

Disclaimer:

This financial report is solely a translation of the “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.

July 30, 2019

SOFTBRAIN Co., Ltd.
Consolidated Financial Report for the Second Quarter of the Fiscal Year
Ending December 31, 2019
(Six Months Ended June 30, 2019)
【Japanese GAAP】

Company name: SOFTBRAIN Co., Ltd. (Tokyo Stock Exchange/Code No. 4779)

(URL <https://www.softbrain.co.jp/>)

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Scheduled date of filing of Quarterly Report: August 14, 2019

Scheduled date of dividend payment: —

Supplementary materials for quarterly financial results: Yes

Quarterly financial results briefing: Yes (for institutional investors and securities analysts)

(Amounts of less than one million yen are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Six Months Ended June 30, 2019

(January 1, 2019 - June 30, 2019)

(1) Consolidated Operating Results (Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Six months ended June 30, 2019	4,852	12.1	581	26.1	585	25.9	377	31.0
Six months ended June 30, 2018	4,328	9.8	461	5.5	464	6.6	287	-0.8

Note: Comprehensive income Six months ended June 30, 2019: 387 million yen (up 27.6%)

Six months ended June 30, 2018: 303 million yen (up 1.0%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended June 30, 2019	12.86	—
Six months ended June 30, 2018	9.82	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of June 30, 2019	6,944	4,812	66.0
As of December 31, 2018	6,861	4,712	65.4

Reference: Shareholders' equity

As of June 30, 2019: 4,585 million yen

As of December 31, 2018: 4,486 million yen

2. Dividends

	Dividends per share				
	1Q end	2Q end	3Q end	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended Dec 2018	-	0.00	-	8.00	8.00
Fiscal year ending Dec 2019	-	0.00	-		
Fiscal year ending Dec 2019 (forecast)				8.50	8.50

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

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2019 (Jan. 1, 2019 - Dec. 31, 2019)

(Percentages represent year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	9,930	8.1	1,320	7.0	1,320	6.4	840	5.4	28.64

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

* Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in changes in the scope of consolidation): None
- (2) Application of special accounting method for presenting quarterly consolidated financial statements: None
- (3) Changes in accounting policies and changes or restatements of accounting estimates
 - i. Changes in accounting policies in accordance with revisions of accounting standards, etc.: None
 - ii. Changes in accounting policies other than i. above: None
 - iii. Changes in accounting estimates: None
 - iv. Restatements: None
- (4) Number of outstanding shares (Common stock)
 - i. Number of shares outstanding at the end of the period (including treasury shares)
 - As of June 30, 2019: 30,955,000 shares
 - As of December 31, 2018: 30,955,000 shares
 - ii. Number of treasury shares at the end of the period
 - As of June 30, 2019: 1,717,300 shares
 - As of December 31, 2018: 1,622,800 shares
 - iii. Average number of shares outstanding during the period
 - Six months ended June 30, 2019: 29,336,266 shares
 - Six months ended June 30, 2018: 29,320,693 shares

Note: The number of treasury shares deducted when calculating i. and ii. includes shares held by the Master Trust Bank of Japan, Ltd. as trust assets on the Employee Stock Ownership Plan (ESOP).
The number of shares is as follows.
As of June 30, 2019: 167,300 shares
As of December 31, 2018: 72,800 shares
As of June 30, 2018: 83,100 shares

*This document is not applicable to quarterly review procedures by a certified public accountant or an audit corporation.

*Explanation for the appropriate use of financial forecasts, and other special remarks

Those forecasts regarding future performance in this report are based on the information available to the Company at the time when this report was created on certain assumptions considered reasonable. The actual performances are subject to a significant change for a variety of reasons. Regarding usage of the premises of the financial results forecasts as well as the financial results forecasts themselves, please see “1. (3) Explanation Regarding Forecast Information such as Consolidated Financial Results Forecasts” on page 3 of the Quarterly Financial Report (attached materials).

(Changes in date display)

The date display has changed from that on the Japanese calendar to that on the Western calendar since the first quarter consolidated fiscal period, 2019.

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1. Qualitative Information Regarding the Financial Report for this Period

(1) Explanation Regarding Business Results

Consolidated financial results for the Second Quarter YTD Fiscal Period were:

Net sales	4,852 million yen (up 12.1% YoY)
Operating income	581 million yen (up 26.1% YoY)
Ordinary income	585 million yen (up 25.9% YoY)
Profit attributable to owners of parent	377 million yen (up 31.0% YoY)

In this Second Quarter YTD Fiscal Period, though Japanese economy showed a robustness in consumer spending due to the special procurements caused by the change of era's name and long holidays, uncertainty over the domestic and global economic situation has increased due to the intensifying trade friction between the US and China, the worsened corporate earnings environment caused by the tendency to strong yen, and chronic labor shortage. Therefore, we have to continuously pay close attention to this economic situation.

