

Consolidated Financial Results for the Fiscal Year Ended March 31, 2018 (Based on J-GAAP)

May 10, 2018

Company name: Marvelous Inc. Listing: First Section of Tokyo Stock Exchange
 Stock code: 7844 URL: <https://corp.marv.jp>
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Scheduled date of Annual General Meeting of Shareholders: June 19, 2018
 Scheduled commencement date of dividend payout: June 4, 2018
 Scheduled date of filing Annual Securities Report: June 19, 2018
 Preparation of supplementary materials for financial results: Yes
 Holding of results briefing: Yes (For institutional investors and analysts)
 (All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2018 (April 1, 2017 – March 31, 2018)

(1) Consolidated Results of Operations

(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	%
FY2018	25,291	(13.9)	5,147	(10.6)	5,105	(12.1)	3,513	(15.6)
FY2017	29,387	(7.6)	5,754	6.2	5,810	11.1	4,165	15.6

Note: Comprehensive income (million yen): FY2018: 3,447 (down 17.5%) FY2017: 4,176 (up 17.4%)

	Net income per share	Diluted net income per share	Return on equity	Ratio of ordinary profit to total assets	Ratio of operating profit to net sales
	Yen	Yen	%	%	%
FY2018	67.94	—	20.1	20.5	20.4
FY2017	80.53	—	27.4	26.1	19.6

Note: Equity in earnings of affiliates (million yen): FY2018: — FY2017: —

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2018	25,488	18,414	72.2	355.93
FY2017	24,228	16,539	68.2	319.58

Reference: Shareholders' equity (million yen): FY2018: 18,408 FY2017: 16,528

(3) Consolidated Cash Flow Position

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY2018	4,506	(822)	(1,666)	12,305
FY2017	6,701	(3,609)	(1,451)	10,337

2. Dividends

	Dividends per share					Total dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	2Q-end	3Q-end	Year-end	Total			
FY2017	Yen -	Yen 0.00	Yen -	Yen 30.00	Yen 30.00	Millions of yen 1,566	% 37.3	% 10.2
FY2018	-	0.00	-	33.00	33.00	1,723	48.6	9.8
FY2019 (forecasts)	-	0.00	-	33.00	33.00		57.3	

Note: The year-end dividend of 33.0 yen per share of common stock for FY2018 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, 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: The first-half forecast is omitted because the Company manages financial performance on a fiscal year basis.

***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) 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

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

1) Number of shares outstanding (including treasury shares) at end of period

FY2018	53,593,100 shares	FY2017	53,593,100 shares
FY2018	1,872,421 shares	FY2017	1,872,400 shares
FY2018	51,720,680 shares	FY2017	51,720,700 shares

2) Number of treasury shares at end of period

3) Average number of shares outstanding during the period

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)."

Reference: Non-consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2018 (April 1, 2017 – March 31, 2018)

(1) Non-consolidated Results of Operations

(Percentages represent year-over-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2018	22,008	(14.7)	4,014	(10.4)	3,986	(12.5)	2,862	(7.0)
FY2017	25,812	(3.7)	4,482	12.4	4,554	17.3	3,076	27.4

	Net income per share	Diluted net income per share
	Yen	Yen
FY2018	55.35	—
FY2017	59.48	—

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY2018	22,184	15,234	68.7	294.49
FY2017	21,499	13,944	64.8	269.43

Reference: Shareholders' equity (million yen): FY2018: 15,231 FY2017: 13,935

* The current financial report is not subject to audit by certified public accountants or auditing firms.

* 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. Summary of Consolidated Business Results

(1) Summary of Business Results

In the current fiscal year, while the entertainment industry saw a decline in sales of some successful titles, various titles, such as titles featuring prominent IP (intellectual property), titles from China and South Korea, and female-oriented titles, contributed to the growth in the domestic mobile games market. 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 boomed again due to factors including an increase in customer numbers following a relaxation of entry restrictions at game centers and the popularity of prize machines. Regarding the audio & visual market, although the situation for the physical music market remains difficult, animation-related and live entertainment markets maintained 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 current fiscal year (April 1, 2017 to March 31, 2018) marked 25,291 million yen (down 13.9% compared with the previous fiscal year), with operating profit of 5,147 million yen (down 10.6%), ordinary profit of 5,105 million yen (down 12.1%), and profit attributable to owners of parent of 3,513 million yen (down 15.6%).

Results by business segment are described below.

(i) Online Game Business

The Online Game Business launched a number of smartphone game apps: “Sengoku Night Blood” in May 2017, “OSOMATSU SAN YOKUBARI! NEET ISLAND” in September, and “SHINOVI MASTER -SEN-RAN KAGURA NEW LINK-” in November. Further, two new app games were added to the lineup in the fourth quarter: “ORDINAL STRATA” in January 2018 and “Senjushi” in March 2018. Meanwhile, this business terminated services of some underperforming titles and discontinued development of some titles that were under development and scheduled to be released in the current fiscal year. The development costs were written off in a lump sum. Among existing flagship titles, “Logres of Swords and Sorcery: Goddess of Ancient” performed weakly in comparison with the previous fiscal year despite efforts at recovery through fourth-anniversary events and other factors.

As a result, segment net sales totaled 10,034 million yen (down 32.0% compared with the previous fiscal year), with segment profit of 1,390 million yen (down 57.5%).

(ii) Consumer Game Business

Regarding the Company’s own sales division, we released “Fate/EXTELLA” (Nintendo Switch) in July 2017, “Shinobi Reflation - SEN-RAN KAGURA -” (Nintendo Switch download sale) in November 2017, “BOKUJO MONOGATARI FUTAGO NO MURA +” (Nintendo 3DS) in December 2017, and “SEN-RAN KAGURA Burst Re:Newal (PS4)” in February 2018 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, the expansion of our flagship franchises for North America, Europe and elsewhere performed well. In the fourth quarter, there was a temporary income generated through sale of software and other assets.

