

Consolidated Financial Summary for the Year Ended March 31, 2019 (Japanese Accounting Standards)

May 9, 2019

Avex Inc.

Tokyo Stock Exchange, First Section

Code No: 7860

(URL <https://avex.com/jp/en/>)

Representative: Masato Matsuura, Chairman, CEO

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Ordinary General Meeting of Shareholders: scheduled for June 21, 2019

Scheduled date for commencement of dividend payments: June 24, 2019

Securities report: to be filed on June 24, 2019

Supplementary documents for financial results: Yes

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

Note: All amounts are rounded down to the nearest million yen.

1. Consolidated operating results for the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(1) Consolidated sales and income

Note: Figures in percentages denote the year-on-year change.

	Net sales		Operating income		Ordinary income		Profit (loss) attributable to owners of parent	
Year ended	million yen	%	million yen	%	million yen	%	million yen	%
March 31, 2019	160,126	(2.0)	7,089	2.2	6,529	(0.8)	2,354	(9.5)
March 31, 2018	163,375	1.1	6,939	21.1	6,582	46.9	2,601	—

(Note) Comprehensive income Year ended March 31, 2019: ¥2,829 million (-18.8%)

Year ended March 31, 2018: ¥3,486 million (123.8%)

	Net income per share	Diluted net income per share	Ratio of net income to shareholders' equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
Year ended	yen	yen	%	%	%
March 31, 2019	54.53	54.36	4.8	5.0	4.4
March 31, 2018	60.41	60.11	5.4	5.2	4.2

(Reference) Equity in earnings of affiliates Year ended March 31, 2019: ¥(540)million

Year ended March 31, 2018: ¥(538)million

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
As of	million yen	million yen	%	yen
March 31, 2019	125,808	52,055	38.6	1,120.78
March 31, 2018	132,887	52,460	36.6	1,128.89

(Reference) Shareholders' equity As of March 31, 2019: ¥48,524 million

As of March 31, 2018: ¥48,639 million

(3) Consolidated statement of cash flows

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at end of period
Year ended	million yen	million yen	million yen	million yen
March 31, 2019	11,003	(6,381)	(10,014)	22,832
March 31, 2018	13,429	(12,919)	3,476	28,184

2. Status of dividend payments

(Record date)	Annual dividends					Total dividend payment (annual)	Payout ratio (consolidated)	Dividend on equity (consolidated)
	End of first quarter	End of second quarter	End of third quarter	End of year	Annual			
Year ended	yen	yen	yen	yen	yen	million yen	%	%
March 31, 2018	—	25.00	—	25.00	50.00	2,160	82.8	4.5
March 31, 2019	—	25.00	—	25.00	50.00	2,168	91.7	4.4
Year ending March 31, 2020 (forecast)	—	25.00	—	25.00	50.00		77.1	

3. Forecasts for consolidated sales and income for the year ending March 31, 2020 (April 1, 2019 to March 31, 2020)

Note: Figures in percentages denote the year-on-year change.

	Operating income		Profit (loss) attributable to owners of parent		Net income per share
Year ending	million yen	%	million yen	%	Yen
March 31, 2020	7,200	1.6	2,800	18.9	64.83

* Notes

(1) Changes in significant subsidiaries during the term (changes in specified subsidiaries in conjunction with changes in the scope of consolidation): Yes

New: 1 company (Company name: EntameCoin Inc.) Excluded: – companies (Company name)

(2) Changes in accounting policies and changes in or restatement of accounting estimates

1. Changes in accounting policies in conjunction with revisions to accounting standards:	None
2. Changes in accounting policies other than 1:	None
3. Changes in accounting estimates:	None
4. Restatement:	None

(3) Outstanding shares (ordinary shares)

a. Shares outstanding at end of term (including treasury stock)

As of March 31, 2019: 45,141,500 shares

As of March 31, 2018: 45,062,600 shares

b. Treasury stock at end of term

As of March 31, 2019: 1,846,078 shares

As of March 31, 2018: 1,976,286 shares

c. Average number of shares during term

Year ended March 31, 2019: 43,190,569 shares

Year ended March 31, 2018: 43,070,474 shares

(Reference) Overview of non-consolidated operating results

1. Non-consolidated operating results for the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(1) Non-consolidated sales and income

Note: Figures in percentages denote the year-on-year change.

