

Consolidated Financial Results for the First Half of Fiscal Year Ending March 31, 2019 (Six Months Ended September 30, 2018) (Based on J-GAAP)

October 31, 2018

Company name: Marvelous Inc. Listing: First Section of Tokyo Stock Exchange
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Scheduled commencement date of dividend payout: —

Explanatory documents supplemental to the abridged Quarterly Financial Statement: Yes

Quarterly results briefing: Yes (For Institutional Investors and Analysts)

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Half of Fiscal Year Ending March 31, 2019 (April 1, 2018 – September 30, 2018)

(1) Consolidated Results of Operations (six months)

(Percentages represent year-over-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1H FY 2019	13,314	20.9	2,767	56.8	2,870	60.9	1,941	57.0
1H FY 2018	11,014	(15.3)	1,764	33.9	1,784	69.1	1,236	54.7

Note: Comprehensive income (million yen): 1H FY 2019: 2,030 (62.1%) 1H FY 2018: 1,252 (73.4%)

	Net income per share	Diluted net income per share
	Yen	Yen
1H FY 2019	37.54	—
1H FY 2018	23.91	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
1H FY 2019	25,840	18,718	72.4	361.87
FY 2018	25,488	18,414	72.2	355.93

Reference: Shareholders' equity (million yen): 1H FY 2019: 18,716 FY 2018: 18,408

2. Dividends

	Dividends per share				
	1Q-end	Interim	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2018	—	0.00	—	33.00	33.00
FY 2019	—	0.00			
FY 2019 (forecasts)			—	33.00	33.00

Note: Revisions to the dividend forecast in the current quarter: None

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2019 (April 1, 2018 – March 31, 2019)

(Percentages represent year-over-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	25,000	(1.2)	4,500	(12.6)	4,500	(11.9)	2,980	(15.2)	57.62

Note: Revisions to the financial forecast in the current quarter: None

***Notes**

(1) Changes in significant subsidiaries during the consolidated period (six months) under review (changes in subsidiaries accompanying change in the scope of consolidation): None

New: None (Company name:)

Excluded: None (Company name:)

(2) Application of accounting procedures specific to creation of quarterly financial statement: Yes

(3) Changes in accounting principles, estimates and restatement

1) Changes in accounting principles caused by revision of accounting standards: None

2) Changes in accounting principles other than those mentioned above: None

3) Changes in accounting estimates: None

4) Restatement: None

(4) Number of shares issued and outstanding (shares of common stock)

1) Number of shares outstanding (including treasury stock) at end of period	1H FY 2019	53,593,100 shares	FY 2018	53,593,100 shares
2) Number of treasury stock at end of period	1H FY 2019	1,872,421 shares	FY 2018	1,872,421 shares
3) Average number of shares outstanding during the period (six months)	1H FY 2019	51,720,679 shares	1H FY 2018	51,720,680 shares

Note: The number of treasury stock stated includes 500,000 shares held by Trust & Custody Services Bank, Ltd. (Trust E Units) as trust assets of the "Board Benefit Trust (BBT)."

* Quarterly summaries of financial statements are not subject to quarterly review by a CPA or audit firm.

* Cautionary statement with respect to forward-looking statements and other special items

This document contains forward-looking statements including forecasts of the Company's business performance, which are based on information currently available to the Company as well as on certain assumptions that the Company deems reasonable. Therefore, results including actual business performance could differ materially from those described in these forward-looking statements as a result of numerous factors.

1. Qualitative Information Concerning Quarterly Results

(1) Explanation of Consolidated Business Results

The entertainment industry in the period under review witnessed in the domestic mobile games market a continued stream of numerous new title releases, resulting in an increasingly hostile competitive environment, while top rankings remained captive to legacy titles enjoying deep-rooted popularity. Also among these developments, efforts emerged at browser (HTML5) games that require no app installation. In the home-use games market, attention focused on the fact that e-sports have come to be staged as tournaments at international sports events, resulting in a strong boost in public awareness. In the amusement market, despite somewhat slower growth in prize games, which to date have enjoyed enduring popularity, market size has remained unchanged. In the audio & visual market, the package products market continues to shrink, although the anime dissemination market continues to expand. The live entertainment market remains highly successful without signs of weakening despite issues such as a shortage of venues and ticket reselling.

Under these circumstances, the Group has been operating as a comprehensive entertainment provider deploying a "multi-content, multi-use, and multi-device" strategy to deliver diverse entertainment content in all business segments and on a variety of devices. In order to establish robust IPs, the Group has been driving its strategy in the three key areas of branding, alliances, and global business, and is working to offer content that generates "buzz" among today's users while endeavoring to enhance its services.

As a result, the Group's net sales in the first half (April 1, 2018 to September 30, 2018) marked 13,314 million yen (up 20.9% compared with the same period of the previous year), with operating profit of 2,767 million yen (up 56.8% compared with the same period of the previous year), ordinary profit of 2,870 million yen (up 60.9% compared with the same period of the previous year), and profit attributable to owners of parent of 1,941 million yen (up 57.0% compared with the same period of the previous year).

Results by business segment are described below.

(i) Online Game Business

The Business saw sales continue slipping for major long-seller titles, specifically "Logres of Swords and Sorcery: Goddess of Ancient," but "SHINOVI MASTER -SENRAN KAGURA NEW LINK-" remained popular among titles released in the previous fiscal year. However, other new titles failed to deliver adequate contributions to sales revenue, resulting for some titles in the transfer of operations to other companies, with development costs summarily written off by the Company. Meanwhile, centered on the Asian region, the Company aggressively pushed ahead with overseas business development.

