,915 |
| Interest expenses paid | (21,924) | (38,254) |
| Income taxes paid | (1,121,659) | (1,209,664) |
| Net cash provided by (used in) operating activities | 1,407,541 | 3,313,888 |
| Cash flows from investing activities | | |
| Payments into time deposits | (65,700) | (996,446) |
| Proceeds from withdrawal of time deposits | – | 85,253 |
| Purchase of property, plant and equipment | (55,094) | (77,117) |
| Proceeds from sales of property, plant and equipment | 881 | – |
| Purchase of intangible assets | (533,823) | (599,906) |
| 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 | (17,907,051) | – |
| Payments of loans receivable | (37,680) | (38,500) |
| Other, net | 2,470 | 70,603 |
| Net cash provided by (used in) investing activities | (18,595,998) | (1,197,407) |

(Thousands of yen)

| | Nine months ended December 31, 2015 | Nine months ended December 31, 2016 |
|--|--|--|
| Cash flows from financing activities | | |
| Increase in short-term loans payable | 19,004,038 | – |
| Decrease in short-term loans payable | – | (19,000,000) |
| Proceeds from long-term loans payable | – | 12,012,000 |
| Proceeds from issuance of common shares | – | 3,678,706 |
| Proceeds from issuance of subscription rights to shares | – | 1,236 |
| Proceeds from sales of treasury shares | – | 3,324,989 |
| Purchase of treasury shares | – | (117) |
| Cash dividends paid | (281,323) | (289,212) |
| 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 | 18,705,014 | (275,708) |
| Effect of exchange rate change on cash and cash equivalents | (55,094) | (55,666) |
| Net increase (decrease) in cash and cash equivalents | 1,461,463 | 1,785,105 |
| Cash and cash equivalents at beginning of period | 2,694,008 | 5,147,343 |
| Cash and cash equivalents at end of period | 4,155,471 | 6,932,448 |