

Consolidated Financial Results for the Second Quarter of Fiscal Year Ending March 31, 2018 (Six Months Ended September 30, 2017) (Based on J-GAAP)

October 31, 2017

Company name: Marvelous Inc. Listing: First Section of Tokyo Stock Exchange
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Scheduled date of filing Quarterly Securities Report: November 2, 2017

Scheduled commencement date of dividend payout: —

Preparation of supplementary materials for quarterly financial results: Yes

Holding of 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, 2018 (April 1, 2017 – September 30, 2017)

(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	%
2Q FY2018	11,014	(15.3)	1,764	33.9	1,784	69.1	1,236	54.7
2Q FY2017	12,999	(21.0)	1,317	(53.6)	1,055	(62.2)	799	(58.2)

Note: Comprehensive income (million yen): 2Q FY2018: 1,252 (up 73.4%) 2Q FY2017: 722 (down 62.1%)

	Net income per share	Diluted net income per share
	Yen	Yen
2Q FY2018	23.91	—
2Q FY2017	15.45	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
2Q FY2018	22,666	16,220	71.5	313.51
FY2017	24,228	16,539	68.2	319.58

Reference: Shareholders' equity (million yen): 2Q FY2018: 16,214 FY2017: 16,528

2. Dividends

	Dividends per share				
	1Q-end	2Q-end	3Q-end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2017	—	0.00	—	30.00	30.00
FY2018	—	0.00	—	—	—
FY2018 (forecasts)	—	—	—	33.00	33.00

Note: Revisions to the most recently announced dividend forecast: None

The year-end dividend of 33.0 yen per share of common stock for FY2018 (forecasts) comprises an ordinary dividend of 30.0 yen and a special dividend of 3.0 yen commemorating the 20th founding anniversary of the Company.

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2018 (April 1, 2017 – March 31, 2018)

(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	30,000	2.1	6,000	4.3	6,000	3.3	4,180	0.4	80.82

Note: Revisions to the most recently announced consolidated forecast: None

***Notes**

(1) Changes in significant subsidiaries during the period under review

(changes in specified subsidiaries accompanying changes in the scope of consolidation): None

New: None (Company name:)

Excluded: None (Company name:)

(2) Application of accounting procedures specific to the preparation of quarterly consolidated financial statements: Yes

(3) Changes in accounting policies and estimates, and restatements

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

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

3) Changes in accounting estimates: None

4) Restatements: None

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

1) Number of shares outstanding (including treasury shares) at end of period	2Q FY2018	53,593,100 shares	FY2017	53,593,100 shares
2) Number of treasury shares at end of period	2Q FY2018	1,872,421 shares	FY2017	1,872,400 shares
3) Average number of shares outstanding during the period (six months)	2Q FY2018	51,720,680 shares	2Q FY2017	51,720,700 shares

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

* The current quarterly financial report is not subject to quarterly review procedures.

* 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 saw growth continue in the domestic mobile games market, with the large number of well-established popular titles distributed along with many new titles raising overall performance. In the domestic home-use games market, the markets for hardware and software grew year-on-year, driven by new hardware and including enhanced software lineups. Moreover, the amusement market remained vibrant with topics and initiatives related to virtual reality (VR). Regarding the audio & visual market, although the situation for the physical music market remains difficult, animation-related and live entertainment markets are still in good shape.

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, 2017 to September 30, 2017) marked 11,014 million yen (down 15.3% compared with the same period of the previous fiscal year), with operating profit of 1,764 million yen (up 33.9%, ordinary profit of 1,784 million yen (up 69.1%), and profit attributable to owners of parent of 1,236 million yen (up 54.7%).

Results by business segment are described below.

(i) Online Game Business

The Online Game Business launched a new smartphone game app “Sengoku Night Blood” on May 29, 2017 and “OSOMATSU SAN YOKUBARI! NEET ISLAND” on September 19, 2017. In addition, advance registration started for “SHINOVI MASTER -SENTRAN KAGURA NEW LINK-” and “ORDINAL STRATA.” Meanwhile, the decision was taken to terminate service of some underperforming titles and the development costs were written off in a lump sum. Among existing flagship titles, “Logres of Swords and Sorcery: Goddess of Ancient” has performed weakly in comparison with the previous fiscal year and advertising expenses have increased due to the development of new TV commercials. However, the acquisition of new users has been buoyant.

As a result, segment net sales totaled 4,573 million yen (down 36.9% compared with the same period of the previous fiscal year), with segment profit of 441 million yen (down 53.9%).

(ii) Consumer Game Business

Regarding the Company’s own sales division, we released the Nintendo Switch version of the Fate/EXTELLA, which was launched for the PS Vita and PS4 in the previous fiscal year, for the domestic, North American, and European markets, and its PC version worldwide. In addition, we released “SENTRAN KAGURA PEACH BEACH SPLASH (PS4)”, which was likewise launched in the previous fiscal year, for the North American and European markets. The combination of current title sales and repeat sales of titles released in the previous fiscal year has led to a strong performance.

