

Summary of Financial Statements for the Year Ended December 31, 2018 (J-GAAP) (Consolidated)

February 13, 2019

Company Name: Segue Group Co., Ltd. Stock Exchange: Tokyo Stock Exchange
 Code Number: 3968 URL: <http://segue-g.jp/>
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 Scheduled date of annual general meeting of shareholders: March 28, 2019
 Scheduled date of dividend payment: March 29, 2019
 Scheduled date of filing securities report: March 29, 2019
 Earnings supplementary explanatory documents: Yes
 Earnings presentation: Yes (for institutional investors and analysts)

(All amounts are rounded down to the nearest million yen)

1. Forecast for the Year Ended December 31, 2018 (from January 1, 2018, to December 31, 2018)

(1) Consolidated Results of Operations (Percentages indicate year-over-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
FY 2018	8,767	12.5	484	26.7	485	11.0	377	18.3
FY 2017	7,792	13.2	382	75.2	437	53.0	319	96.2

Note: Comprehensive income (million yen) FY 2018: 115 (-84.5%) FY 2017: 744 (429.8%)

	Net income per share	Diluted net income per share	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
FY 2018	66.30	64.42	15.8	9.3	5.5
FY 2017	57.10	54.43	16.5	9.9	4.9

Reference: Investment gains or losses using the equity method (million yen) FY 2018: - FY 2017: -

Notes: Basic earnings per share and diluted earnings per share have been calculated taking into account a common stock split executed at the ratio of two shares for one on April 1, 2017, and a common stock split executed at the ratio of two shares for one on October 1, 2017. For the purposes of the said calculations, all stock splits mentioned are assumed to have occurred at the beginning of the fiscal year ended December 31, 2017.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	Yen
FY 2018	5,350	2,450	45.8	427.77
FY 2017	5,154	2,320	45.0	409.39

Reference: Shareholders' equity (million yen) FY 2018: 2,450 FY 2017: 2,320

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of fiscal year
	million yen	million yen	million yen	million yen
FY 2018	434	-297	-43	1,663
FY 2017	670	-127	-95	1,569

2. Dividends

	Annual dividends					Total dividends paid (total)	Payout ratio (consolidated)	Ratio of dividend paid to net assets (consolidated)
	End of Q1	End of Q2	End of Q3	End of fiscal year	Total	million yen	%	%
	Yen	Yen	Yen	Yen	Yen	million yen	%	%
FY 2017	-	0.00	-	0.00	0.00	-	-	-
FY 2018	-	0.00	-	10.00	10.00	57	15.1	2.4
FY 2019 (forecast)	-	0.00	-	10.00	10.00		15.4	

3. Forecast for the Year Ending December 31, 2019 (from January 1, 2019, to December 31, 2019)

(Percentages indicate year-over-year changes)

	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	9,476	8.1	566	17.0	574	18.1	371	-1.4	64.92

* Explanatory notes

(1) Changes in major subsidiaries during the fiscal year

(changes in specified subsidiaries in conjunction with change in the scope of consolidation): Yes

One new company (company name) Falcon System Consulting Co., Ltd.

(2) Change of accounting policies; change or restatement of accounting estimates

(i) Change of accounting policies caused by revision of accounting standards : None

(ii) Change of accounting policies other than stated in (i) : None

(iii) Change of accounting estimates : None

(iv) Restatement : None

(3) Issued shares (common stock)

(i) Number of issued shares at end of period (including treasury shares)

(ii) Number of Treasury shares at end of period

(iii) Average number of shares outstanding during the period

FY 2018	5,729,200 shares	FY 2017	5,668,800 shares
FY 2018	41 shares	FY 2017	- shares
FY 2018	5,691,517 shares	FY 2017	5,586,916 shares

* The summary of financial statements is outside the scope of the audit by certified public accountant or audit firm.