	Net sales		Operating income		Ordinary income		Net income	
Year ended	million yen	%	million yen	%	million yen	%	million yen	%
March 31, 2019	14,627	(6.9)	3,746	145.7	3,556	571.4	3,105	258.4
March 31, 2018	15,706	4.5	1,525	1.9	529	(63.2)	866	(57.7)

	Net income per share	Diluted net income per share
Year ended	yen	yen
March 31, 2019	71.90	71.67
March 31, 2018	20.12	20.02

(2) Non-consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
Year ended	million yen	million yen	%	yen
March 31, 2019	93,696	38,772	40.8	883.68
March 31, 2018	101,157	37,669	36.5	856.28

(Reference) Shareholders' equity

Year ended March 31, 2019: ¥38,259 million

Year ended March 31, 2018: ¥36,894 million

* This summary of financial statements is outside the scope of audit procedures by certified public accountants and audit firm.

* Explanation for forecasts of operations and other notes

The forecasts for operating results and others contained in this release are based on data and information that the Group has obtained so far and specific assumptions that the Group judges to be reasonable. Please note, therefore, that the actual results and others may greatly differ from the forecasts due to various factors.

1. Operating results

(1) Breakdown of operating results

(Unit: million yen)

	Fiscal year ended March 31, 2015	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net sales	169,256	154,122	161,592	163,375	160,126
Cost of sales	118,503	107,867	116,043	114,967	113,820
Gross profit	50,752	46,255	45,549	48,408	46,306
Gross profit margin	30.0%	30.0%	28.2%	29.6%	28.9%
Personnel expenses	12,816	12,253	13,694	13,232	13,200
Sales promotion and advertising expenses	11,028	11,477	9,938	9,848	9,967
General expenses	18,232	15,247	16,187	18,388	16,048
Total SG&A expenses	42,077	38,978	39,820	41,469	39,216
Operating income	8,675	7,277	5,728	6,939	7,089
Operating margin	5.1%	4.7%	3.5%	4.2%	4.4%

The Japanese economy recovered moderately during the fiscal year under review, and it continues its modest recovery based on the proactive activity of the circulation from income to expenditure. In addition, despite risks including the uncertainty of the overseas economy, the economy is expected to remain on its modest recovery path in the meantime, while ongoing improvements in the employment and income situation continue.

In the environment surrounding the entertainment industry, to which the Group belongs, the production of music software, including music videos, was up 3.6% year on year, to 240,337 million yen (January to December 2018; according to a survey by the Recording Industry Association of Japan). Sales of paid music downloads were up 12.5% year on year, to 64,466 million yen (January to December 2018; according to a survey by the Recording Industry Association of Japan). In the video-related market, sales of video software fell 4.9% year on year, to 178,560 million yen (January to December 2018; according to a survey by the Japan Video Software Association). The digital video distribution market, on the other hand, increased in scale by 18.9% year on year, to 220,000 million yen (January to December 2018; according to an estimate by the Digital Content Association of Japan), and is expected to continue increasing in the future. The market size of the live entertainment business expanded 3.7% year on year, to 344,823 million yen (January to December 2018; according to a survey by the All Japan Concert & Live Entertainment Promoter's Conference), due to the continued trend of the rising average ticket price.

In this business environment, the Company is making active investments in the creation of hit contents and business development through collaborations with promising partners in Japan and overseas with the aim of achieving medium- to long-term growth. It is also implementing company-wide reforms such as the restructuring of its business structure to respond to the changes in the market environment and the development of an environment for cultivating energetic human resources. Moreover, to achieve these reforms, the Company launched its new management system with the aim of undertaking swifter, more strategic decision-making.

Consequently, the Group's consolidated net sales totaled 160,126 million yen (down 2.0% year on year), operating income came to 7,089 million yen (up 2.2% year on year), and profit attributable to owners of parent stood at 2,354 million yen (down 9.5% year on year).

