Consolidated Financial Results for the Fiscal Year Ended March 31, 2019 (Based on J-GAAP)

May 13, 2019

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 Annual General Meeting of Shareholders: June 18, 2019
Scheduled commencement date of dividend payout: June 3, 2019
Scheduled date of filing Annual Securities Report: June 18, 2019
Explanatory documents supplemental to the abridged Financial Statements: Yes
Result 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, 2019 (April 1, 2018 – March 31, 2019)

(1) Consolidated Results of Operations (full-year)

(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	%
FY 2019	26,777	5.9	4,706	(8.6)	4,791	(6.2)	3,351	(4.6)
FY 2018	25,291	(13.9)	5,147	(10.6)	5,105	(12.1)	3,513	(15.6)

Note: Comprehensive income (million yen): FY 2019: 3,402 (-1.3%) FY 2018: 3,447 (-17.5%)

	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	%	%	%
FY 2019	64.80	—	17.4	18.5	17.6
FY 2018	67.94	—	20.1	20.5	20.4

Reference: Equity in earnings/losses of affiliates (million yen): FY 2019: — FY 2018: —

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY 2019	26,381	20,090	76.1	388.40
FY 2018	25,488	18,414	72.2	355.93

Reference: Shareholders' equity (million yen): FY 2019: 20,088 FY 2018: 18,408

(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
FY 2019	5,994	(4,410)	(1,723)	12,217
FY 2018	4,506	(822)	(1,666)	12,305

2. Dividends

	Dividends per share					Total dividends (annual)	Dividend payout ratio (consolidated)	Dividend on equity (consolidated)
	1Q-end	Interim	3Q-end	Year-end	Annual			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY 2018	—	0.00	—	33.00	33.00	1,723	48.6	9.8
FY 2019	—	0.00	—	33.00	33.00	1,723	50.9	8.9
FY 2020 (forecasts)	—	0.00	—	33.00	33.00		65.6	

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2020 (April 1, 2019 – March 31, 2020)

(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	26,000	(2.9)	3,800	(19.3)	3,800	(20.7)	2,600	(22.4)	50.27

Note: The Company manages financial results based on the full fiscal year. Interim (2nd quarter accumulated) results projections are therefore omitted.

***Notes**

(1) Changes in significant subsidiaries during the fiscal year under review
(changes in subsidiaries accompanying change in the scope of consolidation): None

New: None (Company name:)
Excluded: None (Company name:)

(2) 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

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

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

Reference: Non-Consolidated Financial Results

Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2019 (April 1, 2018 – March 31, 2019)

(1) Non-consolidated results of operations (full-year) (Percentages represent year-over-year changes)

	Net sales		Operating profit		Ordinary profit		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2019	24,007	9.1	4,196	4.5	4,474	12.2	3,264	14.1
FY 2018	22,008	(14.7)	4,014	(10.4)	3,986	(12.5)	2,862	(7.0)

	Net income per share	Diluted net income per share
	Yen	Yen
FY 2019	63.12	—
FY 2018	55.35	—

(2) Non-consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
FY 2019	22,681	16,767	73.9	324.18
FY 2018	22,184	15,234	68.7	294.49

Reference: Shareholders' equity (million yen): FY 2019: 16,767 FY 2018: 15,231

* The summary of financial statements is not subject to audit by a certified public accountant or by an accounting firm.

* Cautionary statement with respect to forward-looking statements

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 for the period

The entertainment industry in the period under review saw the domestic mobile games market in a sustained harsh environment, with Asian competitors figuring strongly and with Japanese market players proactively pursuing distribution rights acquisitions and co-development opportunities respectively surrounding titles originating in China and Korea. In the domestic home-use games market, while hardware sales showed signs of slowing, the software market remained steady thanks to sales launches of large titles and steep increases in download sales. Likewise, in the amusement market, prize games continued to perform well, with market size slightly larger than in the previous year. In the audio & visual market, while the anime dissemination segment expanded, the package products market continued to shrink, with more market players moving to diversify their revenue sources such as through program sales and dissemination in Japan and overseas. In the live entertainment market, competition further intensified mainly due to a serious shortage of venues in the domestic realm, while the 2.5D stage business continued to thrive.

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 consolidated operating results for the current term (April 1, 2018 to March 31, 2019) came to net sales of 26,777 million yen (up 5.9% from the previous fiscal year), operating profit of 4,706 million yen (down 8.6% from the previous fiscal year), and ordinary profit of 4,791 million yen (down 6.2% from the previous fiscal year). Profit attributable to owners of parent for the term was 3,351 million yen (down 4.6% from the previous fiscal year).

Results by business segment are described below.

(i) Online Game Business

The Business saw decrease in sales of major long-seller titles such as "Logres of Swords and Sorcery: Goddess of Ancient," but "SHINOVI MASTER -SENRAN KAGURA NEW LINK-" performed well among titles released in the previous fiscal year. However, other new titles failed to make sufficient earnings contributions, so that operations for some titles were transferred to other companies and services discontinued. Similarly, regarding titles under development, some titles were scrapped based on reviews of future earnings, with the development costs written off in a lump-sum. On the other hand, as a result of aggressive overseas business promotion centered on the Asian region, licensing agreements could be concluded with companies in China, Korea, and Taiwan, etc., which contributed to earnings. In the third quarter, the Company began structural reforms to reinforce the stagnant Online Game Business. The Company also introduced an early retirement preferential treatment system (expenses occurring from the introduction of the early retirement preferential treatment system is booked as extraordinary losses).

