

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

August 13, 2018

Company Name: Segue Group Co., Ltd. Stock Exchange: Tokyo Stock Exchange
 Code Number: 3968 URL: <http://segue-g.jp/>
 Representative: Yasuyuki Aisu, President and CEO
 Contact: Yasuhiro Fukuda, Director, Manager of Administration Department Tel.: +81-3-6228-3822
 Scheduled date of filing quarterly securities report: August 13, 2018
 Scheduled date of dividend payment: —
 Explanatory documents supplement to the abridged quarterly financial statements: Yes
 Briefing for summary of quarterly financial results: Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the Second Quarter of the Year Ending December 31, 2018 (from January 1, 2018, to June 30, 2018)

(1) Consolidated Results of Operations (for six months)

(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	%
Q2 FY 2018	4,493	20.1	288	-1.9	294	-3.4	246	14.8
Q2 FY 2017	3,740	—	294	—	304	—	214	—

Note: Comprehensive income (million yen) Q2 FY 2018: 163 (-20.8%) Q2 FY 2017: 206 (— %)

	Net income per share	Diluted net income per share
	Yen	Yen
Q2 FY 2018	43.46	42.15
Q2 FY 2017	38.78	36.70

Notes: 1. Because the Company did not prepare quarterly consolidated financial statements for the second quarter of FY 2016, comparisons of changes in earnings with the second quarter of FY 2017 are not presented.

2. Basic earnings per share and diluted earnings per share for the quarter 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
	million yen	million yen	%
Q2 FY 2018	5,495	2,490	45.3
FY 2017	5,154	2,320	45.0

Reference: Shareholders' equity (million yen) Q2 FY 2018: 2,490 FY 2017: 2,320

2. Dividends

	Annual dividends				
	End of Q1	End of Q2	End of Q3	End of fiscal year	Total
	Yen	Yen	Yen	Yen	Yen
FY 2017	—	0.00	—	0.00	0.00
FY 2018	—	0.00			
FY 2018 (forecast)			—	0.00	0.00

Note: Revision of the latest published dividend forecast: None

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

(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	8,436	8.3	458	19.9	459	4.9	362	13.5	63.90

Note: Revision of the latest published earnings forecast: None

* Explanatory notes

(1) Changes in major subsidiaries during the fiscal quarter

(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) Application of accounting procedures specific to creation of quarterly consolidated financial statements: None

(3) 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

(4) Issued shares (common stock)

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

Q2 FY 2018	5,690,000 shares	FY 2017	5,668,800 shares
Q2 FY 2018	41 shares	FY 2017	- shares
Q2 FY 2018	5,679,359 shares	Q2 FY 2017	5,542,500 shares

(ii) Number of Treasury shares at end of period

(iii) Average number of shares outstanding during the period
(cumulative quarterly statistics)

Notes: The number of common shares issued and outstanding has 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.

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

* Explanation and other explanatory notes regarding 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. Qualitative Information Concerning the Account Closing for the Period under Review (3) Explanatory information concerning future estimates including consolidated financial results projections" on page 1 of the attached materials.

- The Company plans to hold a results briefing for institutional investors and analysts on August 22, 2018. The materials distributed at the results meeting are scheduled to be posted on the Company's website promptly after the meeting.

1. Qualitative Information Concerning the Account Closing for the Period under Review

(1) Explanatory information concerning business results

The Japanese economy in the period under review has proceeded on a moderate recovery track amid continuing improvements in corporate earnings and employment. The recovery trend has been holding up also in the global economy despite remaining risks such as US policy actions and risks in the geopolitical sphere.

In the IT industry of the Group, new technologies such as AI and IoT, digital transformation making use of those technologies, work style reform, and other developments are increasingly taking center stage, and the investment inclination toward IT overall continues. In security reinforcement measures, we expect the importance of investments addressing not only external threats such as increasingly diverse and complex cyber attacks but also internal threats relating to access control and vulnerability management to detect abnormalities to increase, due in part to the revision of the Cybersecurity Management Guidelines in November 2017 and enforcement of the General Data Protection Regulation in Europe in May 2018.

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. At the same time, personnel expenses have increased as a result of aggressive hiring and the introduction of new educational programs.

As a result of the above, net sales in the Solutions Products Business during the period under review increased by 386,804 thousand yen (20.3%) year-over-year to 2,295,304 thousand yen, and in the Solutions Services Business they increased by 366,136 thousand yen (20.0%) to 2,198,155 thousand yen. Consolidated sales thus grew by 752,941 thousand yen (20.1%) overall to 4,493,460 thousand yen.

Meanwhile, operating income decreased by 5,687 thousand yen (1.9%) year-over-year to 288,336 thousand yen, ordinary income decreased by 10,379 thousand yen (3.4%) to 294,497 thousand yen, and net income attributable to shareholders of the parent company increased by 31,865 thousand yen (14.8%) to 246,804 thousand yen.

(2) Explanatory information concerning financial position

[Assets]

Total assets at the end of the period under review came to 5,495,247 thousand yen, an increase of 341,225 thousand yen from the previous fiscal year. Current assets were 4,371,802 thousand yen, an increase of 292,845 thousand yen from the previous fiscal year. Non-current assets were 1,123,444 thousand yen, an increase of 48,379 thousand yen from the previous fiscal year.

The main factor behind the rise in current assets was an increase in cash and deposits. The main factor behind the rise in non-current assets was an increase in tools, furniture and fixtures, and goodwill.