The results in the major business segments are as follows.

a) Music Business

(Unit: million yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Change
Net sales	129,197	130,082	885
Cost of sales	90,770	92,968	2,198
Gross profit	38,427	37,113	(1,313)
Gross profit margin	29.7%	28.5%	(1.2%)
Total SG&A expenses	32,104	30,364	(1,739)
Operating income	6,322	6,749	426
Operating margin	4.9%	5.2%	0.3%
Sales to external customers	128,181	129,137	956

Net sales reached 130,082 million yen (up 0.7% year on year) and operating income came to 6,749 million yen (up 6.7% year on year), which was primarily attributable to due in part to growth in sales of music software products in the Music Business.

b) Anime Business

(Unit: million yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Change
Net sales	14,265	14,124	(141)
Cost of sales	9,665	10,472	807
Gross profit	4,600	3,651	(949)
Gross profit margin	32.2%	25.9%	(6.4%)
Total SG&A expenses	3,193	3,847	654
Operating income (loss)	1,407	(195)	(1,603)
Operating margin	9.9%	—	—
Sales to external customers	11,033	11,552	518

Net sales totaled 14,124 million yen (down 1.0% year on year) and operating loss came to 195 million yen (compared to an operating income of 1,407 million yen in the previous fiscal year), as a result of factors such as a decrease in sales of video software products.

c) Digital Business

(Unit: million yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Change
Net sales	22,771	17,533	(5,238)
Cost of sales	17,150	12,146	(5,003)
Gross profit	5,621	5,386	(234)
Gross profit margin	24.7%	30.7%	6.0%
Total SG&A expenses	3,862	3,761	(101)
Operating income	1,758	1,625	(133)
Operating margin	7.7%	9.3%	1.5%
Sales to external customers	22,674	17,443	(5,231)

Due partly to a decrease in the number of subscribers to digital video distribution services, net sales fell 23.0%, to 17,533 million yen, and operating income reached 1,625 million yen (down 7.6% year on year).

d) Overseas Business

(Unit: million yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Change
Net sales	2,050	1,810	(239)
Cost of sales	1,063	1,412	348
Gross profit	986	397	(588)
Gross profit margin	48.1%	22.0%	(26.1%)
Total SG&A expenses	2,432	1,908	(523)
Operating income (loss)	(1,445)	(1,510)	(65)
Operating margin	—	—	—
Sales to external customers	1,397	1,810	412

Overseas business resulted in net sales of 1,810 million yen (down 11.7% year on year) and operating loss of 1,510 million yen (compared to an operating loss of 1,445 million yen in the previous fiscal year).

e) Others

(Unit: million yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Change
Net sales	573	1,262	689
Cost of sales	170	598	427
Gross profit	402	664	261
Gross profit margin	70.2%	52.6%	(17.6%)
Total SG&A expenses	246	241	(5)
Operating income	156	422	266
Operating margin	27.2%	33.5%	6.3%
Sales to external customers	88	182	94

In Others, net sales amounted to 1,262 million yen (up 120.2% year on year), and operating income came to 422 million yen (up 170.8% year on year).

(2) Breakdown of financial position

a) Status of consolidated assets, liabilities, and net assets

At the end of the consolidated fiscal year under review, total assets had decreased by 7,079 million yen compared to the end of the previous consolidated fiscal year, to 125,808 million yen. This was mainly due to an increase of 1,423 million yen in investment securities, which was offset by a decrease of 5,351 million yen in cash and deposits, 2,100 million yen in notes and accounts receivable, and 715 million yen in other current assets.

Liabilities decreased by 6,674 million yen compared to the end of the previous consolidated fiscal year, to 73,753 million yen. This was mainly due to an increase of 3,827 million yen in other current liabilities and 2,203 million yen in advances received, which was offset by a decrease of 4,000 million yen in short-term loans payable, 3,724 million yen in accounts payable-other, and 3,074 million yen in long-term loans payable.

Net assets fell by 404 million yen compared to the end of the previous consolidated fiscal year, to 52,055 million yen. This was mainly due to a decrease of 233 million yen in treasury stock (an increase in net assets), which was offset by a decrease of 332 million yen in retained earnings and 261 million yen in subscription rights to shares.

b) Consolidated cash flows

The balance of cash and cash equivalents (hereinafter “cash”) at the end of the consolidated fiscal year under review was 22,832 million yen (28,184 million yen at the end of the previous fiscal year).