As a result, segment net sales totaled 9,698 million yen (down 3.3% compared with the same period of the previous year), with segment profit of 1,235 million yen (down 11.1% compared with the same period of the previous year).

(ii) Consumer Game Business

The Business's own sales operations came to market in Japan in June 2018 with its latest "Fate/EXTELLA" series production entitled "Fate/EXTELLA LINK (PS Vita/PS4)." Additionally, as a completely new production, the division launched sales of "Little Dragons Cafe HIMITSU NO RYU TO FUSHIGI NA SHIMA (Nintendo Switch/PS4)" in August 2018. Furthermore, the Company launched a new game in the "SENRAN KAGURA" series in December 2018 called "PEACH BALL SENRAN KAGURA (Nintendo Switch)." Moreover, after its sales launch last year in Japan, the overseas version of "Shinobi Reflation -SENRAN KAGURA-" was released in September 2018 in North America and Europe, followed by the overseas version of "SENRAN KAGURA Burst Re:Newal" in January 2019, and the overseas version of "Fate/EXTELLA LINK" in March 2019. Additionally, the Business recognized special revenue from the sale of mainly software assets. However, based on reviews of future earnings, some titles under development were scrapped and the development cost was written off in a lump-sum.

In the amusement division, performance of "Pokémon Ga-Olé" posted the highest level on record despite being in operation for three years. Likewise, "PokémonTRETTA" 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 10,222 million yen (up 15.0% compared with the same period of the previous year), with segment profit of 2,848 million yen (down 4.1% 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 Masketeers" with broadcasting initiated in July 2018. In addition, in October 2018, further to the broadcasting of the second season of the TV anime "Tokyo Ghoul:re," other highly popular releases were "Hug! Pretty Cure, Futari wa Pretty Cure the Movie," followed in January 2019 by "TOUKEN RANBU: THE MOVIE," and "Pretty Cure Miracle Universe the Movie" in March 2019, which also attracted large numbers of spectators.

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." For new performances for this fiscal year, the division launched "Stage: SENGOKU NIGHT BLOOD" from August 2018 and "REBORN! THE STAGE" from September 2018. Both performances received positive reviews. For each series, packaged products and secondary usage mainly for video distribution also posted favorable results.

As a result, segment net sales totaled 6,876 million yen (up 7.5% compared with the same period of the previous year), with segment profit of 2,102 million yen (up 2.4% compared with the same period of the previous year).

(2) Summary of financial position for the period

The financial position of the Group at the end of the current consolidated accounting period is as follows.

Consolidated assets at the end of the period under review totaled 26,381 million yen, up 892 million yen compared with the end of the previous fiscal year. Main factors were decreases in notes and accounts receivable-trade; property, plant and equipment; and intangible non-current assets, in addition to increases in cash and deposits and investment securities.

Consolidated liabilities at the end of the period under review totaled 6,290 million yen, down 784 million yen from the end of the previous fiscal year. The main factor was a decrease in accounts payable-other.

Consolidated net assets at the end of the fiscal year under review totaled 20,090 million yen, up 1,676 million yen from the end of the previous fiscal year. Main factors were dividend payments, causing a drop in retained earnings, and recognized net income for the period attributable to shareholders of the parent company.

(3) Summary of cash flows for the period

Consolidated net cash and cash equivalents ("Cash") at the end of the consolidated fiscal year under review totaled 12,217 million yen, down 87 million yen from the end of the previous fiscal year.

Cash flows and relevant factors in the period under review are as follows:

[Cash flows from operating activities]
Net cash provided by operating activities totaled 5,994 million yen (up 33.0% compared with the previous fiscal year). Main factors were 4,634 million yen in profit before income taxes, 1,454 million yen in depreciation charges, a 1,376 million yen decrease in accounts receivable-trade, a 777 million yen decrease in accounts payable-other, and 935 million yen in income taxes paid.

[Cash flows from investing activities]
Net cash used in investing activities totaled 4,410 million yen (which was 4.36 times higher than in the previous fiscal year). Main factors were 109 million yen in expenditure for the acquisition of property, plant and equipment, 1,169 million yen in expenditure for the acquisition of intangible non-current assets, and 2,460 million yen in expenditure for the acquisition of investment securities.

[Cash flows from financing activities]
Net cash used in financing activities totaled 1,723 million yen (which was 3.4% higher than in the previous year) due to the payment of dividends.

Reference: Trends in cash flow indicators

	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Shareholders' equity ratio (%)	61.0	68.3	68.2	72.2	76.1
Shareholders' equity ratio based on market prices (%)	407.4	256.4	186.1	184.9	168.4
Interest-bearing debt to cash flow ratio (annual)	5.0	2.7	3.9	3.6	2.7
Interest coverage ratio (times)	704.6	4,832.4	6,643.6	4,057.6	6,488.9

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 flow
Interest coverage ratio: Cash flow / Interest paid

Notes:
1. Indicators are calculated using consolidated financial figures.
2. Market capitalization is calculated using the total number of issued shares minus treasury shares.
3. Cash flow refers to cash flow 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 assemble a portfolio centered on select overseas acquisition titles and titles co-developed with established partner companies. The Consumer Game Business will work to introduce new IP and popular series of game software. The Amusement Division will launch new rhythm games while working to maintain strong sales of existing titles. The Audio & Visual Business will focus on the development of powerful IP series in both animation and stage and will proactively introduce new products.

Consolidated business results projections for the next fiscal year are for net sales of 26,000 million yen, operating profit of 3,800 million yen, ordinary profit of 3,800 million yen, and 2,600 million yen in profit attributable to owners of parent.