

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.

October 30, 2019

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

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

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

Representative: Hirofumi Toyoda, President & CEO

Contact: Teppei Kinoshita, Director & CFO

Phone: +81-3-6880-9500

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

Scheduled date of dividend payment: —

Supplementary materials for quarterly financial results: No

Quarterly financial results briefing: No

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

1. Consolidated Financial Results for the Nine Months Ended September 30, 2019

(January 1, 2019 - September 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	%
Nine months ended September 30, 2019	7,159	8.1	753	-4.3	757	-4.4	479	-6.9
Nine months ended September 30, 2018	6,623	12.6	787	20.1	792	20.4	515	21.3

Note: Comprehensive income Nine months ended September 30, 2019: 498 million yen (down 7.7%)

 Nine months ended September 30, 2018: 539 million yen (up 22.1%)

	Net income per share	Diluted net income per share
	Yen	Yen
Nine months ended September 30, 2019	16.38	—
Nine months ended September 30, 2018	17.59	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Million yen	Million yen	%
As of September 30, 2019	6,804	4,927	69.0
As of December 31, 2018	6,861	4,712	65.4

Reference: Shareholders' equity

As of September 30, 2019: 4,692 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
Fiscal year ended December, 2018	Yen -	Yen 0.00	Yen -	Yen 8.00	Yen 8.00
Fiscal year ending December, 2019	-	0.00	-		
Fiscal year ending December, 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 September 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 September 30, 2019: 1,702,000 shares
 - As of December 31, 2018: 1,622,800 shares
 - iii. Average number of shares outstanding during the period
 - Nine months ended September 30, 2019: 29,303,106 shares
 - Nine months ended September 30, 2018: 29,322,023 shares

Note: The number of treasury shares deducted when calculating ii. and iii. 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 September 30, 2019: 152,000 shares
As of December 31, 2018: 72,800 shares
As of September 30, 2018: 72,900 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 Third Quarter YTD Fiscal Period were:

Net sales	7,159 million yen (up 8.1% YoY)
Operating income	753 million yen (down 4.3% YoY)
Ordinary income	757 million yen (down 4.4% YoY)
Profit attributable to owners of parent	479 million yen (down 6.9% YoY)

In this Third Quarter YTD Fiscal Period, though Japanese economy continued to be weak mainly in exports, it kept moving toward recovery moderately and indicated steady advancement as the employment and income environment continued to improve, supported by the effect of various measures. On the other hand, the outlook remains uncertain due to uncertainties in overseas economic trends and policies such as the slowdown in the Chinese economy caused by trade issues between the United States and China and the effect of the increase in crude oil prices, and changes in the financial and capital markets.

With this economic situation, we formulated “SOFTBRAIN Medium-to-Long-Term Management Plan 2018-2020” in January 2018, and positioned this term as the preparation phase of foundation for stable and continuous high growth, aiming to switching our profit model from “flow” to “stock”.

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 Third Quarter YTD Fiscal Period, sales of our flagship product, the “e-Sales Manager” CRM/SFA software steadily increased, so net sales were 3,707 million yen (up 10.1% YoY). On the other hand, regarding profits, due to development expenses for further growth and personnel expenses increased, segment profit was 498 million yen (down 4.5% 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 Third 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 3,023 million yen (up 10.1% YoY), and segment profit was 278 million yen (up 16.9% YoY).

3. System Development business

In this Third Quarter YTD Fiscal Period, effects of transaction scale shrinkage in a portion of large projects resulted in decreased revenue. Regarding expenses, as a result of cost control efforts such as reevaluation of revenue improvements through thorough project management, net sales were 290 million yen (down 5.0% YoY), and segment profit was 7 million yen (down 27.5% YoY).

4. Publication business

In this Third Quarter YTD Fiscal Period, regarding sales, revenue decreased amidst a background of decreasing publication sales. Regarding expenses, despite of the efforts on controlling costs, it fell short of offsetting the decrease in sales, and net sales were 138 million yen (down 32.4% YoY), and segment profitability was a loss of 31 million yen (it was a profit of 15 million yen in the same period last year).

(2) Explanation Regarding Financial Conditions

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

Assets	6,804 million yen (down 0.8% from Dec. 31, 2018)
Liabilities	1,876 million yen (down 12.7% from Dec. 31, 2018)
Net assets	4,927 million yen (up 4.6% from Dec. 31, 2018)

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

<Assets>

Total assets at the end of the Third Quarter YTD Fiscal Period decreased by 57 million yen from Dec. 31, 2018 to 6,804 million yen. The primary reason is a decrease of 196 million yen in notes and accounts receivable while there was an increase of 135 million yen in guarantee deposits.

<Liabilities>

Liabilities at the end of the Third Quarter YTD Fiscal Period decreased by 273 million yen from Dec. 31, 2018 to 1,876 million yen. The primary reason is a decrease of 241 million yen in income taxes payable.

<Net assets>

Net assets at the end of the Third Quarter YTD Fiscal Period increased by 215 million yen from Dec. 31, 2018 to 4,927 million yen. The primary reason is due to the inclusion of quarterly profit attributable to owners of parent, which was 479 million yen, and a decrease of 235 million yen due to dividend of surplus. As a result, shareholders' equity ratio was 69.0 %.

