

BRIEF STATEMENT OF CONSOLIDATED FINANCIAL RESULTS FOR THE 1st QUARTER OF THE FISCAL YEAR ENDING MARCH 2019

This is an English translation of summarized consolidated financial results prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

August 13, 2018

Faith, Inc. (Stock code 4295, Listed on TSE 1st section)
(URL <http://www.faith.co.jp/>)
Representative: Hajime Hirasawa, CEO/President
Contact: Jiro Saeki, CFO/Director Tel: +81-3-5464-7633
Date of Submission of Securities Report: August 14, 2018
Starting Date of the Dividend Payment: -
Preparation of Supplementary Materials for Quarterly Financial Results: None
Information Meeting for Quarterly Financial Results to be Held: None

Amounts are rounded down to the nearest JPY 1 million.

1. Results for the 1st Quarter of the Fiscal Year Ending March 2019 (From April 1, 2018 to June 30, 2018)

(1) Consolidated Operating Results (cumulative totals)

(Percentages indicate changes compared with the 1st quarter of the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%
Q1 of the year ending March 2019	5,360	6.5	207	△41.4	216	△27.5	320	298.0
March 2018	5,034	2.6	353	△31.4	298	△40.3	80	△61.4

(Note) Comprehensive income: 1st quarter of the fiscal year ending March 2019: ¥333 million (△20.7%); 1st quarter of the fiscal year ending March 2018: ¥420 million (3.7%)

	Net Income per Share	Diluted Net Income per Share
Q1 of the year ending March 2019	<i>Yen</i> 23.49	<i>Yen</i> —
March 2018	8.16	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Ratio of Equity Capital
Q1 of the year ending March 2019	<i>Millions of yen</i> 25,354	<i>Millions of yen</i> 18,497	72.9
Year ending March 2018	25,705	18,671	72.5

(Reference) Equity capital: 1st quarter of fiscal year ending March 2019: ¥18,474 million; fiscal year ending March 2018: ¥18,647 million

2. Dividends

(Record dates)	Dividends per Share				
	1 st Quarter	Interim	3 rd Quarter	Year-end	Total
Year ending March 2018	<i>yen</i> —	<i>yen</i> 5.00	<i>yen</i> —	<i>yen</i> 5.00	<i>yen</i> 10.00
Year ending March 2019	—	—	—	—	—
Year ending March 2019 (Forecast)	—	5.00	—	5.00	10.00

(Notes) Forecasts for dividends have not been modified since the time of the most recently announced business forecast.

3. Forecast for the Consolidated Results for the Year Ending March 2019 (from April 1, 2018 to March 31, 2019)

(Percentages indicate changes compared with the previous fiscal year and the previous interim result.)

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%	<i>Millions of yen</i>	%	<i>Yen</i>
First half	10,100	△5.6	100	△89.0	20	△97.7	—	—	—
Full year	20,000	△5.7	500	△55.8	350	△66.0	260	△48.5	19.06

(Note) Forecasts for Consolidated Results have not been modified since the time of the most recently announced business forecast.

※ Notes

(1) Changes in significant subsidiaries (accompanying changes in scope of consolidation): None

Newly added subsidiaries: 0 companies (subsidiary's name:)

Removed subsidiaries: 0 companies (subsidiary's name:)

(2) Adoption of simplified accounting practices or specific procedures in preparation of the quarterly consolidated financial reports: Applicable

* For details, please refer to "2. Consolidated Financial Statements and Important Explanatory Notes, (3) Notes Concerning the Consolidated Financial Statements (Adoption of Simplified Methods in the Preparation of the Quarterly Financial Statements" on page 8 of the accompanying material.

(3) Changes in accounting policy, changes in accounting estimates, and restatements

(i) Changes accompanying revisions of accounting standards, etc.: None

(ii) Changes other than the above: None

(iii) Changes in accounting estimates: None

(iv) Restatements: None

(4) Outstanding shares (common shares)

(i) Outstanding shares at the end of the fiscal years (including treasury shares):

The 1st quarter of the fiscal year ending March 2019: 13,831,091 shares

The fiscal year ending March 2018: 13,831,091 shares

(ii) Treasury shares at the end of the fiscal years:

The 1st quarter of the fiscal year ending March 2019: 390,822 shares

The fiscal year ending March 2018: 70,041 shares

(iii) Average number of shares at the interim accounting period

The 1st quarter of the fiscal year ending March 2019: 13,635,147 shares

The 1st quarter of the fiscal year ending March 2018: 9,868,743 shares

* This financial results report is exempt from quarterly review procedures.