With this economic situation, we formulated "SOFTBRAIN Medium-to-Long-Term Management Plan 2018-2020" in January 2018, and positioned this term as the preparatory phase of basic construction for stable and continuous high growth, aiming to switch our earnings model from a fluid one to a stable one.

In the Second Quarter YTD Fiscal Period, though revenue from System Development business and Publication business decreased, Sales Innovation business and Field Marketing business compensated, resulting in increased revenue. Regarding profits, though income from Sales Innovation business, Field Marketing business and System Development business increased, income from Publication business decreased. As a whole, operating income and ordinary income increased.

Financial results for each segment are as follows.

1. Sales Innovation business

For this business, regarding sales activities, we've continuously promoted development of new customers through holding seminars, and strengthened our business training for group users as well as the existing usage support services to promote the further usage by existing customers. As for development, we've continuously worked on the development to pursue the usability of our flagship product, the "e-Sales Manager" CRM/SFA software and the development of the self-serve type "e-Sales Manager Remix MS".

In this Second Quarter YTD Fiscal Period, sales of our flagship product, the "e-Sales Manager" CRM/SFA software steadily increased, so net sales were 2,560 million yen (up 15.5% YoY). Regarding profits, though development expenses for further growth and personnel expenses increased, segment profit was 409 million yen (up 27.7% YoY).

2. Field Marketing business

For this business, we've actively worked on grasping customer needs, finding projects, and proposing new projects through continuous sales activities centering on major consumer goods manufacturers, and we've promoted initiatives for developing new markets under the concept of "Field Crowdsourcing" that expanded the ranges of industries and businesses.

In this Second Quarter YTD Fiscal Period, our main services such as regular field business and human resources dispatching business were trending steadily, and our sales increased. Consequently, net sales were 1,997 million yen (up 10.6% YoY), and segment profit was 197 million yen (up 24.6% YoY).

3. System Development business

In this Second Quarter YTD Fiscal Period, effects of transaction scale shrinkage in a portion of large projects resulted in decreased revenue. However, regarding expenses, the ratio of net sales/expenses was improved as a result of cost control efforts such as reevaluation of revenue improvements through thorough project management. As a result, net sales were 194 million yen (down 3.1% YoY), and segment profit was 4 million yen (up 6.3% YoY).

4. Publication business

In this Second Quarter YTD Fiscal Period, regarding sales, revenue decreased amidst a background of decreasing publication sales. Regarding profits, efforts continued to be made to control costs, but decreased revenue resulted in expanded loss amounts.

As a result, net sales were 99 million yen (down 5.6% YoY), and segment profitability was a 30 million yen loss (it was a 22 million yen loss in the same period last year).

(2) Explanation Regarding Financial Conditions

Assets, liabilities, and net assets at the end of the Second Quarter YTD Fiscal Period were:

Assets	6,944 million yen (up 1.2% from Dec. 31, 2018)
Liabilities	2,132 million yen (down 0.8% from Dec. 31, 2018)
Net assets	4,812 million yen (up 2.1% from Dec. 31, 2018)

Analysis of the financial situation at the end of the Second Quarter YTD Fiscal Period is as follows.

“Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018), etc. have been applied to our consolidated financial report since the beginning of the First Quarter YTD Fiscal Period. Therefore, regarding the financial conditions, the figures in this fiscal period were compared and analyzed with those in the previous consolidated fiscal year, applied to the said Accounting Standard, etc.

<Assets>

Total assets at the end of the Second Quarter YTD Fiscal Period increased by 82 million yen from Dec. 31, 2018 to 6,944 million yen. The primary reason is an increase of 124 million yen in guarantee deposits.

<Liabilities>

Liabilities at the end of the Second Quarter YTD Fiscal Period decreased by 17 million yen from Dec. 31, 2018 to 2,132 million yen. The primary reason is a decrease of 96 million yen in income taxes payable.

<Net assets>

Net assets at the end of the Second Quarter YTD Fiscal Period increased by 99 million yen from Dec. 31, 2018 to 4,812 million yen. The primary reason is that the inclusion of quarterly profit attributable to owners of parent was 377 million yen and dividend of surplus was 235 million yen. As a result, shareholders' equity ratio was 66.0%.

