

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, 2018

SOFTBRAIN Co., Ltd.
Consolidated Financial Report for the Second Quarter of the Fiscal Year Ending
December 31, 2018
(Six Months Ended June 30, 2018)
【Japanese GAAP】

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

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

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Scheduled date of filing of Quarterly Report: August 14, 2018

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, 2018

(January 1, 2018 - June 30, 2018)

(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, 2018	4,328	9.8	461	5.5	464	6.6	287	-0.8
Six months ended June 30, 2017	3,943	8.3	437	7.1	435	7.5	290	19.9

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

Six months ended June 30, 2017: 300 million yen (up 14.1%)

	Net income per share	Diluted net income per share
	Yen	Yen
Six months ended June 30, 2018	9.82	—
Six months ended June 30, 2017	9.91	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of June 30, 2018	6,195	4,176	64.2	135.59
As of December 31, 2017	5,836	4,084	66.7	132.79

Reference: Shareholders' equity

As of June 30, 2018: 3,975 million yen

As of December 31, 2017: 3,892 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 2017	-	0.00	-	7.00	7.00
Fiscal year ending Dec 2018	-	0.00	-		
Fiscal year ending Dec 2018 (forecast)				8.00	8.00

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

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending December 31, 2018

(Jan. 1, 2018 - Dec. 31, 2018)

(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	8,900	10.0	1,150	21.1	1,150	20.7	750	17.8	25.58

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, 2018: 30,955,000 shares
 - As of December 31, 2017: 30,955,000 shares
 - ii. Number of treasury shares at the end of the period
 - As of June 30, 2018: 1,633,100 shares
 - As of December 31, 2017: 1,640,900 shares
 - iii. Average number of shares outstanding during the period
 - Six months ended June 30, 2018: 29,320,693 shares
 - Six months ended June 30, 2017: 29,307,422 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, 2018: 83,100 shares
As of December 31, 2017: 90,900 shares
As of June 30, 2017: 96,400 shares

*This document is not applicable to quarterly review procedures.

*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).

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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	4,328 million yen (up 9.8% YoY)
Operating income	461 million yen (up 5.5% YoY)
Ordinary income	464 million yen (up 6.6% YoY)
Profit attributable to owners of parent	287 million yen (up 0.8% YoY)

In this Second Quarter YTD Fiscal Period, though revenue from the Publication business decreased, the Sales Innovation business compensated, resulting in increased revenue. However, regarding profits, although operating income and ordinary income increased due to the increased revenue, quarterly profit attributable to owners of parent decreased due to the recognition of income tax, etc.

Financial results for each segment are as follows.

Starting in the First Quarter YTD Fiscal Period, the name of the reported segment previously known as the “e-Sales Manager-related business” has been changed to the “Sales Innovation business”.

The name change to this segment will not have any effect on segment information.

1. Sales Innovation business

For this business, regarding sales activities, we promoted development of new customers with efforts like holding seminars about creating systems for increasing productivity. As for development, we’ve pursued usability such as building a usage support site for our flagship product, the “e-Sales Manager” CRM/SFA software.

In this Second Quarter YTD Fiscal Period, though sales of our flagship product, the “e-Sales Manager” CRM/SFA software steadily increased, personnel expenses and overhead expenses increased due to the increase in the number of employees for further growth and relocation of the head office.

As a result, net sales were 2,216 million yen (up 9.2% YoY), and segment profit was 320 million yen (down 8.8% YoY).

2. Field Marketing business

For this business, we’ve promoted membership expansion by advancing development of new customers—centering on major consumer goods manufacturers—while, for our POB business, creating business partnerships with major shared-points service companies with over 85 million members.

In this Second Quarter YTD Fiscal Period, subscription-based business such as package contract receipt of field activities was trending stably, and we received much more orders of spot projects such as store construction than the previous year, which made contributions to the sales increase.

