

BRIEF STATEMENT OF CONSOLIDATED FINANCIAL RESULTS FOR THE 3rd 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.

February 13, 2019

Faith, Inc. (Stock code 4295, Listed on TSE 1st section) (URL <http://www.faith.co.jp/>)

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Date of Submission of Securities Report: February 14, 2019 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 3rd Quarter of the Fiscal Year Ending March 2019 (From April 1, 2018 to December 31, 2018)

(1) Consolidated Operating Results

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

Q3 of the year ending	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 2019	15,796	△3.4	292	△77.9	△363	—	△307	—
March 2018	16,344	4.2	1,319	△21.7	1,229	△23.2	862	37.9

(Note) Comprehensive income: 3rd quarter of the fiscal year ending March 2019: ¥△416 million (—%); 3rd quarter of fiscal year ending March 2018: ¥1,086 million (△21.8%)

	Net Income per Share	Diluted Net Income per Share
Q3 of the year ending	Yen	Yen
March 2019	△22.97	—
March 2018	71.71	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Ratio of Equity Capital
Q3 of the year ending	Millions of yen	Millions of yen	%
March 2019	23,741	17,418	72.3
Year ending March 2018	25,705	18,671	72.5

(Reference) Equity capital: 3rd quarter of fiscal year ending March 2019: ¥17,404 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	yen	yen	yen	yen	yen
Year ending March 2019	—	5.00	—	5.00	10.00
Year ending March 2019 (Forecast)	—	5.00	—	5.00	10.00

(Note) These figures have not been modified since the time of the most recently announced dividend 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.)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to the SHs of the Parent Co.		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	20,500	△3.3	620	△45.2	△61	—	△111	—	△8.31

(Note) These figures have been modified since the time of the most recently announced business result 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 9 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 term (including treasury shares):

The 3rd 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 term:

The 3rd quarter of the fiscal year ending March 2019: 571,768 shares

The fiscal year ending March 2018: 70,041 shares

(iii) Average number of shares during the interim accounting period:

The 3rd quarter of the fiscal year ending March 2019: 13,384,742 shares

The 3rd quarter of the fiscal year ending March 2018: 12,032,464 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. Qualitative Information Concerning the Settlement of Accounts for the 3rd Quarter, (3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc." on page 4 of the accompanying material.

(To obtain supplemental documents relating to financial results)

Supplemental materials related to the Company's quarterly and other financial results are posted on the company website.

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1. Qualitative Information Concerning the Settlement of Accounts for the 3rd Quarter

(1) Explanation Concerning the Operating Results

In the domestic information communication field in 2017, the Internet penetration rate remained high at 80.5%. Moreover, among individuals who utilize the Internet for personal use, those between 13 and 50 years old accounted for over 95% of the total ^{(*)1}. Among these users, the number of people who rely exclusively on a smartphone to access the Internet has increased for all age groups, and the trend is particularly pronounced among those in their 30s, where the rate of increase compared with the previous year was 46% ^{(*)2}. 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 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 to respond swiftly to user needs that are in keeping with the times.

^{(*)1}. *2018 White Paper on Information and Communications in Japan*, compiled by the Ministry of Internal Affairs and Communications

^{(*)2}. *Nielsen Digital Database 2018*, compiled by Nielsen Digital Co., Ltd.

Moreover, in the entertainment market, the global music market centered on flat rate subscription services grew by 8.1% to US\$17.3 billion dollars ^{(*)3}, marking the first time since 1999 that this market has recorded sales growth for three consecutive years. In the Japanese domestic music content market, the production value of music software including music videos in 2017 decreased by 6% from the previous year to ¥232 billion yen ^{(*)4}. Although sales of packaged products continued to exhibit a declining trend, fee-based music distribution sales increased by 8% year on year to ¥57.3 billion 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 ^{(*)5}.