* Statement regarding the proper use of financial forecasts and other special remarks

(Notice regarding statements concerning the future)

Statements concerning the future, such as performance forecasts, etc., described in the present material are based on information currently available to the Company and on certain assumptions judged as reasonable by the Company. The Company's actual performance may differ substantially from these forecasts as a result of various factors beyond the Company's control. For details of cautions, etc., employed in making performance forecasts and the assumptions underlying performance forecasts, please refer to "1. (3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc." on page 3 of the accompanying material.

Contents

- 1. Qualitative Information Concerning the Settlement of Accounts for the 1st Quarter 2
 - (1) Explanation Concerning the Operating Results 2
 - (2) Explanation Concerning the Financial Position 3
 - (3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc. 3

- 2. Consolidated Financial Statements and Important Explanatory Notes 4
 - (1) Consolidated Balance Sheet 4
 - (2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income 6
 - (Consolidated Statement of Income) 6
 - (Consolidated Statement of Comprehensive Income)..... 7
 - (3) Notes Concerning the Consolidated Financial Statements 8
 - (Note Concerning the Premise of a Going Concern) 8
 - (Note in the Case of Significant Changes in the Amount of Shareholders' Equity) 8
 - (Adoption of Simplified Methods in the Preparation of the Quarterly Financial Statements) 8
 - (Additional Information) 8
 - (Segment Information) 8

1. Qualitative Information Concerning the Settlement of Accounts for the 1st Quarter

(1) Explanation Concerning the Operating Results

In the domestic information communication field, the Internet penetration rate remained high at 80.5% in 2017. Moreover, among individuals who utilize the Internet for personal use, those aged between 13 and 50 years accounted for over 95% of the total ^{(*)1}. The Internet usage rate has reached extraordinarily high levels for people in a wide range of age groups. Meanwhile, younger Japanese people are increasingly turning away from television, and the ongoing transition to services in line with the shift to the era of digitalization is expected to further accelerate in future as the Internet usage rate climbs further and the use of smartphones continues to spread. Under these circumstances, it is becoming even more important for Faith Group to respond swiftly to user needs that are in keeping with the times.

(*)1 Source: Ministry of Internal Affairs and Communications, *2018 Information Communication White Paper*

Moreover, in the entertainment market, the global music market based on flat rate subscription services grew by 8.1% to US\$17.3 billion dollars ^{(*)2}, marking the first time since 1999 that this market has recorded sales growth for three consecutive years. In the Japanese domestic music contents market, the production value of music software including music videos in 2017 decreased by 6% from the previous year to ¥232 billion yen ^{(*)3}. Although sales of packaged products continued to exhibit a declining trend, fee-based music distribution sales increased by 8% year on year to ¥57,300 million and sales of subscription-type music distribution services leaped by 22% year on year. Meanwhile, the size of the live entertainment market increased by 7.2% from the previous year to ¥332.4 billion, in line with an expansion of “experiential” consumption ^{(*)4}.

(*)2 Source: *IFPI Global Music Report 2018*

(*)3 Source: Recording Industry Association of Japan (RIAJ), *The Recording Industry in Japan 2017*

(*)4 Source: All Japan Concert & Live Entertainment Promoters Conference (ACPC), *2017 Basic Research Report*

In the current environment, the Faith Group is continuing to utilize the results of the efforts it has been concentrating in digital content distribution ever since its establishment, and is forging ahead with its Multi-Content and Multi-Device Strategy of creating environments in which people can enjoy a wide diversity of contents whenever and wherever they choose. We are also strengthening the development of new services in response to the changing market environment such as platforms that collect and organize the information flooding the Internet and providing it to users after increasing its added value.

Regarding the Group business performance for the first quarter of the consolidated fiscal year ending March 2019, despite continued declines in sales of existing distribution services, which account for a major share of overall sales, the Group’s companies launched a number of new services in accordance with the market environment, and both the Label and Points Businesses performed strongly. As a result of these factors, the Group’s net sales increased by 6.5% compared with the same period of previous fiscal year to ¥5,360 million, operating income decreased by 41.4% year on year to ¥207 million, and ordinary income decreased by 27.5% year on year to ¥216 million. Moreover, due to the posting of ¥161 million in respect of extraordinary income from the sale of shares of a consolidated subsidiary, net income attributable to the shareholders of the parent company increased by 298.0% to ¥320 million.

