Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2018 (Nine Months Ended December 31, 2017) (Based on J-GAAP)

January 31, 2018

Company name: Marvelous Inc.
Listing: First Section of Tokyo Stock Exchange
Stock code: 7844
URL: https://corp.marv.jp
Representative: Haruki Nakayama, Chairman, CEO
Contact: Seiichiro Kato, Director, Executive Officer, CFO, Chief Senior Director of Administration
Tel: +81-3-5769-7447

Scheduled date of filing Quarterly Securities Report: February 2, 2018

Scheduled commencement date of dividend payout: —

Preparation of supplementary materials for quarterly financial results: Yes

Holding of quarterly results briefing: None

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

1. Consolidated Financial Results for the Third Quarter of Fiscal Year Ending March 31, 2018 (April 1, 2017 – December 31, 2017)

(1) Consolidated Results of Operations (nine 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	%
3Q FY2018	17,390	(19.6)	2,962	(22.5)	2,990	(23.7)	2,025	(28.2)
3Q FY2017	21,636	(10.7)	3,821	(3.8)	3,917	(0.6)	2,820	4.8

Note: Comprehensive income (million yen): 3Q FY2018: 2,044 (down 28.5%) 3Q FY2017: 2,860 (up 6.3%)

	Net income per share	Diluted net income per share
	Yen	Yen
3Q FY2018	39.16	—
3Q FY2017	54.52	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
3Q FY2018	23,956	17,011	71.0	328.81
FY2017	24,228	16,539	68.2	319.58

Reference: Shareholders' equity (million yen): 3Q FY2018: 17,006 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	25,000	(14.9)	5,000	(13.1)	5,000	(13.9)	3,300	(20.8)	63.80

Note: Revisions to the most recently announced consolidated forecast: Yes
Please refer to the press release "Notice of Revision to Consolidated Forecast" dated today (January 31, 2018) for the forecast revision (Japanese version only).

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

In the period under review, the entertainment industry saw continued distribution of many new titles in the domestic mobile games market. Among them, titles featuring prominent IP (intellectual property), titles from China and South Korea, and female-oriented titles all raised their presence as competition heated up still further. In the domestic home-use games market, both the hardware and software markets, driven by new hardware, grew year-on-year for the first time in 11 years. Moreover, the amusement market saw a growing number of initiatives related to VR (virtual reality) for entering the internet business through and facility management operators. 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 nine months (April 1, 2017 to December 31, 2017) marked 17,390 million yen (down 19.6% compared with the same period of the previous fiscal year), with operating profit of 2,962 million yen (down 22.5%), ordinary profit of 2,990 million yen (down 23.7%), and profit attributable to owners of parent of 2,025 million yen (down 28.2%).

Results by business segment are described below.

(i) Online Game Business

The Online Game Business launched new smartphone game apps of “Sengoku Night Blood” on May 29, 2017, “OSOMATSU SAN YOKUBARI! NEET ISLAND” on September 19, 2017, and on November 29, 2017, “SHINOVI MASTER -SENRAN KAGURA NEW LINK-,” which staged a favorable start among others. Meanwhile, the decisions were taken to terminate service of some underperforming titles and to discontinue development of some titles that were under development and scheduled for release in the period under review. The development costs were written off in a lump sum. Among existing flagship titles, “Logres of Swords and Sorcery: Goddess of Ancient” generally performed weakly in comparison with the previous fiscal year despite the popularity of fourth-anniversary events.

As a result, segment net sales totaled 7,298 million yen (down 36.3% compared with the same period of the previous fiscal year), with segment profit of 902 million yen (down 63.7%).

(ii) Consumer Game Business

Regarding the Company’s own sales division, we released “Fate/EXTELLA” (Nintendo Switch) on July 20, 2017, “Shinobi Reflation - SENRAN KAGURA -” (Nintendo Switch download sale) on November 29, 2017, and “BOKUJO MONOGATARI FUTAGO NO MURA +” (Nintendo 3DS) on December 14, 2017 for the domestic market. In addition to strong sales for each of these releases, repeat sales of titles launched in previous years performed well. Overseas, our flagship series expansion for North America, Europe and elsewhere performed well.

At the amusement division, the “Pokémon Ga-Olé,” which has been in operation and highly rated since the previous fiscal year, continued to perform well. A new type of prize machine named “TRYPOD,” which began shipping in November 2017, has proved popular.

As a result, segment net sales totaled 5,839 million yen (down 10.1% compared with the same period of the previous fiscal year), with segment profit of 1,608 million yen (up 34.4%).

(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 addition, we launched the TV animation of “SENGOKU NIGHT BLOOD,” developed across the Company’s businesses, in October 2017.

In the stage production division, particularly strong performances from the new series “Touken Ranbu the Stage,” and “Ensemble Stars! Extra Stage” ~Judge of Knights~ developed in the previous period led to favorable results. In addition, new performances were staged of the regular series “MUSICAL THE PRINCE OF TENNIS,” “Musical HAKUOKI,” “Stage K,” and “Stage [Yowamushi Pedal]” (some results will be recorded in the fourth quarter accounts). The new productions “JOKER GAME THE STAGE” and “B-PROJECT on STAGE OVER the WAVE!” developed in the current period, also proved popular. Package sales, live viewings, and domestic distribution business in association with all the series also did well.

As a result, segment net sales totaled 4,280 million yen (up 15.4% compared with the same period of the previous fiscal year), with segment profit of 1,409 million yen (up 42.3%).

(2) Explanation of Consolidated Financial Position

At the end of the third quarter, the Group had total assets of 23,956 million yen (down 272 million yen from the end of the previous fiscal year), total liabilities of 6,944 million yen (down 743 million yen), and net assets of 17,011 million yen (up 471 million yen).

Current assets

Consolidated current assets at the end of the third quarter totaled 19,699 million yen, up 414 million yen from the end of the previous fiscal year, due to an increase in inventories.

Non-current assets

Consolidated non-current assets at the end of the third quarter totaled 4,257 million yen, which was 686 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 third quarter totaled 6,894 million yen, which was 731 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 third 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 third quarter totaled 17,011 million yen, up 471 million yen from the end of the previous fiscal year due to changes in retained earnings resulting from the payment of dividends in the previous fiscal year and a 2,025 million yen of profit attributable to owners of parent for the period.

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

Regarding consolidated earnings forecasts, the Consumer Game and Audio & Visual businesses performed well, outperforming initial plans, but in the Online Game Business the contribution from new titles to results of operations for the period under review was limited by a delay in the development of new titles scheduled for release in the period under review, a weak performance of some titles following their launch, termination of service for underperforming titles, and discontinued development of one title planned at the end of the period. The existing flagship title “Logres of Swords and Sorcery: Goddess of Ancient” achieved certain results at the fourth anniversary event held from November to December but was unable to make up for the delays that continued until the first half of the fiscal year, and the results throughout the year have underperformed our initial estimates. Due to these factors, both sales and profits are expected to be lower than the full-year forecast announced at the beginning of the fiscal year. Accordingly, we have revised our full-year forecasts.

For more information, please refer to the press release “Notice of Revision to Consolidated Forecast” dated today (January 31, 2018) (Japanese version only).