^{(*)3} Source: *IFPI Global Music Report 2018*

^{(*)4} Source: Recording Industry Association of Japan (RIAJ), *The Recording Industry in Japan 2017*

^{(*)5} Source: All Japan Concert & Live Entertainment Promoters Conference (ACPC), *2017 Basic Research Report*

In the current environment, Faith is continuing to utilize the results of the efforts it has been pouring into 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 Faith Group’s business performance for the third quarter of the consolidated fiscal year ending March 2019, in accordance with the decline in sales of existing distribution services, which account for a major share of overall sales, net sales decreased by 3.4% compared with the same quarter of the previous fiscal year to ¥15,796 million, while due mainly to declining sales of high-margin products launched in previous years and game titles in the Label Business, operating income decreased by 77.9% year on year to ¥292 million. Meanwhile, due to the recording of a loss on equity method investment, the Company recorded an ordinary loss of 363 million yen (compared with an ordinary income of ¥1,229 million for the same quarter of the previous fiscal year), and a net loss attributable to the parent company's shareholders of 307 million yen (compared with a net income attributable to parent company shareholders of 862 million yen for the same quarter of the previous fiscal year).

Information on each business segment is as follows.

Content Business

In the Content Business, the Faith Group is actively pursuing the development of new products in response to the market environment which is characterized by the ongoing popularization of smartphones, and changing music listening styles. In this business, we are proceeding with measures to enhance the added value of contents including making functional improvements and building links between various services by verifying the results of service contents and marketability, including with regard to our existing businesses, while also moving ahead with platformization with a view to revenue source diversification.

We are actively developing FaRao PRO not only as a service providing business BGM but also for sales activities focused on expanding the functions necessary for store management, such as solutions and

announcement functions that make store-branding proposals. In addition to conventional products using tablet devices, we have also released an app-version service that offers users reduced initial costs and we are working to strengthen retail store sales through collaboration with the Point Service Business. Moreover, based on our Japanese service, we have started FaRao PRO services in 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 ^(*6) 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 disseminate their works and information freely, and we will endeavor to improve the quality of the service by pursuing enhanced usability.

*6. Abbreviation of "Direct to Consumer"—a business model for delivering services and products planned and manufactured by Faith directly to users

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 consolidated subsidiaries, and despite the ongoing positive deployment of new services in line with the changing market environment, the Content Business recorded net sales of ¥2,533 million, a decrease of 20.1% year on year, and an operating loss of ¥406 million (compared with an operating loss of ¥118 million for the same period of the previous fiscal year).

Point Service Business

In the Point Service Business, sales of points issued by existing participating point card stores increased 2.2% compared with the same quarter of the previous fiscal year to ¥2,052 million, owing to steady growth of sales promotion measures. Meanwhile, operating income increased by 47.2% year on year to ¥89 million.

Label Business

Amid the difficult environment facing the music and video-related industry in line with the continuing decrease 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 0.4% year on year to ¥11,209 million. However, 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 ¥606 million, a decrease of 55.8% from the same period of the previous fiscal year.

*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

Total assets as of December 31, 2018 decreased by ¥1,963 million compared to the end of the previous consolidated fiscal year to ¥23,741 million. This result was due mainly to decreases in cash and deposits and in investment securities.

Total liabilities decreased by ¥710 million compared to the end of the previous consolidated fiscal year to ¥6,323 million. This result was due mainly to the repayment of loans.

Total net assets decreased by ¥1,253 million compared to the end of the previous consolidated fiscal year to ¥17,418 million. This result was due mainly to the recording of a quarterly net loss attributable to the shareholders of the parent company and to the acquisition of treasury stock

The equity ratio improved by 0.8 percentage points to 73.3%.

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

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. In addition, the current performance forecast for the full fiscal year is unchanged from the forecast figures issued today.