* Explanation and other explanatory notes pertaining to the appropriate use of financial forecasts

- These materials contain forward-looking statements including forecasts of the Company's business performance, which are based on certain assumptions made in accordance with information currently available and judged to be reasonable and are not intended as a guarantee that the Company will achieve these targets. In addition, actual results may differ materially from these forecasts as a result of various factors, including actual business performance. For explanatory notes on the assumptions for these forecasts and the use of the financial forecasts, please refer to "1. Summary of business results (4) Outlook" on page 3 of the attached materials.
- The Company plans to hold a results briefing for institutional investors and analysts on February 18, 2019. The materials distributed at the results meeting are scheduled to be posted on the Company's website promptly after the meeting.

1. Summary of business results

(1) Summary of business results for the period under review

The Japanese economy in the period under review has proceeded on a moderate recovery track amid continuing improvements in corporate earnings and employment. The global economy too has remained on a recovery trend, although attended by a mounting sense of uncertainty over issues such as US policy trends and geopolitical risks.

The IT industry, of which the Group is a part, is increasingly focused on new technologies, specifically AI and IoT, and their areas of practical application in digital transformation and in reforms of the way companies are organizing work execution. These developments continue to fuel the investment inclination in IT overall. Efforts at strengthening security, amid the progressing diversity and complexity of cyber attacks, have been seeing ongoing measures against external threats but also investment in defenses addressing threats from within, such as access management for detecting unusual events and tools for the management of vulnerabilities. Additionally, the importance of human investment has been on the rise in areas that include training and system creation.

Under this environment, the Group expanded sales of products, services and solutions that combine products and services as we did the previous year through aggressive sales activities. We have also landed large-scale projects and continue to steadily increase sales of maintenance services. On the other hand, personnel expenses are increasing due to aggressive recruitment and the introduction of new training programs.

As a result of the above, net sales in the Solutions Products Business during the current fiscal year increased by 532,836 thousand yen (13.0%) year-over-year to 4,637,408 thousand yen, and in the Solutions Services Business they increased by 441,799 thousand yen (12.0%) to 4,129,968 thousand yen. Consolidated sales thus grew by 974,635 thousand yen (12.5%) overall to 8,767,376 thousand yen.

Income increased, with operating income rising to 484,465 thousand yen (up 102,172 thousand yen, or 26.7%), with ordinary income of 485,942 thousand yen (up 48,136 thousand yen, or 11.0%), and with 377,375 thousand yen (up 58,350 thousand yen, or 18.3%) in net income attributable to shareholders of the parent company.

(2) Summary of financial status for the period under review

Total assets at the end of the fiscal year came to 5,350,087 thousand yen, an increase of 196,065 thousand yen from the previous fiscal year. Current assets were 4,382,805 thousand yen, an increase of 303,848 thousand yen from the previous fiscal year. Non-current assets were 967,281 thousand yen, a decrease of 107,783 thousand yen from the previous fiscal year.

The main factor behind the rise in current assets was an increase in cash and deposits, and advance payments. The main factor behind the fall in non-current assets was a decrease in investment securities.

Total liabilities for the fiscal year came to 2,899,346 thousand yen, an increase of 66,048 thousand yen from the previous fiscal year. Current liabilities were 2,685,943 thousand yen, an increase of 165,666 thousand yen from the previous fiscal year. Non-current liabilities were 213,402 thousand yen, a decrease of 99,618 thousand yen from the previous fiscal year.

The main factor behind the rise in current liabilities was an increase in advances received. The main factor behind the fall in non-current liabilities was a decrease in deferred tax liabilities.

Total assets at the end of the fiscal year came to 2,450,741 thousand yen, an increase of 130,017 thousand yen from the previous fiscal year. The main factors behind this result were increases in retained earnings.

(3) Summary of cash flows for the period under review

For the current fiscal year, cash and cash equivalents came to 1,663,362 thousand yen an increase year-over-year of 93,990 thousand yen (6.0%).

For the respective cash flow categories, the primary factors were as follows.

[Cash flows from operating activities]

Cash flows from operating activities decreased by 235,265 thousand yen to a net inflow of 434,824 thousand yen. Main factors include 555,526 thousand yen in profit before income taxes, a 482,134 thousand yen increase in advances received, a 261,208 thousand yen decrease in notes and accounts payable-trade, and 172,577 thousand yen in payment of income taxes, etc.