Consequently, net sales were 1,806 million yen (up 16.1% YoY), and segment profit was 158 million yen (up 56.8% 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 200 million yen (down 13.8% YoY) and segment profit was 4 million yen (up 9.6% 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 105 million yen (down 16.5% YoY), and segment profitability was a 22 million yen loss (it was a 18 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	6,195 million yen (up 6.2% from Dec. 31, 2017)
Liabilities	2,019 million yen (up 15.3% from Dec. 31, 2017)
Net assets	4,176 million yen (up 2.2% from Dec. 31, 2017)

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

<Assets>

Total assets at the end of the Second Quarter YTD Fiscal Period increased by 359 million yen from Dec. 31, 2017 to 6,195 million yen. The primary reason is an increase of 432 million yen in cash and deposits.

<Liabilities>

Liabilities at the end of the Second Quarter YTD Fiscal Period increased by 267 million yen from Dec. 31, 2017 to 2,019 million yen. The primary reason is an increase of 235 million yen in advances received.

<Net assets>

Net assets at the end of the Second Quarter YTD Fiscal Period increased by 91 million yen from Dec. 31, 2017 to 4,176 million yen. The primary reason is that the inclusion of quarterly profit attributable to owners of parent was 287 million yen and dividend of surplus was 205 million yen. As a result, Shareholders' equity ratio was 64.2%.

(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, 2018, released on January 30, 2018.

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

(Thousand yen)

	As of Dec. 31, 2017	As of June 30, 2018
Assets		
Current assets		
Cash and deposits	3,135,773	3,567,784
Notes and accounts receivable	1,592,257	1,565,619
Merchandise	52,404	49,204
Work in process	53,341	37,971
Deferred tax assets	45,927	33,995
Other	203,479	167,769
Allowance for doubtful accounts	-12,606	-16,930
Total current assets	5,070,578	5,405,414
Non-current assets		
Property, plant and equipment		
Buildings and structure	82,419	84,469
Accumulated depreciation	-13,301	-27,853
Buildings and structure (net)	69,117	56,616
Tools, appliance and fixtures	284,930	300,928
Accumulated depreciation	-216,063	-231,826
Tools, appliance and fixture (net)	68,867	69,102
Other	-	769
Total property, plant and equipment	137,985	126,487
Intangible assets		
Software	461,018	502,082
Other	915	915
Total intangible assets	461,933	502,997
Investments and other assets		
Investment securities	2,500	2,500
Guarantee deposits	143,726	137,838
Long-term delinquent loans	45,606	44,077
Deferred tax assets	16,600	17,399
Other	3,000	3,000
Allowance for doubtful accounts	-45,606	-44,077
Total investments and other assets	165,826	160,737
Total non-current assets	765,745	790,223
Total assets	5,836,324	6,195,638

(Thousand yen)

	As of Dec. 31, 2017	As of June 30, 2018
Liabilities		
Current liabilities		
Accounts payable trade	283,280	292,880
Account payable other	342,314	415,424
Directors' bonuses payable	28,290	-
Short-term debt	100,000	100,000
Current portion of long-term debt	56,000	56,000
Income taxes payable	198,716	157,708
Advances received	414,908	650,306
Provision for bonuses	54,734	28,945
Provision for directors' bonuses	-	14,445
Provision for sales returns	12,865	10,024
Other	164,852	225,591
Total current liabilities	1,655,962	1,951,326
Non-current liabilities		
Long-term debt	84,000	58,500
Provisions for stock distribution	7,334	7,270
Other	4,204	2,265
Total non-current liabilities	95,539	68,035
Total liabilities	1,751,501	2,019,362
Net assets		
Shareholders' equity		
Capital stock	826,064	826,064
Capital surplus	367,795	367,795
Retained earnings	2,950,680	3,032,827
Treasury shares	-251,820	-250,822
Total shareholders' equity	3,892,719	3,975,864
Non-controlling interests	192,103	200,410
Total net assets	4,084,822	4,176,275
Total liabilities and net assets	5,836,324	6,195,638