2. Consolidated Financial Statements and Important Explanatory Notes

(1) Consolidated Balance Sheet

	(Unit: thousands of yen)	
	FY 2017 (March 31, 2018)	3rd Quarter of FY 2018 (December 31, 2018)
(Assets)		
Current assets		
Cash and deposits	13,460,309	12,175,825
Accounts and notes receivable	2,162,275	2,026,918
Marketable securities	229,555	229,491
Commercial products	516,373	502,038
Products in progress	493,508	359,600
Primary materials and inventory goods	65,124	69,097
Corporation tax refund receivable, etc.	26,944	67,836
Other current assets	464,629	515,616
Allowance for doubtful accounts	△27,249	△19,017
Total current assets	17,391,471	15,927,408
Fixed assets		
Tangible fixed assets	2,773,635	3,288,774
Intangible fixed assets		
Goodwill	1,648,115	1,568,082
Other intangible fixed assets	678,348	578,917
Total intangible fixed assets	2,326,463	2,146,999
Investment and other assets		
Investment securities	2,617,499	1,672,779
Deferred tax assets	174,258	178,692
Other investment and other assets	812,042	953,813
Allowance for doubtful accounts	△389,935	△426,624
Total investments and other assets	3,213,864	2,378,661
Total fixed assets	8,313,963	7,814,435
Total assets	25,705,435	23,741,843
(Liabilities)		
Current liabilities		
Accounts and notes payable	929,526	871,652
Short-term loans payable	576,039	459,999
Lease obligations	723	723
Accrued expenses payable	2,642,245	2,691,471
Income taxes payable	188,625	96,124
Reserve for bonuses	76,316	42,678
Reserve for point card certificates	8,711	7,504
Reserve for sales returns	74,962	53,173
Other current liabilities	1,491,297	1,223,916
Total current liabilities	5,988,449	5,447,243
Fixed liabilities		
Long-term loans payable	237,215	154,500
Net defined retirement benefits	603,262	588,243
Lease obligations	723	180
Deferred tax liabilities	159,317	90,887
Other fixed liabilities	44,758	42,243
Total fixed liabilities	1,045,276	876,055
Total liabilities	7,033,725	6,323,299

	(Unit: thousands of yen)	
	FY 2017	3rd Quarter of FY 2018
	(March 31, 2018)	(December 31, 2018)
(Net assets)		
Shareholder's equity		
Common stock	3,218,000	3,218,000
Capital surplus	3,019,205	3,019,175
Retained earnings	12,316,449	11,874,417
Treasury stock	△100,158	△802,124
Total shareholder's equity	18,453,496	17,309,468
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	263,254	154,451
Foreign currency translation adjustments	△12,505	△17,579
Cumulative adjustment for retirement benefit obligations	△56,561	△41,414
Total other accumulated comprehensive income	194,187	95,458
Non-controlling interests	24,026	13,618
Total net assets	18,671,710	17,418,544
Total liabilities and net assets	25,705,435	23,741,843

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

	(Unit: thousands of yen)	
	3rd Quarter of FY 2017 (April 1-Dec.31, 2017)	3rd Quarter of FY 2018 (April 1-Dec. 31, 2018)
Net sales	16,344,272	15,796,138
Cost of sales	9,959,356	10,295,357
Gross profit	6,384,916	5,500,781
Selling, general and administrative expenses	5,065,128	5,208,595
Operating income	1,319,787	292,186
Non-operating income		
Interest income	1,070	168
Dividend income	4,503	4,237
Interest on securities	40	94
Gain on investment partnership management	15,367	19,759
Foreign exchange gains	958	—
Miscellaneous receipts	15,989	16,862
Total non-operating income	37,931	41,122
Non-operating expenses		
Interest paid	6,398	1,854
Loss on equity method investment	69,719	692,609
Cost of exchange from business combination	50,852	—
Loss on investment partnership management	—	917
Miscellaneous expenses	1,018	1,329
Total non-operating expenses	127,989	696,711
Ordinary income or ordinary loss (Δ = loss)	1,229,729	Δ 363,402
Extraordinary income		
Gain on sale of shares of affiliates	—	161,965
Gain on sales of investment securities	116,982	69,052
Gain on change in equity	5,859	—
Gain on reversal of subscription rights to shares	15,691	—
Other extraordinary income	754	—
Total extraordinary income	139,287	231,018
Extraordinary losses		
Loss on disposal of fixed assets	6,617	11,427
Impairment loss on goodwill	23,421	—
Loss on valuation of investment securities	—	15,000
Total extraordinary losses	30,039	26,427
Net income or net loss before income taxes (Δ = net loss)	1,338,977	Δ 158,812
Corporate, local, and business taxes	249,887	183,753
Income taxes - deferred	2,155	Δ 24,653
Current quarter net income or net loss (Δ = net loss)	1,086,934	Δ 317,912
Current quarter net income or net loss attributable to non-controlling interests (Δ = net loss)	224,107	Δ 10,407
Current quarter net income or net loss attributable to shareholders of the parent company (Δ = net loss)	862,826	Δ 307,504