As a result, segment net sales totaled 4,478 million yen (down 2.1% compared with the same period of the previous year), with segment profit of 364 million yen (down 17.3% compared with the same period of the previous year).

(ii) Consumer Game Business

The Business's own sales operations in June 2018 came to market in Japan with its latest series production "Fate/EXTELLA LINK (PS Vita/PS4)." Additionally, as a completely new production, the division initiated sales of "Little Dragons Cafe HIMITSU NO RYU TO FUSHIGI NA SHIMA (Nintendo Switch/PS4)" in August 2018. Moreover, for "Shinobi Reflation -SENRAN KAGURA-," a hit product launched in 2017 for sale in Japan, the dissemination of overseas versions started in September 2017 in North America and Europe. Additionally, the Business recognized special revenue from the sale of mainly software assets.

At the amusement division, "Pokémon Ga-Olé" marked favorable operating rates, and although in operation for the third consecutive year since inception, performance during the summer of this year posted the highest level on record. Likewise, "PokémonTRETТА" had a successful overseas roll-out while domestic and overseas sales of "TRYPOD" launched previous fiscal year developed favorably.

As a result, segment net sales totaled 5,716 million yen (up 63.4% compared with the same period of the previous year), with segment profit of 2,036 million yen (up 116.7% compared with the same period of the previous year).

(iii) Audio & Visual Business

The Business's audio & visual division package-commercialized the TV anime "HUG! Pretty Cure," as well as TV anime "Tokyo Ghoul:re" lead-produced by the Company with broadcasting initiated in April 2018 and "The Thousand Noble Musketeers" with broadcasting initiated in July 2018. Although animation production costs, etc., preceded, revenue expanded from secondary usage of library works mainly for video distribution.

The stage production division launched the most recent public performances of series such as "Touken Ranbu

the Stage," "MUSICAL THE PRINCE OF TENNIS," and "Ensemble Stars! On Stage," as well as "Stage : SENGOKU NIGHT BLOOD" as a new performance. All performances were commercial successes (for some titles, revenue will be recognized in the third quarter). For each series, packaged products and secondary usage mainly for video distribution also posted favorable results.

As a result, segment net sales totaled 3,125 million yen (up 5.5% compared with the same period of the previous year), with segment profit of 1,042 million yen (up 1.2% compared with the same period of the previous year).

(2) Explanation of Consolidated Financial Position

(1) Financial position analysis

On the consolidated balance sheets at the end of the first half, the Group had total assets of 25,840 million yen (up 352 million yen from the end of the previous fiscal year), total liabilities of 7,122 million yen (up 47 million yen from the end of the previous fiscal year), and net assets of 18,718 million yen (up 304 million yen from the end of the previous fiscal year).

[Current assets]

Consolidated current assets at the end of the first half totaled 22,216 million yen, which was 1,078 million yen more than at the end of the previous fiscal year, due to factors including an increase in cash and deposits, and a decrease in notes and accounts receivable-trade.

[Non-current assets]

Consolidated noncurrent assets at the end of the first half totaled 3,624 million yen, which was 726 million yen less than at the end of the previous fiscal year, due to factors including a decrease in property, plant and equipment, and intangible assets.

[Current liabilities]

Consolidated current liabilities at the end of the first half totaled 7,072 million yen, which was 47 million yen more than at the end of the previous fiscal year, due to factors including a decrease in accounts payable, and an increase in income taxes payable.

[Non-current liabilities]

Consolidated non-current liabilities at the end of the period under review were 50 million yen, unchanged from the end of the previous fiscal year.

[Net assets]

Consolidated net assets at the end of the period under review were 18,718 million yen, which was 304 million yen higher than at the end of the previous fiscal year. This was due to 1,941 million yen in net income for the period attributable to shareholders of the parent company, which exceeded a decline in retained earnings due to dividend payments for the previous fiscal year.

(2) Cash flow

Consolidated net cash and cash equivalents ("cash") at the end of the first half totaled 13,134 million yen, which was 828 million yen more than at the end of the previous fiscal year.

Main factors for the change in cash were 3,569 million yen provided by operating activities (1,589 million yen more than in the same period of the previous year), 1,076 million yen used in investing activities (845 million yen more than in the same period of the previous year), and 1,723 million yen used in financing activities (56 million yen more than in the same period of the previous year), for a total of 828 million yen cash increase (99 million yen cash increase for the same period of the previous year).

[Cash flows from operating activities]

Cash provided by operating activities was 3,569 million yen. Main factors comprised a 493 million yen decrease in accounts payable-other, 398 million yen in income tax payments, 2,873 million yen in profit before income taxes, a 990 million yen decrease in accounts receivable-trade, and 817 million yen in depreciation charges.

[Cash flows from investing activities]

Cash used in investing activities was 1,076 million yen. Main factors comprised 41 million yen in expenditure for the acquisition of property, plant and equipment, 256 million yen in expenditure for the acquisition of intangible non-current assets, 1,790 million yen in expenditure for new term deposits, as well as 883 million yen in income

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from term deposit withdrawal and 127 million yen in income from redemptions of investment securities.

[Cash flows from financing activities]

Cash used in financing activities was 1,723 million yen due to dividend payments.

(3) Explanation of Business Outlook Including Consolidated Business Forecast

The consolidated business forecast remains unchanged from the business forecast announced on May 10, 2018.