At the amusement division, the “Pokémon Ga-Olé,” which is currently in operation and highly rated, performed well, especially at events of the summer sales season.

As a result, segment net sales totaled 3,497 million yen (down 0.4% compared with the same period of the previous fiscal year), with segment profit of 939 million yen (up 161.5%).

(iii) Audio & Visual Business

The division's audio & video production came out with package products such as TV anime production "Kira Kira☆ Pretty Cure A La Mode" and posted continued robust Blu-ray and DVD sales of TV anime production "TOUKEN RANBU HANAMARU," which was broadcast in the previous fiscal year. In addition, secondary use revenues through the distribution, program sales, and commercialization of library works including these titles continued to perform well.

In the stage production division, stage performances of "Musical HAKUOKI" and "MUSICAL THE PRINCE OF TENNIS TEAM Live HYŌTEI" took place in April 2017, "MUSICAL THE PRINCE OF TENNIS Concert Dream Live 2017" and "JOKER GAME THE STAGE" in May, and "Touken Ranbu the Stage" and "Tokyo Ghouls the Stage" from June through July, with the results recorded in the second-quarter accounts. Moreover, we held stage performances of "B-PROJECT on STAGE OVER the WAVE!" from July to August, "MUSICAL THE PRINCE OF TENNIS 3rd Season SEIGAKU vs RIKKAI" from July to October 1st, and "Ensemble Stars! Extra Stage" ~Judge of Knights~ in September. Results are to be recorded in the third quarter accounts. Package sales, live viewings, and domestic distribution business in association with all the series also did well.

As a result, segment net sales totaled 2,962 million yen (up 31.7% compared with the same period of the previous fiscal year), with segment profit of 1,030 million yen (up 72.0%).

(2) Explanation of Consolidated Financial Position

(i) Analysis of Financial Position

At the end of the second quarter, the Group had total assets of 22,666 million yen (down 1,561 million yen from the end of the previous fiscal year), total liabilities of 6,446 million yen (down 1,242 million yen), and net assets of 16,220 million yen (down 319 million yen).

Current assets

Consolidated current assets at the end of the second quarter totaled 18,153 million yen, which was 1,131 million yen less than at the end of the previous fiscal year, due to factors including a decrease in notes and accounts receivable.

Non-current assets

Consolidated non-current assets at the end of the second quarter totaled 4,513 million yen, which was 429 million yen less than at the end of the previous fiscal year, due to decreases in property, plant, and equipment, and investments and other assets.

Current liabilities

Consolidated current liabilities at the end of the second quarter totaled 6,396 million yen, which was 1,230 million yen less than at the end of the previous fiscal year, due to decreases in accounts payable-other and income taxes payable.

Non-current liabilities

Consolidated non-current liabilities at the end of the second quarter totaled 50 million yen, which was 12 million yen less than at the end of the previous fiscal year, due to a decrease in asset retirement obligations.

Net assets

Consolidated net assets at the end of the second quarter totaled 16,220 million yen, which was 319 million yen less than at the end of the previous fiscal year as retained earnings decreased due to the payment of dividends while there was a 1,236 million yen in profit attributable to owners of parent for the period.

(ii) Analysis of Cash Flows

Consolidated cash and cash equivalents (“cash”) at the end of the second quarter totaled 10,436 million yen, up 99 million yen from the end of the previous fiscal year.

The 99 million yen increase in cash (a decrease of 2,748 million yen in the same period of the previous fiscal year) resulted from 1,979 million yen provided by operating activities (a decrease of 507 million yen compared with the same period of the previous fiscal year), which was partially offset by 230 million yen used in investing activities (a decrease of 3,363 million yen) and 1,666 million yen used in financing activities (an increase of 115 million yen).

Cash flows from operating activities

Net cash provided by operating activities totaled 1,979 million yen. Main factors were 1,810 million yen in profit before income taxes, a 1,601 million yen decrease in accounts receivable-trade, and 760 million yen in depreciation charges, which were partially offset by a 1,053 million yen decrease in accounts payable-other and 977 million yen expensed for income tax payments.

Cash flows from investing activities

Net cash used in investing activities totaled 230 million yen. Main factors were 904 million yen in proceeds from withdrawal of time deposits, which was partially offset by 46 million yen in expenditure for the purchase of property, plant, and equipment, 466 million yen in expenditure for the purchase of intangible assets, 80 million yen in expenditure for the purchase of investment securities, and 554 million yen in expenditure for payments into time deposits.

Cash flows from financing activities

Net cash used in financing activities totaled 1,666 million yen. Main factors include a 100 million yen decrease in short-term loans payable and cash dividends paid of 1,566 million yen.

(3) Explanation of Consolidated Forecasts and Other Forward-looking Statements

The consolidated forecast remains unchanged from the forecast announced on May 11, 2017.