Information on each business segment is as follows.

Content Business

In the Content Business, the Faith Group is actively developing new products in response to the market environment including the ongoing popularization of smartphones, changing music listening styles, etc. In this business, we are proceeding with measures to enhance the added value of contents, such as functional improvement and linkage between various services, by verifying the results of service contents and marketability, including with regard to existing businesses, while also moving ahead with platformization in the interests of achieving greater income diversification.

We are actively developing FaRao PRO not only as a service providing business BGM but also for sales activities focusing on expanding the functions necessary for store management, such as solutions and announcement functions that propose store branding. In addition to conventional products using tablet devices, we have also released an app-version service that offers users reduced initial costs. Moreover, based on our Japanese service, we have started FaRao PRO services in France and Indonesia, and for the future we are aiming to create and activate new BGM markets both in Japan and overseas.

In Fans', our platform of services for artists based on the D2C (Direct To Consumer) business model, which is expected to expand in future, we are enhancing the functions essential to artists' musical activities such as official website construction, music and video distribution, sales of artist goods, and fan club operation. We are aiming to acquire new users and expand the membership base of Fans' as a service that allows more artists to deliver their works and materials in the manner the artists wish, and we will endeavor to improve the quality of the service by pursuing enhanced usability.

As a result of the above developments, and taking into account a decrease in sales of carrier official site services, delays in the launch of new businesses and the sale of shares in a consolidated subsidiary, and despite the ongoing positive deployment of new services in line with the changing market environment, the Content Business recorded net sales of ¥821 million, a decrease of 16.2% year on year, and an operating loss of ¥85 million, compared with an operating loss of ¥33 million for the same period of the previous fiscal year.

Point Service Business

In the Point Service Business, sales of new points issued by existing participating point card stores remained robust and the self-liquidation business ^(*5) also performed favorably. As a result, this business recorded net sales of ¥671 million, an increase of 12.5% year on year. Regarding operating income, due to the impact of increased sales and cost reductions associated with office consolidation, etc., operating income increased by 32.1% year on year to ¥35 million.

*(*5) A campaign in which users can purchase various goods at a discount by saving points in the form of seals, etc.*

Label Business

Amid the difficult environment facing the music and video-related industry in line with the continuing decline of the music market, the Label Business proceeded with its strategy of strengthening new future-oriented businesses in order to overcome the present situation in which it remains dependent on sales of package products for which the market remains sluggish.

This segment achieved strong sales revenue from animation-related titles released by DREAMUSIC Inc, and from animation titles and live artist performances by Nippon Columbia, Co., Ltd., resulting in a rise in overall Label Business sales of 11.9% year on year to ¥3,868 million. However, regarding the profit and loss situation, due mainly to declines in sales of high-margin products launched in previous years, game titles, and revenue from sales of music licensing rights, this segment recorded an operating income of ¥257 million, a year-on-year decrease of 28.4%.

*Product and service names appearing in this document are trademarks or registered trademarks of Faith, Inc. either in Japan or in other countries.

(2) Explanation Concerning the Financial Position

As of the end of the first quarter of the consolidated fiscal year ending March 2019 (June 30, 2018), total assets decreased by ¥351 million compared to the end of the previous consolidated fiscal year to ¥25,354 million. This result was mainly due to decreases in cash and deposits.

Total liabilities decreased by ¥177 million compared to the end of the previous consolidated fiscal year to ¥6,856 million. This result was mainly due to decreases in income taxes payable and to the repayment of borrowings.

Net assets decreased by ¥173 million compared to the end of the previous consolidated fiscal year to ¥18,497 million. This was mainly due to an increase in retained earnings due to the recording of net income attributable to the shareholders of the parent company, and to an increase in treasury stock resulting from the acquisition of treasury stock.

As a result of the above, the equity ratio increased by 0.4 percentage points to 72.9%.

(3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results

Performance forecasts are made based on information currently available to the Company, but there is a possibility that the actual performance figures will differ significantly from the forecast figures due to a variety of factors.