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 we began shipping in November 2017, recorded strong sales.

As a result, segment net sales totaled 8,891 million yen (down 1.9% compared with the previous fiscal year), with segment profit of 2,969 million yen (up 45.4%).

(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 broadcasting of TV animations of "SENGOKU NIGHT BLOOD" in October 2017, "TOUKEN RANBU HANAMARU Season2" and "Fate/EXTRA Last Encore" in January 2018, and new PRECURE TV animation franchise "HUG! Pretty Cure" in February 2018.

In the stage production division, particularly strong performances from the flagship franchises "Touken Ranbu the Stages," "Ensemble Stars! Extra Stage' ~Judge of Knights~", and "Ensemble Stars! On Stage' ~To the shining future~" 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]." The current fiscal year's new productions "JOKER GAME THE STAGE," "B-PROJECT on STAGE OVER the WAVE!" and "Stage MobPsycho 100" also proved popular. Package sales, live streaming in movie theaters and web streaming services, and domestic distribution business in association with all of our franchises also did well.

As a result, segment net sales totaled 6,396 million yen (up 14.1% compared with the previous fiscal year), with segment profit of 2,052 million yen (up 28.0%).

(2) Summary of Consolidated Financial Position

The financial position of the Group at the end of the current fiscal year is as follows.

Consolidated assets at the end of the current fiscal year totaled 25,488 million yen, up 1,260 million yen from the end of the previous fiscal year, due mainly to an increase in cash and cash deposits, while there were decreases in property, plant and equipment and intangible assets.

Consolidated liabilities at the end of the current fiscal year totaled 7,074 million yen, down 614 million yen from the end of the previous fiscal year, due mainly to decreases in accounts payable-other and income taxes payable.

Consolidated net assets at the end of the current fiscal year totaled 18,414 million yen, up 1,874 million yen from the end of the previous fiscal year, due mainly to a decrease in retained earnings resulting from the payment of dividends and a recording of profit attributable to owners of parent.

(3) Summary of Cash Flows

Consolidated cash and cash equivalents ("cash") at the end of the current fiscal year totaled 12,305 million yen, up 1,968 million yen from the end of the previous fiscal year.

Cash flows and relevant factors in the current fiscal year are as follows:

Cash flows from operating activities

Net cash provided by operating activities totaled 4,506 million yen (down 32.8% compared with the previous fiscal year). Main factors were 5,034 million yen in profit before income taxes and 1,461 million yen in depreciation charges, which were partially offset by a 653 million yen increase in inventories and 1,823 million yen of taxes paid.

Cash flows from investing activities

Net cash used in investing activities totaled 822 million yen (down 77.2% compared with the previous fiscal year).

Main factors were 146 million yen in expenditure for the purchase of property, plant, and equipment, 954 million yen in expenditure for the purchase of intangible assets, 80 million yen in expenditure for the purchase of investment securities, which were partially offset by 333 million yen in proceeds from redemption of investment securities.

Cash flows from financing activities

Net cash used in financing activities totaled 1,666 million yen (up 14.8% compared with the previous fiscal year). Main factors include 100 million yen in repayments for short-term loans payable and cash dividends paid of 1,566 million yen.

Reference: Trends in cash flow indicators

	FY2014	FY2015	FY2016	FY2017	FY2018
Shareholders' equity ratio (%)	70.9	61.0	68.3	68.2	72.2
Shareholders' equity ratio based on market prices (%)	267.0	407.4	256.4	186.1	184.9
Interest-bearing debt to cash flow ratio (annual)	16.9	5.0	2.7	3.9	3.6
Interest coverage ratio (times)	490.0	704.6	4,832.4	6,643.6	4,057.6

Shareholders' equity ratio: Shareholders' equity / Total assets

Shareholders' equity ratio based on market prices: Market capitalization / Total assets

Interest-bearing debt to cash flow ratio: Interest-bearing debt / Cash flows

Interest coverage ratio: Cash flows / Interest payments

Notes: 1. All indices are calculated based on consolidated figures.

2. Market capitalization is calculated based on the number of shares outstanding, excluding treasury shares.

3. Cash flows refer to cash flows from operating activities.

4. Interest-bearing debt refers to all liabilities appearing on the consolidated balance sheet that interest is paid on. Interest payments are based on the interest payment amount of the consolidated cash flow statement.

(4) Outlook

The Online Game Business will focus on cultivating titles released in the previous fiscal year and maintaining sales of existing titles. Regarding the Consumer Game Business, in addition to introducing new game software for popular franchises, we will promote the acquisition of indie games and other items at home and abroad. In the amusement division, we will continue to develop new models. Finally, in the Audio & Visual Business, we plan to develop both anime and stage franchises with powerful IPs for while actively introducing new works.

For the fiscal year ending March 31, 2019, the Group forecasts consolidated net sales of 25,000 million yen, operating profit of 4,500 million yen, ordinary profit of 4,500 million yen, and profit attributable to owners of parent of 2,980 million yen.

2. Basic Approach to the Selection of Accounting Standards

The Company prepares financial statements and other materials in accordance with generally accepted accounting principles in Japan (J-GAAP). We are considering the voluntary application of International Financial Reporting Standards (IFRS), however, we will continue to apply the J-GAAP by comprehensively taking consideration of securing comparisons with the financial data of other companies and the possibility of fund procurement in overseas markets. We will continue to consider the voluntary application of IFRS.