Net cash provided by operating activities stood at 11,003 million yen (13,429 million yen a year earlier). This was mainly due to a decrease of 3,976 million yen in accounts payable-other and 3,602 million yen in income and other taxes paid, which was offset by an increase of capital due to 5,390 million yen in income before income taxes, 3,385 million yen in depreciation and amortization, and an increase of 2,203 million yen in advances received and a decrease of 2,162 million yen in notes and accounts receivable-trade.

Net cash used in investing activities was 6,381 million yen (12,919 million yen a year earlier). This was mainly due to a decrease of capital due to an increase of 2,445 million yen in the purchase of investment securities, 1,961 million yen in the purchase of intangible assets and 1,881 million yen in the purchase of property, plant and equipment.

Net cash used in financing activities stood at 10,014 million yen (3,476 million yen a year earlier). This was mainly due to a decrease of capital due to a decrease of 4,000 million yen in short-term loans, 3,168 million yen in the repayment of long-term loans, and 2,166 million yen in cash dividends paid.

(Reference) Trends in cash flow indices

	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2018	Year ended March 31, 2019
Shareholders' equity ratio (%)	41.9	44.2	40.6	36.6	38.6
Shareholders' equity ratio at market value (%)	71.1	56.6	58.6	48.5	50.8
Debt to cash flow ratio (%)	0.9	1.1	2.3	1.9	1.7
Interest coverage ratio	149.6	197.2	283.2	177.2	152.2

Shareholders' equity ratio: Shareholders' equity/Total assets

Shareholders' equity ratio at market base: Market capitalization/Total assets

Debt to cash flow ratio: Interest-bearing liabilities/Operating cash flows

Interest coverage ratio: Operating cash flow/Interest payments

Note: 1. All indices are calculated based on consolidated figures.

2. Market capitalization = Closing share price at fiscal year end X Outstanding shares at fiscal year end (after deducting treasury stock)

3. Operating cash flow: Cash flow from operating activities in the consolidated cash flow statement

4. Interest-bearing liabilities: All interest-bearing liabilities that are booked on the consolidated balance sheet and for which interest has been paid

5. Interest payments: Interest payments from the consolidated cash flow statement

(3) Future outlook

The Group expects that consolidated operating income will be 7,200 million yen and profit attributable to owners of parent will be 2,800 million yen in the fiscal year ending March 31, 2020.

(4) Basic profit distribution policy and dividend payout for the period under review and the period following

One of our most important management tasks is to ensure comprehensive, long-lasting profit distribution to our shareholders. In determining the amount of dividends, we thoroughly evaluate factors such as consolidated performance, cash flows, and future funding requirements. The level of performance-linked dividends is a dividend ratio of 35% on a consolidated basis or more. The minimum level of the annual dividend per share is 50 yen.

Based on our basic policy to achieve a dividend ratio of at least 35% on a consolidated basis, the Company plans to pay a year-end dividend of 25 yen per share for the fiscal year ended March 31, 2019. Combined with the interim dividend of 25 yen per share, the annual dividend will be 50 yen per share.

We plan to pay an annual dividend of 50 yen per share for the next fiscal year. If the results forecasts are revised, we will review the annual dividend.

(5) Business and other risks

a) Trends in major titles, artists and talents

The Group utilizes the rights that it holds as a content holder in its various businesses. Consequently, the Group's business performance can be affected by whether or not the Group has any hit artists and hit content, and by the popularity of major artists and talents, contract duration, and growth of new artists and talent.

b) Operations in overseas markets

The major markets for our overseas businesses are in Asia where significant growth is expected in the future. In the event that an unexpected incident occurs in any of the overseas markets due to a change in political or economic conditions or legal or regulatory elements, disadvantageous taxes, or social disorder caused by terrorist attack, war, or the like, it is possible that our overseas operations and performance may be affected.

c) Impairment loss

When market values of the assets held by the Group decrease significantly, or business profitability deteriorates, an impairment loss in noncurrent assets may be recorded by applying impairment accounting, which would affect the Group's businesses and financial position.

d) Fundraising

The Group raises some of the funds used to acquire real estate through borrowings from financial institutions. If interest rates change, the Group's performance may be affected.