2. Consolidated Financial Statements and Important Explanatory Notes

(1) Consolidated Balance Sheet

	(Unit: thousands of yen)	
	FY 2017	1st Quarter of FY 2018
	(As of March 31, 2018)	(As of June 30, 2018)
(Assets)		
Current assets		
Cash and deposits	13,460,309	12,448,832
Accounts and notes receivable	2,162,275	2,333,618
Marketable securities	229,555	229,130
Commercial products	516,373	533,532
Products in progress	493,508	501,557
Primary materials and inventory goods	65,124	73,915
Corporation tax refund receivable, etc.	26,944	24,564
Other current assets	464,629	815,305
Allowance for doubtful accounts	△27,249	△18,856
Total current assets	17,391,471	16,941,601
Fixed assets		
Tangible fixed assets	2,773,635	2,825,709
Intangible fixed assets		
Goodwill	1,648,115	1,621,154
Others	678,348	639,076
Total intangible fixed assets	2,326,463	2,260,231
Investment and other assets		
Investment securities	2,617,499	2,587,071
Deferred tax assets	174,258	176,286
Other intangible fixed assets	812,042	972,068
Allowance for doubtful accounts	△389,935	△408,844
Total investments and other assets	3,213,864	3,326,581
Total fixed assets	8,313,963	8,412,522
Total assets	25,705,435	25,354,124
(Liabilities)		
Current liabilities		
Accounts and notes payable	929,526	941,884
Short-term loans payable	576,039	560,267
Lease obligations	723	723
Accrued expenses payable	2,642,245	2,779,683
Income taxes payable	188,625	88,637
Reserve for bonuses	76,316	40,638
Reserve for point card certificates	8,711	8,294
Reserve for sales returns	74,962	98,967
Other current liabilities	1,491,297	1,403,563
Total current liabilities	5,988,449	5,922,661
Fixed liabilities		
Long-term loans payable	237,215	168,862
Net defined retirement benefits	603,262	579,407
Lease obligations	723	60
Deferred tax liabilities	159,317	142,033
Other fixed liabilities	44,758	43,319
Total fixed liabilities	1,045,276	933,683
Total liabilities	7,033,725	6,856,345

	(Unit: thousands of yen)	
	FY 2017	1st Quarter of FY 2018
	(As of March 31, 2018)	(As of June 30, 2018)
(Net assets)		
Shareholder's equity		
Common stock	3,218,000	3,218,000
Capital surplus	3,019,205	3,019,187
Retained earnings	12,316,449	12,568,035
Treasury stock	△100,158	△538,915
Total shareholder's equity	18,453,496	18,266,307
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	263,254	273,642
Foreign currency translation adjustments	△12,505	△14,306
Cumulative adjustment for retirement benefit obligations	△56,561	△51,512
Total other accumulated comprehensive income	194,187	207,823
Non-controlling interests	24,026	23,647
Total net assets	18,671,710	18,497,778
Total liabilities and net assets	25,705,435	25,354,124

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

	(Unit: thousands of yen)	
	1st Quarter of FY 2017 (April 1-June 30, 2017)	1st Quarter of FY 2018 (April 1-June 30, 2018)
Net sales	5,034,924	5,360,908
Cost of sales	2,987,066	3,453,870
Gross profit	2,047,858	1,907,038
Selling, general and administrative expenses	1,694,029	1,699,575
Operating income	353,829	207,462
Non-operating income		
Interest income	426	15
Dividend income	2,831	2,565
Interest on securities	11	28
Gain on investment partnership management	3,855	19,759
Foreign exchange gains	446	354
Miscellaneous receipts	4,263	4,322
Total non-operating income	11,834	27,046
Non-operating expenses		
Interest paid	2,014	1,449
Loss on equity method investment	15,968	15,677
Cost of exchange from business combination	48,552	—
Miscellaneous expenses	379	815
Total non-operating expenses	66,915	17,942
Ordinary income	298,748	216,566
Extraordinary income		
Gain on sale of shares of affiliates	—	161,965
Gain on sale of investment securities	32,800	—
Gain on change in equity	5,859	—
Gain on reversal of stock acquisition rights	15,691	—
Total extraordinary income	54,350	161,965
Extraordinary losses		
Loss on disposal of fixed assets	—	9,035
Total extraordinary losses	—	9,035
Net income or net loss before income taxes	353,098	369,496
Corporate, local, and business taxes	36,804	73,288
Income taxes - deferred	9,081	△23,804
Current quarter net income	307,212	320,012
Current quarter net income or net loss attributable to non-controlling interests (△ = net loss)	226,713	△379
Current quarter net income attributable to shareholders of the parent company	80,499	320,391