(3) Explanation Regarding Forecast Information such as Consolidated Financial Results Forecasts

Financial results forecasts for the full fiscal year have not been revised since the consolidated financial results forecast for the fiscal year ending December 31, 2019, released on January 30, 2019.

The forecast above was made based on information obtainable at the time, and it does not account for potential risks or inaccuracies. Consequently, please be aware that actual results may differ greatly from the forecast due to various changes from initial factors.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheet

(Unit: thousand yen)

	As of Dec. 31, 2018	As of June 30, 2019
Assets		
Current assets		
Cash and deposits	4,010,159	3,993,008
Notes and accounts receivable	1,702,662	1,733,902
Merchandise	65,728	53,514
Work in process	65,917	58,518
Other	161,270	157,036
Allowance for doubtful accounts	-17,776	-11,108
Total current assets	<u>5,987,962</u>	<u>5,984,871</u>
Non-current assets		
Property, plant and equipment		
Buildings and structure	94,064	94,064
Accumulated depreciation	-42,664	-58,168
Buildings and structure (net)	<u>51,400</u>	<u>35,896</u>
Tools, appliance and fixtures	316,181	328,678
Accumulated depreciation	-243,244	-257,134
Tools, appliance and fixture (net)	<u>72,937</u>	<u>71,543</u>
Other	-	133
Total property, plant and equipment	<u>124,338</u>	<u>107,573</u>
Intangible assets		
Software	525,608	520,258
Other	915	915
Total intangible assets	<u>526,523</u>	<u>521,173</u>
Investments and other assets		
Investment securities	2,500	2,500
Guarantee deposits	134,853	259,834
Long-term delinquent loans	40,840	40,840
Deferred tax assets	82,798	65,702
Other	3,000	3,000
Allowance for doubtful accounts	-40,840	-40,840
Total investments and other assets	<u>223,152</u>	<u>331,036</u>
Total non-current assets	<u>874,014</u>	<u>959,783</u>
Total assets	<u>6,861,977</u>	<u>6,944,655</u>

(Unit: thousand yen)

	As of Dec. 31, 2018	As of June 30, 2019
Liabilities		
Current liabilities		
Accounts payable trade	324,113	326,922
Account payable other	419,592	419,797
Directors' bonuses payable	49,505	-
Short-term debt	100,000	100,000
Current portion of long-term debt	56,000	56,000
Income taxes payable	284,064	187,737
Advances received	548,758	715,815
Provision for bonuses	64,267	41,815
Provision for directors' bonuses	-	18,018
Provision for sales returns	11,461	13,166
Other	243,584	226,910
Total current liabilities	2,101,347	2,106,184
Non-current liabilities		
Long-term debt	28,000	-
Provisions for stock distribution	7,360	14,710
Other	12,935	11,557
Total non-current liabilities	48,295	26,267
Total liabilities	2,149,642	2,132,451
Net assets		
Shareholders' equity		
Capital stock	826,064	826,064
Capital surplus	367,795	367,795
Retained earnings	3,541,844	3,683,991
Treasury shares	-249,503	-292,329
Total shareholders' equity	4,486,200	4,585,521
Non-controlling interests	226,134	226,681
Total net assets	4,712,334	4,812,203
Total liabilities and net assets	6,861,977	6,944,655

(2) Quarterly Consolidated Statements of Income and Comprehensive Income
 (Quarterly Consolidated Statements of Income)
 (For the Six-month Period)

(Unit: thousand yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Net sales	4,328,512	4,852,302
Cost of sales	2,797,506	3,117,943
Gross profit	1,531,005	1,734,358
Selling, general and administrative expenses	1,069,729	1,152,592
Operating income	461,275	581,766
Non-operating income		
Interest income	66	189
Return of insurance cancellation	-	1,050
Foreign exchange gain	435	719
Subsidy income	2,255	670
Other	1,610	1,434
Total non-operating income	4,368	4,063
Non-operating expenses		
Interest expenses	475	651
Lease agreement cancellation fee	550	70
Other	-	39
Total non-operating expenses	1,025	760
Ordinary income	464,618	585,069
Profit before income taxes	464,618	585,069
Income taxes - current	149,776	180,380
Income taxes - deferred	11,132	17,096
Total income taxes	160,909	197,476
Net income	303,708	387,592
Net income attributable to:		
Non-controlling interests	15,726	10,204
Owners of parent	287,982	377,387