In addition, part of the borrowings have a financial restriction clause. Infringement on the clause may affect the business performance and financial position of the Group. For example, the borrowing interest rate will be raised, and/or the benefit of time will be forfeited, etc.

e) Business in the digital domain

The Group is actively expanding business in the digital domain, but there is the undeniable possibility of risks arising in the process of execution of this business due to a sudden change in the business environment, such as technical innovation and emergence of competitions, or an unforeseeable problem which materializes afterwards, and this may affect the Group's performance.

f) Dependency on the specific corporate manager

Chairman, CEO Masato Matsuura, one of the founders of Avex, has been playing the important role in formulating and determining Group management strategies and concluding contracts with important business partners and artists. In the event that Mr. Matsuura leaves the Group for any reason, the performance of the Group may be affected.

2. Corporate structure

The Group comprises a total of 26 companies, including Avex Inc., 19 consolidated subsidiaries, and 6 equity-method affiliates. The Music Business, Anime Business, Digital Business, Overseas Business, and other businesses are operated under the Group. The primary operations of each business segment and positioning of primary consolidated subsidiaries and their businesses are as follows.

Business segment	Primary operations	Primary consolidated subsidiaries
Music Business	Planning, production and sales of music content, digital distribution, music publishing, management of artists and talent, merchandising, fan club operation, concert and event planning, production and operation	Avex Entertainment Inc. Avex Management Inc. Avex Music Publishing Inc. Avex Travel Creative Inc. Avex AY Factory LLC. Avex Classics International Inc.
Anime Business	Planning, production and sales of video content, digital video distribution, and film distribution	Avex Pictures Inc. The Anime Times Company anchor Inc.
Digital Business	Planning, production, sales and distribution of digital content	Avex Digital Inc. Avex Broadcasting & Communications Inc.
Overseas Business	Planning, production and sales of entertainment content	Avex Asia Pte. Ltd. Avex China Inc. Avex Hong Kong Limited Avex USA Inc. Avex Taiwan Inc. Avex Shanghai Co., Ltd.
Other Businesses	Issuance, sales, and management of electronic value information of e-money, etc. and prepaid payment instruments, provision of electronic settlement systems	EntameCoin Inc.

3. Management policies

(1) Basic management policy

The Group has established the corporate philosophy “Really! Mad + Pure” and aims to become a company that continues to provide surprises and sensation to the world by always striving to find new challenges through ideas that defy convention.

(2) Targeted management index

The Group targets operating income of 20 billion yen as the numerical target for the fiscal year ending March 2024, and it is making efforts to achieve the target.

(3) Medium- and long-term business strategy

The Group will enhance its businesses primarily in the music, anime, video and digital fields with the aim of becoming a future-oriented entertainment company. It will also commit itself to expanding the business and improving corporate value through the reinforcement of group-wide optimization in order to promote synergy between businesses and through positive endeavors to create new hits and businesses.

(4) Pending tasks

The Group intends to focus on the following six areas, which it regards as important management issues, in order to further improve its business performance and create sustainable corporate value based on its tag line (corporate philosophy) “Really! Mad + Pure.”

a) Creation of hit content

The Group is aware that our biggest proposition is the creation of hit content as a content owner, while the increasingly diverse consumption behavior of users is anticipated. Through the establishment of an integrated system encompassing every process from discovery and training to the management of artists and talents, the Group will concentrate its management resources on the creation of hits and promote new initiatives for the creation of hit content in line with an increasingly diverse range of users’ needs.

b) Creation of IP using new technology

The Group aims to create new intellectual property rights (IP) on a continuous basis in the changing market environment in line with advancing technology. Based on the concept of “**Entertainment x Tech x Global**,” the synergy of entertainment and technology will be maximized to enhance the efforts for the creation of IP using new technology.

c) Evolution of business infrastructure

The Group recognizes the importance of developing its advantageous 360-degree business in entertainment into a more user-friendly one. The Group aims to improve customer satisfaction by working on the evolution of the business infrastructure for the improvement of convenience and the expansion of services including fan clubs, EC sites, sales of tickets and distribution services of music and videos.

d) Promotion of global deployment

The Group is aware of the importance of the pursuit of business opportunities not only in Japan but also overseas in order to win further market opportunities. In addition to artists and talents, and music and video content, the Group will proactively deploy a variety of IPs in the entertainment market in Asia including lives events, and it will invest in promising start-up companies mainly in Europe and the US with the aim of creating IPs that will be supported worldwide.

e) Strengthening human resource development

The Group recognizes that it is essential to strengthen human resource development in order to respond to the changing business environment and expansion of its operations and to achieve further growth. By promoting energetic human resources proactively, regardless of age, sex, and nationality, the Group will foster next-generation management. By promoting workstyle reform, it aims to be a company where each of its employees works with his/her own will and energy.

f) Fostering a corporate culture

The Group feels that it needs to foster a corporate culture that infinitely pursues the founding spirit, aimed at surprising and inspiring people around the world through entertainment. Under the tag line of “Really! Mad +

Pure,” the Group will strengthen in-house communications to share the same values between the management and employees. It will understand the compliance policy as the criteria for all actions and judgments in conducting business activities, aiming to improve the provision of value to customers.