(Consolidated Statement of Comprehensive Income)

(Unit: thousands of yen)

	3rd Quarter of FY 2017 (April 1-Dec.31, 2017)	3rd Quarter of FY 2018 (April 1-Dec. 31, 2018)
Current quarter net income or net loss (Δ = net loss)	1,086,934	Δ 317,912
Other comprehensive income		
Valuation difference on other available-for-sale securities	Δ 9,573	Δ 108,802
Foreign currency translation adjustments	Δ 1,760	Δ 5,074
Retirement benefit adjustments	10,915	15,147
Total other comprehensive income	Δ 419	Δ 98,729
Comprehensive income	1,086,515	Δ 416,641
(Details)		
Comprehensive income attributable to shareholders of the parent company	862,191	Δ 406,233
Comprehensive income attributable to non-controlling interests	224,323	Δ 10,407

(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)

Based on a resolution of the Board of Directors Meeting held on May 14, 2018, the Company acquired 500,100 shares of treasury stock. As a result of this acquisition, during the consolidated cumulative 3rd quarter accounting period of the current fiscal year, the value of the treasury shares held by the Company increased by ¥699,868 thousand, so that at the end of the 3rd quarter accounting period, the value of treasury shares held amounted to ¥802,124 thousand.

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

Tax expenses for the Company and a portion of its 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 consolidated fiscal year including the current 3rd quarter accounting period, and then multiplying the amount of quarterly net income before tax deduction by the current estimated effective tax rate.

(Additional Information)

(Adoption of the "Partial Amendments to the Accounting Standard for Tax Effect Accounting," etc.)

The Company has adopted the "Partial Amendments to the Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, issued on February 16, 2018), etc. from the beginning of the 1st quarter accounting period of the consolidated fiscal year under review, with the result that deferred tax assets are presented in the Investments and other assets category, and deferred tax liabilities are presented in the Other fixed liabilities category.

(Segment Information)

I 3rd quarter of the previous consolidated fiscal year/FY 2017 (April 1, 2017 through Dec. 31, 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	3,171,650	2,009,106	11,163,515	16,344,272	—	16,344,272
Intersegment sales or transfer amount	78,160	—	7,979	86,139	△86,139	—
Total	3,249,810	2,009,106	11,171,495	16,430,412	△86,139	16,344,272
Segment income or loss (△)	△118,866	61,012	1,374,094	1,316,241	3,546	1,319,787

Notes: 1. The segment income or loss (△) adjustment amount of ¥3,546 thousand is calculated by eliminating intersegment transactions.

2. Segment income or loss amounts are adjusted with 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 3rd quarter of the current consolidated fiscal year/FY 2018 (April 1, 2018 through Dec. 31, 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	2,533,526	2,052,755	11,209,856	15,796,138	—	15,796,138
Intersegment sales or transfer amount	58,003	481	2,203	60,688	△60,688	—
Total	2,591,530	2,053,236	11,212,060	15,856,827	△60,688	15,796,138
Segment income or loss (△)	△406,869	89,804	606,935	289,870	2,315	292,186

Notes: 1. The segment income or loss (△) adjustment amount of ¥2,315 thousand is calculated by eliminating intersegment transactions.

2. Segment income or loss amounts are adjusted with 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.