[Cash flows from investing activities]

Cash used in investing activities totaled 297,448 thousand yen, which was 170,422 thousand yen more than in the year-earlier period. Main factors included 128,983 thousand yen in expenditure for the acquisition of intangible assets and 107,083 thousand yen in expenditure for the acquisition of property, plant, and equipment.

[Cash flows from financing activities]

Cash used in financing activities totaled 43,901 thousand yen, which was 51,595 thousand yen less than in the year-earlier period. Main factors included 38,732 thousand yen in expenditure for the repayment of long-term loans and 20,000 thousand yen in expenditure for the repayment of bonds.

Reference: Trends in cash flow indicators

	FY 2015	FY 2016	FY 2017	FY 2018
Equity ratio	32.5	41.7	45.0	45.8
Equity ratio based on market value	-	3.0	2.2	1.9
Ratio of interest-bearing debt to cash flow liabilities	29.0	1.2	0.1	-
Interest coverage ratio	2.3	45.8	408.4	2,145.2

Equity ratio: Shareholders' capital / Total assets

Equity ratio based on market value: Market value of stocks / Total assets

Ratio of interest-bearing debt to cash flow: Interest-bearing debt / Cash flow

Interest coverage ratio: Cash flow / Interest paid

Note 1: All calculations use financial values that are stated on a consolidated basis.

Note 2: The FY 2015 equity ratio based on market value is not stated because the Company's shares were not listed.

Note 3: The total market value of the Company's shares is calculated based on issued shares exclusive of treasury shares.

Note 4: Cash flow uses the value of operating cash flow.

Note 5: Interest bearing debt covers all liabilities, presented in the consolidated balance sheet for which interest is paid.

(4) Outlook

The Japanese economy in fiscal year 2019 is seen to continue on a moderate recovery path, albeit with the global economy beset by downward risk and with the consumption tax rate increase scheduled for later this year. The further outlook is expected to turn uncertain.

In the fields in which the Segue Group does business, we are projecting continued growth in the desire to invest in IT in general.

In this environment, the Group will take a proactive stance in recruitment and personnel training, work on the continued development and sales expansion of own products, widen the range of security-focused products and services, and promote cross-selling of new and pre-existing goods. Additionally, the Group will promote the cooperation with companies that own proprietary technologies and seek to accelerate their current business development.

Working at business expansion through these efforts, projections call for consolidated sales of 9,476,966 thousand yen (up 8.1% from the period under review), with operating income of 566,641 thousand yen (up 17.0%), ordinary income of 574,021 thousand yen (up 18.1%), and 371,918 thousand yen (down 1.4%) in net income attributable to the shareholders of the parent company.

2. Basic approach regarding selection of an accounting standard

In order to ensure comparability with other Japanese companies in the same industry, the Group applies the Japanese accounting standard.

3. Consolidated financial statements and major explanatory notes

(1) Consolidated balance sheets

	(units: 1,000 yen)	
	FY 2017 (as of December 31, 2017)	FY 2018 (as of December 31, 2018)
Assets		
Current assets		
Cash and deposits	1,469,381	1,663,362
Notes and accounts receivable - trade	1,102,032	1,166,419
Electronically recorded monetary claims - operating	14,416	23,445
Securities	99,990	—
Inventories	768,834	686,196
Advance payments - trade	317,612	485,479
Accounts receivable - other	225,939	266,287
Deferred tax assets	22,605	23,669
Other	58,286	69,027
Allowance for doubtful accounts	-143	-1,083
Total current assets	4,078,956	4,382,805
Non-current assets		
Property, plant and equipment		
Buildings and structures	39,244	42,974
Accumulated depreciation	-26,138	-28,114
Buildings and structures, net	13,105	14,860
Tools, furniture and fixtures	748,421	800,792
Accumulated depreciation	-596,381	-648,461
Tools, furniture and fixtures, net	152,040	152,331
Land	639	639
Leased assets	5,170	—
Accumulated depreciation	-5,117	—
Leased assets, net	52	—
Total property, plant and equipment	165,838	167,831
Intangible assets		
Goodwill	6,700	62,759
Software in progress	—	144,926
Other	27,917	11,794
Total intangible assets	34,618	219,481
Investments and other assets		
Investment securities	705,105	355,633
Long-term guarantee deposits	77,118	93,813
Deferred tax assets	10,429	44,154
Insurance funds	64,924	70,105
Claims in bankruptcy	—	2,241
Other	17,031	16,097
Allowance for doubtful	—	-2,075
Total investments and other assets	874,608	579,969
Total non-current assets	1,075,065	967,281
Total assets	5,154,021	5,350,087