(Consolidated Statement of Comprehensive Income)

	(Unit: thousands of yen)	
	1st Quarter of FY 2017	1st Quarter of FY 2018
	(April 1-June 30, 2017)	(April 1-June 30, 2018)
Current quarter net income	307,212	320,012
Other comprehensive income		
Valuation difference on other available-for-sale securities	111,466	10,388
Foreign currency translation adjustments	△1,467	△1,800
Retirement benefit adjustments	3,638	5,048
Total other comprehensive income	113,636	13,636
Comprehensive income	420,849	333,649
(Details)		
Comprehensive income attributable to shareholders of the parent company	193,602	334,028
Comprehensive income attributable to non-controlling interests	227,247	△379

(3) Notes Concerning the Consolidated Financial Statements

(Note Concerning the Premise of a Going Concern)

Not applicable

(Note in the Case of Significant Changes in the Amount of Shareholders' Equity)

Not applicable

(Adoption of Simplified Methods in the Preparation of the Quarterly Financial Statements)

Tax expenses for the Company and some consolidated subsidiaries are calculated by making a reasonable estimate of the effective tax rate after applying tax effect accounting to the amount of quarterly net income before tax deduction for the current consolidated financial year including the first quarter, and then multiplying the amount of quarterly net income before tax deduction by the current estimated effective tax rate.

(Additional Information)

(Application of Partial Amendment to the *Accounting Standard for Tax Effect Accounting*)

The Company adopted the *Accounting Standard for Tax Effect Accounting* (ASBJ Statement No. 28, February 16, 2018) and other accounting standards at the beginning of the first quarter of the current consolidated fiscal year. Accordingly, deferred tax assets are now shown in the investment and other assets category, while deferred tax liabilities are shown in the non-current liabilities category.

(Segment Information)

I 1st quarter of the previous consolidated fiscal year/FY 2017 (April 1, 2017 through June 30, 2017)

1. Information on sales and profit or loss by reportable segment

(Unit: thousands of yen)

	Content	Point Service	Label	Total	Adjustment amount (Note 1)	Amount recorded in Consolidated Financial Statements (Note 2)
Net sales						
Sales to external customers	980,080	596,300	3,458,543	5,034,924	—	5,034,924
Intersegment sales or transfer amount	26,212	—	2,008	28,220	△28,220	—
Total	1,006,292	596,300	3,460,551	5,063,145	△28,220	5,034,924
Segment income or loss (△)	△33,564	26,636	358,734	351,806	2,022	353,829

Notes: 1. The segment income adjustment amount of ¥2,022 thousand is calculated by eliminating intersegment transactions.

2. Segment income amounts are adjusted to operating income in the quarterly consolidated profit and loss statement.

2. Information regarding impairment loss on fixed assets or goodwill by segment reported

This information is omitted since there is no critical impairment loss on fixed assets or significant change in amount of goodwill.

II 1st quarter of the current consolidated fiscal year/FY 2018 (April 1, 2018 through June 30, 2018)

1. Information on sales and profit or loss by reportable segment

(Unit: thousands of yen)

	Content	Point Service	Label	Total	Adjustment amount (Note 1)	Amount recorded in Consolidated Financial Statements (Note 2)
Net sales						
Sales to external customers	821,350	671,122	3,868,435	5,360,908	—	5,360,908
Intersegment sales or transfer amount	17,687	481	75	18,243	△18,243	—
Total	839,037	671,603	3,868,511	5,379,152	△18,243	5,360,908
Segment income or loss (△)	△85,241	35,199	257,028	206,986	476	207,462

Notes: 1. The segment income adjustment amount of ¥476 thousand is calculated by eliminating intersegment transactions.

2. Segment income or loss amounts are adjusted to operating income in the quarterly consolidated profit and loss statement.

2. Information regarding impairment loss on fixed assets or goodwill by segment reported

This information is omitted since there is no critical impairment loss on fixed assets or significant change in amount of goodwill.