(Quarterly Consolidated Statements of Comprehensive Income)
(For the Six-month Period)

(Unit: thousand yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Net income	303,708	387,592
Comprehensive income	303,708	387,592
Comprehensive income attributable to:		
Owners of parent	287,982	377,387
Non-controlling interests	15,726	10,204

(3) Quarterly Consolidated Cash Flow Statement
(For the Six-month Period)

(Unit: thousand yen)

	Six months ended June 30, 2018	Six months ended June 30, 2019
Cash flows from operating activities		
Profit before income taxes	464,618	585,069
Depreciation	135,242	153,278
Change in the amount reserved for possible loan losses	2,795	- 6,667
Change in the amount reserved for employee bonuses	- 25,788	- 22,452
Change in the amount provided for sales returns	- 2,841	1,705
Interest and dividends receivable	-66	-189
Interest payable	475	651
Subsidy income	-2,255	-670
Amount of increase or decrease in advances received	235,397	167,057
Amount of increase or decrease in account receivables	26,638	-31,239
Amount of increase or decrease in inventory assets	18,569	19,613
Change in amount of trade payable	9,599	2,809
Change in amount of accounts payable	70,858	-10,577
Others	24,660	-45,185
Subtotal	957,906	813,201
Amounts of interest and dividends received	66	189
Amount of subsidy received	2,255	670
Amount of interest paid	-483	-670
Amount of income taxes paid	-171,969	-280,194
Amount of income taxes returned	1,179	8,634
Cash flows from operating activities	788,954	541,830
Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	-17,599	-3,406
Payment for acquisition of intangible fixed assets	-132,829	-112,540
Payment from supplying guarantee deposits	-323	-137,823
Income from collecting guarantee deposits	36,388	8,408
Cash flows from investing activities	-114,363	-245,361
Cash flows from financing activities		
Expenditures from the repayment of long-term debts	-25,500	-28,000
Payments on Dividends	-213,444	-239,809
Purchase of treasury stock	-	-43,530
Others	-1,939	-1,378
Cash flows from financing activities	-240,884	-312,717
Exchange differences related to cash and equivalents	-1,695	-901
Increase/decrease of cash and equivalents	432,010	-17,150
Cash and equivalents balance at the beginning	3,135,773	4,010,159
Cash and cash equivalents balance at the end of the term	3,567,784	3,993,008

(4) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

(Segment information)

[Segment information]

I. Previous Six months consolidated cumulative period (from January 1, 2018 to June 30, 2018)

1. Information about the sales and profits of each reported segment

(Unit: thousand yen)

	Reported segment				Total	Adjusted amount (Note 1)	Amounts recorded in the consolidated financial statements (Note 2)
	Sales Innovation business	Field Marketing business	System development business	Publication business			
Sales amount							
Sales to external customers	2,216,687	1,806,110	200,519	105,193	4,328,512	-	4,328,512
Internal sales or transfers between segments	13,165	976	16,789	6,879	37,810	-37,810	-
Total	2,229,853	1,807,086	217,309	112,072	4,366,322	-37,810	4,328,512
Segment profit or loss	320,405	158,793	4,533	-22,281	461,450	-175	461,275

Note 1. The adjusted amount of -175 thousand yen in segment profit or loss contains an adjustment for non-current assets of 9 thousand yen, and an adjusted amount for inventories of -184 thousand yen.

2. Segment profit is adjusted with the operating income on the consolidated quarterly profit and loss statement.

II. The Six months consolidated cumulative period (from January 1, 2019 to June 30, 2019)

1. Information about the sales and profits of each reported segment

(Unit: thousand yen)

	Reported segment				Total	Adjusted amount (Note 1)	Amounts recorded in the consolidated financial statements (Note 2)
	Sales Innovation business	Field development business	System development business	Publication business			
Sales amount							
Sales to external customers	2,560,981	1,997,736	194,288	99,296	4,852,302	-	4,852,302
Internal sales or transfers between segments	16,036	1,632	17,585	381	35,635	-35,635	-
Total	2,577,018	1,999,368	211,873	99,678	4,887,938	-35,635	4,852,302
Segment profit or loss	409,260	197,844	4,818	-30,016	581,906	-140	581,766

Note 1. The adjusted amount of -140 thousand yen in segment profit of loss contains an adjustment for non-current assets of -96 thousand yen, and an adjusted amount for inventories of -44 thousand yen.

2. Segment profit is adjusted with the operating income on the consolidated quarterly profit and loss statement.