(units: 1,000 yen)

	FY 2017 (as of December 31, 2017)	FY 2018 (as of December 31, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	856,368	595,159
Current portion of bonds	20,000	—
Current portion of long-term loans payable	38,732	—
Lease obligations	55	—
Accounts payable - other	103,942	112,106
Accrued expenses	128,417	146,071
Income taxes payable	105,958	129,385
Accrued consumption taxes	64,249	33,017
Provision for bonuses	—	821
Advances received	1,110,251	1,620,429
Other	92,302	48,951
Total current liabilities	2,520,277	2,685,943
Non-current liabilities		
Deferred tax liabilities	114,549	—
Net defined benefit liability	131,873	146,804
Long-term accounts payable - other	66,598	66,598
Total non-current liabilities	313,020	213,402
Total liabilities	2,833,298	2,899,346
Net assets		
Shareholders' equity		
Capital stock	498,306	505,788
Capital surplus	270,806	278,288
Retained earnings	1,142,981	1,520,357
Treasury shares	—	-79
Total shareholders' equity	1,912,094	2,304,355
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	421,293	147,002
Deferred gains or losses on hedges	-12,663	-617
Accumulated other comprehensive income	408,629	146,385
Total net assets	2,320,723	2,450,741
Total liabilities and net assets	5,154,021	5,350,087

(2) Consolidated statements of income and comprehensive income

Consolidated statement of income

(units: 1,000 yen)

	FY 2017 (from January 1, 2017, to December 31, 2017)	FY 2018 (from January 1, 2018, to December 31, 2018)
Net sales	7,792,741	8,767,376
Cost of sales	5,921,449	6,598,408
Gross margin on sales	1,871,291	2,168,967
Selling, general and administrative expenses	1,488,998	1,684,502
Operating income	382,292	484,465
Non-operating income		
Interest and dividend income	271	350
Surrender value of insurance	48,440	14,574
Subsidy income	6,670	2,182
Other	2,748	2,486
Total non-operating income	58,131	19,593
Non-operating expenses		
Interest expenses	1,617	152
Guarantee commission	381	239
Foreign exchange losses	125	17,349
Share issuance cost	365	360
Other	128	14
Total non-operating expenses	2,617	18,116
Ordinary income	437,805	485,942
Extraordinary income		
Gain on sales of investment securities	28,317	69,583
Total extraordinary income	28,317	69,583
Profit before income taxes	466,123	555,526
Income taxes - current	138,245	183,707
Income taxes - deferred	8,853	-5,556
Total income taxes	147,098	178,151
Profit	319,024	377,375
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	319,024	377,375

Consolidated statement of comprehensive income

	(units: 1,000 yen)	
	FY 2017 (from January 1, 2017, to December 31, 2017)	FY 2018 (from January 1, 2018, to December 31, 2018)
Profit	319,024	377,375
Other comprehensive income		
Valuation difference on available-for-sale securities	420,308	-274,290
Deferred gains or losses on hedges	5,073	12,046
Accumulated other comprehensive income	425,381	-262,243
Comprehensive income	744,406	115,131
(Breakdown)		
Comprehensive income attributable to owners of parent	744,406	115,131
Comprehensive income related to non-controlling interests	—	—

(3) Consolidated statement of changes in equity

FY 2017 (from January 1, 2017, to December 31, 2017)

(units: 1,000 yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	483,470	255,970	823,957	—	1,563,398
Changes during period					
Issuance of new shares	14,835	14,835			29,671
Profit attributable to owners of parent			319,024		319,024
Purchase of treasury shares				—	—
Net changes during period other than shareholders' equity					—
Total changes during period	14,835	14,835	319,024	—	348,696
Balance at end of current period	498,306	270,806	1,142,981	—	1,912,094