(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 September 30, 2019
Assets		
Current assets		
Cash and deposits	4,010,159	4,006,351
Notes and accounts receivable	1,702,662	1,505,814
Merchandise	65,728	50,065
Work in process	65,917	107,996
Other	161,270	131,105
Allowance for doubtful accounts	-17,776	-15,083
Total current assets	5,987,962	5,786,249
Non-current assets		
Property, plant and equipment		
Buildings and structure	94,064	94,064
Accumulated depreciation	-42,664	-65,843
Buildings and structure (net)	51,400	28,221
Tools, appliance and fixtures	316,181	330,353
Accumulated depreciation	-243,244	-264,298
Tools, appliance and fixture (net)	72,937	66,054
Total property, plant and equipment	124,338	94,276
Intangible assets		
Software	525,608	576,929
Other	915	915
Total intangible assets	526,523	577,845
Investments and other assets		
Investment securities	2,500	2,500
Guarantee deposits	134,853	270,572
Long-term delinquent loans	40,840	40,840
Deferred tax assets	82,798	70,071
Other	3,000	3,000
Allowance for doubtful accounts	-40,840	-40,840
Total investments and other assets	223,152	346,144
Total non-current assets	874,014	1,018,266
Total assets	6,861,977	6,804,515

(Unit: thousand yen)

	As of Dec. 31, 2018	As of September 30, 2019
Liabilities		
Current liabilities		
Accounts payable trade	324,113	370,324
Account payable other	419,592	397,368
Directors' bonuses payable	49,505	—
Short-term debt	100,000	100,000
Current portion of long-term debt	56,000	42,000
Income taxes payable	284,064	42,793
Advances received	548,758	628,716
Provision for bonuses	64,267	71,973
Provision for directors' bonuses	—	23,600
Provision for sales returns	11,461	9,248
Other	243,584	164,566
Total current liabilities	2,101,347	1,850,591
Non-current liabilities		
Long-term debt	28,000	—
Provisions for stock distribution	7,360	15,176
Other	12,935	10,865
Total non-current liabilities	48,295	26,041
Total liabilities	2,149,642	1,876,633
Net assets		
Shareholders' equity		
Capital stock	826,064	826,064
Capital surplus	367,795	367,795
Retained earnings	3,541,844	3,786,454
Treasury shares	-249,503	-287,571
Total shareholders' equity	4,486,200	4,692,743
Non-controlling interests	226,134	235,138
Total net assets	4,712,334	4,927,882
Total liabilities and net assets	6,861,977	6,804,515

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

(Unit: thousand yen)

	Nine months ended September 30, 2018	Nine months ended September 30, 2019
Net sales	6,623,073	7,159,432
Cost of sales	4,229,331	4,664,089
Gross profit	2,393,742	2,495,342
Selling, general and administrative expenses	1,606,675	1,742,329
Operating income	787,066	753,013
Non-operating income		
Interest income	136	324
Subsidy income	3,245	1,490
Return of cancellation	-	1,050
Foreign exchange gain	961	1,043
Return of insurance cancellation	347	-
Other miscellaneous income	1,429	1,657
Total non-operating income	6,120	5,564
Non-operating expenses		
Interest expenses	719	895
Provision of allowance for doubtful accounts	190	-
Other	0	39
Total non-operating expenses	909	935
Ordinary income	792,277	757,643
Extraordinary loss		
Lease agreement cancellation fee	5,690	70
Loss on retirement on non-current asset	-	1,679
Total extraordinary loss	5,690	1,749
Profit before income taxes	786,586	755,893
Income taxes current	247,635	244,654
Income taxes deferred	-899	12,726
Total income taxes	246,735	257,381
Net income	539,850	498,512
Net income attributable to:		
Non-controlling interests	24,177	18,661
Owners of parent	515,673	479,850

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

(Unit: thousand yen)

	Nine months ended September 30, 2018	Nine months ended September 30, 2019
Net income	539,850	498,512
Comprehensive income	539,850	498,512
Comprehensive income attributable to:		
Owners of parent	515,673	479,850
Non-controlling interests	24,177	18,661

(3) Notes to Consolidated Financial Statements

(Going Concern Assumption)

Not applicable.

(Significant Changes in Shareholders' Equity)

Not applicable.

(Segment information)

I. Previous Nine months consolidated cumulative period (from January 1, 2018 to September 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	3,367,477	2,745,818	305,384	204,393	6,623,073	—	6,623,073
Internal sales or transfers between segments	19,495	1,440	25,495	6,804	53,235	-53,235	—
Total	3,386,973	2,747,258	330,879	211,197	6,676,309	-53,235	6,623,073
Segment profit or loss	522,385	237,915	10,893	15,814	787,009	57	787,066

Note 1. The adjusted amount of 57 thousand yen in segment profit or loss contains an adjustment for non-current assets of 195 thousand yen, and an adjusted amount for inventories of -138 thousand yen.

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

II. The Nine months consolidated cumulative period (from January 1, 2019 to September 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	3,707,713	3,023,354	290,120	138,244	7,159,432	—	7,159,432
Internal sales or transfers between segments	24,540	2,117	26,233	763	53,654	-53,654	—
Total	3,732,254	3,025,471	316,354	139,007	7,213,087	-53,654	7,159,432
Segment profit or loss	498,872	278,165	7,901	-31,904	753,034	-20	753,013

Note 1. The adjusted amount of -20 thousand yen in segment profits or losses contains an adjusted amount for inventories of -20 thousand yen.

2. Segment profits or losses are adjusted with the operating income on the consolidated quarterly profit and loss statement.