[Liabilities]

Total liabilities at the end of the period under review came to 3,004,634 thousand yen, an increase of 171,336 thousand yen from the previous fiscal year. Current liabilities were 2,721,111 thousand yen, an increase of 200,834 thousand yen from the previous fiscal year. Non-current liabilities were 283,522 thousand yen, a decrease of 29,497 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.

[Net assets]

Net assets at the end of the period under review came to 2,490,613 thousand yen, an increase of 169,889 thousand yen from the previous fiscal year. The main factors behind this result were increases in retained earnings.

(3) Explanatory information concerning future estimates including consolidated financial results projections

At this time, there are no changes to the full-year financial forecasts published on February 13, 2018. If any revisions are deemed necessary in the future, they will be disclosed immediately.

2. Consolidated financial statements and major explanatory notes

(1) Consolidated balance sheets

(units: 1,000 yen)

	FY 2017 (as of December 31, 2017)	Q2 FY 2018 (as of June 30, 2018)
Assets		
Current assets		
Cash and deposits	1,469,381	2,016,259
Notes and accounts receivable - trade	1,102,032	939,561
Electronically recorded monetary claims - operating	14,416	29,060
Securities	99,990	—
Inventories	768,834	612,200
Advance payments - trade	317,612	450,974
Accounts receivable - other	225,939	196,414
Deferred tax assets	22,605	42,609
Other	58,286	84,903
Allowance for doubtful accounts	-143	-181
Total current assets	4,078,956	4,371,802
Non-current assets		
Property, plant and equipment		
Buildings and structures	39,244	42,974
Accumulated depreciation	-26,138	-27,084
Buildings and structures, net	13,105	15,889
Tools, furniture and fixtures	748,421	800,423
Accumulated depreciation	-596,381	-617,325
Tools, furniture and fixtures, net	152,040	183,098
Land	639	639
Leased assets	5,170	—
Accumulated depreciation	-5,117	—
Leased assets, net	52	—
Total property, plant and equipment	165,838	199,627
Intangible assets		
Goodwill	6,700	67,801
Other	27,917	77,518
Total intangible assets	34,618	145,319
Investments and other assets		
Investment securities	705,105	578,675
Long-term guarantee deposits	77,118	76,423
Deferred tax assets	10,429	42,637
Insurance funds	64,924	64,516
Other	17,031	16,244
Total investments and other assets	874,608	778,497
Total non-current assets	1,075,065	1,123,444
Total assets	5,154,021	5,495,247

(units: 1,000 yen)

	FY 2017 (as of December 31, 2017)	Q2 FY 2018 (as of June 30, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	856,368	638,683
Current portion of bonds	20,000	—
Current portion of long-term loans payable	38,732	—
Lease obligations	55	—
Accounts payable - other	103,942	82,462
Accrued expenses	128,417	211,578
Income taxes payable	105,958	152,897
Accrued consumption taxes	64,249	42,159
Provision for bonuses	—	1,166
Advances received	1,110,251	1,538,610
Other	92,302	53,552
Total current liabilities	2,520,277	2,721,111
Non-current liabilities		
Deferred tax liabilities	114,549	76,307
Net defined benefit liability	131,873	140,617
Long-term accounts payable - other	66,598	66,598
Total non-current liabilities	313,020	283,522
Total liabilities	2,833,298	3,004,634
Net assets		
Shareholders' equity		
Capital stock	498,306	501,645
Capital surplus	270,806	274,145
Retained earnings	1,142,981	1,389,786
Treasury shares	—	-79
Total shareholders' equity	1,912,094	2,165,498
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	421,293	331,439
Deferred gains or losses on hedges	-12,663	-6,324
Accumulated other comprehensive income	408,629	325,114
Total net assets	2,320,723	2,490,613
Total liabilities and net assets	5,154,021	5,495,247

(2) Consolidated statements of income and comprehensive income

Consolidated statement of income
Second quarter

(units: 1,000 yen)

	Q2 FY 2017 (from January 1, 2017, to June 30, 2017)	Q2 FY 2018 (from January 1, 2018, to June 30, 2018)
Net sales	3,740,518	4,493,460
Cost of sales	2,720,332	3,389,891
Gross margin on sales	1,020,185	1,103,568
Selling, general and administrative expenses	726,161	815,231
Operating income	294,024	288,336
Non-operating income		
Interest and dividend income	70	78
Foreign exchange gains	2,887	—
Surrender value of insurance	4,090	12,093
Other	5,465	2,058
Total non-operating income	12,513	14,231
Non-operating expenses		
Interest expenses	1,181	152
Foreign exchange losses	—	7,605
Other	479	312
Total non-operating expenses	1,661	8,070
Ordinary income	304,876	294,497
Extraordinary income		
Gain on sales of investment securities	—	66,368
Total extraordinary income	—	66,368
Profit before income taxes	304,876	360,866
Income taxes - current	117,648	139,132
Income taxes - deferred	-27,710	-25,069
Total income taxes	89,937	114,062
Profit	214,939	246,804
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	214,939	246,804

Consolidated statement of comprehensive income
Second quarter

(units: 1,000 yen)

	Q2 FY 2017 (from January 1, 2017, to June 30, 2017)	Q2 FY 2018 (from January 1, 2018, to June 30, 2018)
Profit	214,939	246,804
Other comprehensive income		
Valuation difference on available-for-sale securities	102	-89,853
Deferred gains or losses on hedges	-8,789	6,339
Accumulated other comprehensive income	-8,686	-83,514
Comprehensive income	206,252	163,290
(Breakdown)		
Comprehensive income attributable to owners of parent	206,252	163,290
Comprehensive income related to non-controlling interests	—	—