4. Basic Approach to the Selection of Accounting Standards

The Group’s policy is to prepare its consolidated financial statements in accordance with Japanese accounting standards for the time being, to facilitate comparisons between periods and comparisons between companies.

The Group will address the issue of adoption of International Financial Reporting Standards (IFRS) as appropriate, taking into consideration conditions both inside and outside of Japan.

5. Consolidated Financial Statements and Key Notes**(1) Consolidated Balance Sheets**

(Unit: million yen)

	As of March 31, 2018	As of March 31, 2019
(Assets)		
Current assets		
Cash and deposits	28,184	22,832
Notes and accounts receivable-trade	19,963	17,863
Merchandise and finished goods	1,582	1,799
Programs and works in progress	3,676	3,924
Raw materials and supplies	420	390
Advance payments-trade	1,246	1,291
Prepaid expenses	1,579	1,435
Advance royalty payments	4,120	3,586
Other current assets	5,823	5,108
Allowance for doubtful accounts	(187)	(185)
Total current assets	66,410	58,047
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	15,792	16,473
Land	29,770	29,770
Other property, plant and equipment, net	1,409	1,403
Total property, plant and equipment	46,972	47,647
Intangible assets	5,117	4,729
Investments and other assets		
Investment securities	7,085	8,509
Long-term prepaid expenses	490	45
Deferred tax assets	5,546	5,538
Other investments and other assets	1,564	1,322
Allowance for doubtful accounts	(299)	(31)
Total investments and other assets	14,387	15,384
Total noncurrent assets	66,477	67,761
Total assets	132,887	125,808

(Unit: million yen)

	As of March 31, 2018	As of March 31, 2019
(Liabilities)		
Current liabilities		
Notes and accounts payable-trade	1,716	1,412
Short-term loans payable	11,500	7,500
Current portion of long-term loans payable	3,058	3,058
Accounts payable-other	29,590	25,866
Accrued royalties	9,058	7,546
Income taxes payable	1,100	986
Advances received	3,899	6,102
Provision for bonuses	932	1,264
Allowance for returned goods	4,337	3,827
Provision for point card certificates	50	55
Other current liabilities	2,823	6,651
Total current liabilities	68,068	64,272
Noncurrent liabilities		
Long-term loans payable	10,692	7,617
Liabilities for retirement benefits	540	568
Other noncurrent liabilities	1,124	1,293
Total noncurrent liabilities	12,359	9,480
Total liabilities	80,427	73,753
(Net assets)		
Shareholders' equity		
Capital stock	4,275	4,333
Capital surplus	5,045	5,051
Retained earnings	43,220	42,888
Treasury stock	(3,798)	(3,565)
Total shareholders' equity	48,742	48,708
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	33	120
Deferred gains or losses on hedges	(0)	—
Foreign currency translation adjustments	42	(67)
Total of accumulated retirement benefits	(178)	(237)
Total of accumulated other comprehensive income	(102)	(183)
Subscription rights to shares	775	513
Non-controlling interests	3,044	3,017
Total net assets	52,460	52,055
Total liabilities and net assets	132,887	125,808

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Consolidated statements of income)