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total accumulated other comprehensive income	
Balance at beginning of current period	984	-17,737	-16,752	1,546,645
Changes during period				
Issuance of new shares				29,671
Profit attributable to owners of parent				319,024
Purchase of treasury shares				—
Net changes during period other than shareholders' equity	420,308	5,073	425,381	425,381
Total changes during period	420,308	5,073	425,381	774,078
Balance at end of current period	421,293	-12,663	408,629	2,320,723

FY 2018 (from January 1, 2018, to December 31, 2018)

(units: 1,000 yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	498,306	270,806	1,142,981	—	1,912,094
Changes during period					
Issuance of new shares	7,482	7,482			14,964
Profit attributable to owners of parent			377,375		377,375
Purchase of treasury shares				-79	-79
Net changes during period other than shareholders' equity					—
Total changes during period	7,482	7,482	377,375	-79	392,261
Balance at end of current period	505,788	278,288	1,520,357	-79	2,304,355 4

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total accumulated other comprehensive income	
Balance at beginning of current period	421,293	-12,663	408,629	2,320,723
Changes during period				
Issuance of new shares				14,964
Profit attributable to owners of parent				377,375
Purchase of treasury shares				-79
Net changes during period other than shareholders' equity	-274,290	12,046	-262,243	-262,243
Total changes during period	-274,290	12,046	-262,243	130,017
Balance at end of current period	147,002	-617	146,385	2,450,741

(4) Consolidated statement of cash flows

(units: 1,000 yen)

	FY 2017 (from January 1, 2017 to December 31, 2017)	FY 2018 (from January 1, 2018 to December 31, 2018)
Cash flows from operating activities		
Profit before income taxes	466,123	555,526
Depreciation	84,853	98,067
Amortization of goodwill	28,208	10,213
Increase (decrease) in allowance for doubtful accounts	-94	3,015
Increase (decrease) in net defined benefit liability	11,970	14,931
Interest and dividend income	-271	-350
Interest expenses	1,617	152
Loss (gain) on sales of investment securities	-28,317	-69,583
Foreign exchange losses (gains)	-352	-515
Decrease (increase) in notes and accounts receivable - trade	92,773	-73,414
Decrease (increase) in inventories	-466,748	82,637
Decrease (increase) in advance payments	-14,519	-167,665
Increase (decrease) in notes and accounts payable - trade	461,793	-261,208
Increase (decrease) in advances received	157,649	482,134
Other	22,209	-66,687
Subtotal	816,894	607,254
Interest and dividend income received	271	350
Interest expenses paid	-1,640	-202
Income taxes paid	-145,434	-172,577
Cash flows from operating activities	670,090	434,824
Cash flows from investing activities		
Decrease (increase) in time deposits	91,331	—
Purchase of investment securities	-108,814	-50,517
Proceeds from sales of investment securities	30,000	79,692
Purchase of property, plant and equipment	-99,635	-107,083
Proceeds from sales of property, plant and equipment	892	—
Purchase of intangible assets	-27,758	-28,983
Payments of loans receivable	—	-300
Collection of loans receivable	122	115
Purchase of subsidiary share capital associated with a change in the scope of consolidation	—	-72,000
Payments for lease and guarantee deposits	-7,537	-18,392
Proceeds from collection of lease and guarantee deposits	674	20
Purchase of memberships	-6,300	—
Cash flows from investing activities	-127,025	-297,448
Cash flows from financing activities		
Repayment of long-term loans payable	-85,004	-38,732
Redemption of bonds	-40,000	-20,000
Repayments of lease obligations	-165	-55
Proceeds from issuance of shares	29,671	14,964
Purchase of treasury shares	—	-79
Cash flows from financing activities	-95,497	-43,901
Effect of exchange rate change on cash and cash equivalents	352	515
Net increase (decrease) in cash and cash equivalents	447,920	93,990
Cash and cash equivalents at the start of the period	1,121,451	1,569,371
Cash and cash equivalents at the end of the period	1,569,371	1,663,362