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

(Thousand yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Net sales	3,943,100	4,328,512
Cost of sales	2,446,541	2,797,506
Gross profit	1,496,558	1,531,005
Selling, general and administrative expenses	1,059,151	1,069,729
Operating income	437,407	461,275
Non-operating income		
Interest income	58	66
Foreign exchange gain	-	435
Penalty income	105	-
Return of insurance cancellation	181	-
Subsidy income	-	2,255
Other	50	1,610
Total non-operating income	395	4,368
Non-operating expenses		
Interest expenses	683	475
Foreign exchange loss	1,284	-
Lease agreement cancellation fee	-	550
Total non-operating income	1,968	1,025
Ordinary income	435,834	464,618
Extraordinary loss		
Loss on retirement on non-current asset	1,238	-
Total extraordinary loss	1,238	-
Profit before income taxes	434,596	464,618
Income taxes current	131,272	149,776
Income taxes deferred	2,582	11,132
Total income taxes	133,855	160,909
Net income	300,741	303,708
Net income attributable to:		
Non-controlling interests	10,311	15,726
Owners of parent	290,430	287,982

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

(Thousand yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Net income	300,741	303,708
Comprehensive income	300,741	303,708
Comprehensive income attributable to:		
Owners of parent	290,430	287,982
Non-controlling interests	10,311	15,726

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

(Thousand yen)

	Six months ended June 30, 2017	Six months ended June 30, 2018
Cash flows from operating activities		
Profit before income taxes	434,596	464,618
Depreciation	100,869	135,242
The change in the amount reserved for possible loan losses	6,528	2,795
Change in the amount reserved for employee bonuses	-16,252	-25,788
Change in the amount provided for sales returns	-6,673	-2,841
Interest and dividends receivable	-58	-66
Interest payable	683	475
Loss on retirement on non-current asset	1,238	-
Amount of increase or decrease in Account receivables	38,702	26,638
Amount of increase or decrease in inventory assets	-5,828	18,569
Change in amount of accounts payable	-17,687	9,599
Change in advanced received	152,171	235,397
Others	-181,282	95,519
Subtotal	507,008	960,161
Amounts of interest and dividends received	58	66
Amount of interest paid	-678	-483
Amount of income taxes paid	-152,130	-171,969
Amount of income taxes returned	10,762	1,179
Cash flows from operating activities	365,020	788,954
Cash flows from investing activities		
Payment for acquisition of tangible fixed assets	-25,084	-17,599
Payment for acquisition of intangible fixed assets	-158,301	-132,829
Payment from supplying guarantee deposits	-3,912	-323
Income from collecting guarantee deposits	5,377	36,388
Cash flows from investing activities	-181,920	-114,363
Cash flows from financing activities		
Expenditures from the repayment of long-term debts	-28,000	-25,500
Payments on Dividends	-143,887	-213,444
Others	-704	-1,939
Cash flows from financing activities	-172,591	-240,884
Exchange differences related to cash and equivalents	-1,284	-1,695
Increase/decrease of cash and equivalents	9,224	432,010
Beginning balance of cash and equivalents	3,177,101	3,135,773
Cash and cash equivalents balance at the end of the term	3,186,325	3,567,784

(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, 2017 to June 30, 2017)

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

(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	2,029,296	1,555,314	232,521	125,968	3,943,100	-	3,943,100
Internal sales or transfers between segments	13,317	1,645	37,649	-	52,612	-52,612	-
Total	2,042,614	1,556,959	270,170	125,968	3,995,713	-52,612	3,943,100
Segment profit or loss	351,322	101,242	4,135	-18,986	437,713	-305	437,407

Note 1. The adjusted amount of -305 thousand yen in segment profit or loss contains an adjustment for non-current assets of -98 thousand yen, and an adjusted amount for inventories of -207 thousand yen.

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

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

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

(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	2,216,687	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 of loss contains an adjustment for non-current assets of 9 thousand yen, and an adjusted amount for inventories of -184 thousand yen.

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

2. Matters related to changes in reported segments etc.

(Name change to a reported segment)

Starting in the First Quarter YTD Fiscal Period, the name of the reported segment previously known as the “e-Sales Manager-related business” has been changed to the “Sales Innovation business”.

The name change to this segment will not have any effect on segment information.

Additionally, the segment information shown here for the previous Second Quarter YTD Fiscal Period was created based on the name for the reported segment after the change.