(Unit: million yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net sales	163,375	160,126
Cost of sales	114,967	113,820
Gross profit	48,408	46,306
Selling, general and administrative expenses		
Advertising expenses	7,573	7,347
Promotion expenses	2,274	2,620
Provision of allowance for doubtful accounts	(23)	(0)
Employee salaries and bonuses	8,024	7,740
Provision for bonus payments	933	1,264
Retirement benefit cost	219	290
Depreciation	2,334	2,161
Commission fee	6,311	6,314
Other selling, general and administrative expenses	13,821	11,477
Total selling, general and administrative expenses	41,469	39,216
Operating income	6,939	7,089
Non-operating income		
Interest income	11	15
Dividend income	9	13
Exchange gain	—	119
Gain on investments in partnership	339	—
Other non-operating income	100	57
Total non-operating income	461	206
Non-operating expenses		
Interest expenses	72	76
Equity in losses of affiliates	538	540
Loss on investments in partnership	—	93
Commission fee	3	15
Foreign exchange losses	201	—
Other non-operating expenses	1	41
Total non-operating expenses	818	767
Ordinary income	6,582	6,529
Extraordinary income		
Gain on reversal of subscription rights to shares	88	235
Gain on transfer from business divestitures	—	56
Total extraordinary income	88	292

(Unit: million yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Extraordinary loss		
Impairment loss	—	496
Loss on liquidation of business	—	783
Loss on change in equity	—	97
Loss on sales of investment securities	—	31
Loss on valuation of investment securities	17	10
Loss on retirement of noncurrent assets	28	8
Reversal of foreign currency translation adjustment	179	2
Total extraordinary loss	225	1,430
Income before income taxes	6,445	5,390
Income taxes-current	1,940	2,484
Income taxes-deferred	1,218	(4)
Total income and other taxes	3,158	2,479
Net income	3,287	2,910
Profit attributable to non-controlling interests	685	555
Profit attributable to owners of parent	2,601	2,354

(Consolidated statements of comprehensive income)

(Unit: million yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net income (loss)	3,287	2,910
Other comprehensive income		
Valuation difference on available-for-sale securities	(32)	101
Foreign currency translation adjustments	232	(60)
Adjustment for retirement benefits	(7)	(52)
Share of other comprehensive income of associates accounted for using equity method	6	(69)
Total other comprehensive income	199	(80)
Comprehensive income	3,486	2,829
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	2,801	2,274
Comprehensive income attributable to non-controlling interests	685	555

(3) Consolidated statements of changes in shareholders' equity

Fiscal year ended March 31, 2018

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of the fiscal year	4,229	4,999	42,827	(3,705)	48,350
Changes of items during the period					
Issuance of new shares	45	45			91
Dividends from surplus			(2,156)		(2,156)
Profit (loss) attributable to owners of parent			2,601		2,601
Purchase of treasury stock				(289)	(289)
Disposal of treasury stock		(51)		196	144
Transfer to capital surplus from retained earnings		51	(51)		—
Change of scope of equity method					—
Change in ownership interest of parent due to transactions with non-controlling interests					—
Net changes of items other than shareholders' equity					
Total changes of items during the period	45	45	393	(93)	391
Balance at end of the fiscal year	4,275	5,045	43,220	(3,798)	48,742

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total of accumulated retirement benefits	Total of accumulated other comprehensive income			
Balance at beginning of the fiscal year	48	(0)	(175)	(174)	(301)	760	3,039	51,849
Changes of items during the period								
Issuance of new shares								91
Dividends from surplus								(2,156)
Profit (loss) attributable to owners of parent								2,601
Purchase of treasury stock								(289)
Disposal of treasury stock								144
Transfer to capital surplus from retained earnings								—
Change of scope of equity method								—
Change in ownership interest of parent due to transactions with non-controlling interests								—
Net changes of items other than shareholders' equity	(15)	(0)	218	(3)	199	14	4	218
Total changes of items during the period	(15)	(0)	218	(3)	199	14	4	610
Balance at end of the fiscal year	33	(0)	42	(178)	(102)	775	3,044	52,460

Fiscal year ended March 31, 2019

(Unit: million yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of the fiscal year	4,275	5,045	43,220	(3,798)	48,742
Changes of items during the period					
Issuance of new shares	58	58			116
Dividends from surplus			(2,164)		(2,164)
Profit (loss) attributable to owners of parent			2,354		2,354
Purchase of treasury stock				(0)	(0)
Disposal of treasury stock		(37)		233	196
Transfer to capital surplus from retained earnings		37	(37)		–
Change of scope of equity method			(485)		(485)
Change in ownership interest of parent due to transactions with non-controlling interests		(52)			(52)
Net changes of items other than shareholders' equity					
Total changes of items during the period	58	6	(332)	233	(34)
Balance at end of the fiscal year	4,333	5,051	42,888	(3,565)	48,708

	Accumulated other comprehensive income					Subscription rights to shares	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Total of accumulated retirement benefits	Total of accumulated other comprehensive income			
Balance at beginning of the fiscal year	33	(0)	42	(178)	(102)	775	3,044	52,460
Changes of items during the period								
Issuance of new shares								116
Dividends from surplus								(2,164)
Profit (loss) attributable to owners of parent								2,354
Purchase of treasury stock								(0)
Disposal of treasury stock								196
Transfer to capital surplus from retained earnings								–
Change of scope of equity method								(485)
Change in ownership interest of parent due to transactions with non-controlling interests								(52)
Net changes of items other than shareholders' equity	87	0	(110)	(58)	(80)	(261)	(27)	(370)
Total changes of items during the period	87	0	(110)	(58)	(80)	(261)	(27)	(404)
Balance at end of the fiscal year	120	–	(67)	(237)	(183)	513	3,017	52,055

(4) Consolidated statements of cash flows

(Unit: million yen)

	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net cash provided by (used in) operating activities		
Income (loss) before income taxes	6,445	5,390
Depreciation and amortization	4,109	3,385
Impairment loss	—	496
Loss on liquidation of business	—	783
Increase (decrease) in provision for bonuses	207	331
Increase (decrease) in allowance for returned goods	9	(510)
Net increase (decrease) in valuation reserve for inventory purchase commitments	(763)	—
Increase (decrease) in provision for loss on business liquidation	(126)	—
Increase (decrease) in provision for point card certificates	4	5
Increase (decrease) in net defined benefit liability	(782)	(55)
Interest and dividend income	(21)	(29)
Interest expenses	72	76
Loss (gain) on investments in partnership	(339)	93
Equity in (earnings) losses of affiliates	538	540
Gain on reversal of subscription rights to shares	(88)	(235)
Loss (gain) on valuation of investment securities	17	10
Share-based compensation expenses	269	193
Decrease (increase) in notes and accounts receivable-trade	239	2,162
Decrease (increase) in inventories	(187)	(431)
Decrease (increase) in advance payments	(80)	(64)
Decrease (increase) in advance royalty payments	(319)	622
Increase (decrease) in notes and accounts payable-trade	(489)	(367)
Increase (decrease) in accounts payable-other	9,644	(3,976)
Increase (decrease) in accrued royalties	922	(1,508)
Increase (decrease) in advances received	1,165	2,203
Other	(2,202)	3,819
Subtotal	18,246	12,939
Interest and dividends income received	73	63
Interest expenses paid	(75)	(72)
Income taxes refund	62	1,676
Income taxes paid	(4,877)	(3,602)
Net cash provided by (used in) operating activities	13,429	11,003

	(Unit: million yen)	
	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019
Net cash provided by (used in) investing activities		
Purchase of property, plant and equipment	(9,376)	(1,881)
Purchase of intangible assets	(2,534)	(1,961)
Income from business divestiture	—	624
Purchase of investment securities	(519)	(2,445)
Proceeds from sales of investment securities	—	305
Payments of loans receivable	(900)	(700)
Payments for lease and guarantee deposits	(77)	(46)
Proceeds from collection of lease and guarantee deposit	1,163	117
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(443)	(422)
Other-net	(231)	27
Net cash provided by (used in) investing activities	(12,919)	(6,381)
Net cash provided by (used in) financing activities		
Net increase (decrease) in short-term loans payable	1,000	(4,000)
Proceeds from long-term loans payable	7,290	—
Repayment of long-term loans payable	(1,604)	(3,168)
Repayment of lease obligations	(92)	(50)
Proceeds from share issuance to non-controlling shareholders	—	50
Purchase of treasury stock	(290)	(0)
Proceeds from disposal of treasury stock	48	81
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(60)
Cash dividends paid	(2,158)	(2,166)
Dividends paid to non-controlling interests	(715)	(700)
Net cash provided by (used in) financing activities	3,476	(10,014)
Effect of exchange rate change on cash and cash equivalents	(101)	41
Net increase (decrease) in cash and cash equivalents	3,885	(5,351)
Cash and cash equivalents at beginning of period	24,298	28,184
Cash and cash equivalents at end of period	28,184	22,832