

BRIEF STATEMENT OF CONSOLIDATED FINANCIAL RESULTS FOR THE 1st QUARTER OF THE FISCAL YEAR ENDING MARCH 2020

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, 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: Aug. 13, 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 1st Quarter of the Fiscal Year Ending March 2020 (From April 1, 2019 to June 30, 2019)

(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 2020	4,570	△14.7	△54	—	△26	—	△93	—
March 2019	5,360	6.5	207	△41.4	216	△27.5	320	298.0

(Note) Comprehensive income: 1st quarter of the fiscal year ending March 2020: ¥24.0 million (△92.6%); 1st quarter of the fiscal year ending March 2019: ¥333 million (△20.7%)

	Net Income per Share	Diluted Net Income per Share
Q1 of the year ending	<i>Yen</i>	<i>Yen</i>
March 2020	△7.03	—
March 2019	23.49	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Ratio of Equity Capital
Q1 of the year ending	<i>Millions of yen</i>	<i>Millions of yen</i>	%
March 2020	24,403	17,478	71.6
Year ending March 2019	24,343	17,520	72.0

(Reference) Equity capital: 1st quarter of fiscal year ending March 2020: ¥17,478 million; fiscal year ending March 2019: ¥17,520 million

2. Dividends

	Dividends per Share				
	1 st Quarter	Interim	3 rd Quarter	Year-end	Total
(Record dates)	<i>yen</i>	<i>yen</i>	<i>yen</i>	<i>yen</i>	<i>yen</i>
Year ending March 2019	—	5.00	—	5.00	10.00
Year ending March 2020	—	—	—	—	—
Year ending March 2020 (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 2020

(from April 1, 2019 to March 31, 2020)

(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 (cumulative)	10,100	△4.7	100	△54.3	20	△89.7	—	—	—
Full year	20,000	△4.6	300	107.9	300	—	200	—	15.08

(Note) Forecasts for dividends 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 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 fiscal years (including treasury shares):

The 1st quarter of the fiscal year ending March 2020: 13,831,091 shares

The fiscal year ending March 2019: 13,831,091 shares

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

The 1st quarter of the fiscal year ending March 2020: 572,262 shares

The fiscal year ending March 2019: 572,000 shares

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

The 1st quarter of the fiscal year ending March 2020: 13,258,918 shares

The 1st quarter of the fiscal year ending March 2019: 13,635,147 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 4 of the accompanying material.

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

(1) Explanation Concerning the Operating Results

In the Japanese information and communications field in 2018, the Internet penetration rate remained high at 79.8%, and the percentage of households owning one or more smartphones reached 79.2%, exceeding the percentage of households that own personal computers. ^{(*)1} Meanwhile, since 2000, the movement away from television has been progressing centered mainly on the younger generation, while Internet usage time has risen significantly, particularly among those in their 20s for whom the increase in Internet usage time mirrors the decrease in television viewing time. ^{(*)2} Moreover, the usage rate of personal social networking services now exceeds 60%. The ongoing transition to services in line with the digital era is expected to accelerate in future as the Internet usage rate climbs further and smartphone ownership 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. Source: Ministry of Internal Affairs and Communications, *Survey Results of 2018 Communication Usage Trend Survey*

^{*}2. Source: Ministry of Internal Affairs and Communications, *2019 White Paper on Information and Communications in Japan*

Also, in the entertainment market, sales in the global music market centered on streaming services grew by 10% year-on-year to US\$19 billion ^{(*)3}, increasing for the fourth consecutive year and recording its highest annual sales growth since 1996. In Japan as well, the production value of music software including music videos increased by 4% from the previous year to 240.3 billion yen ^{(*)4}, with sales increasing for the first time in three years. Although sales of packaged products continued to decline, fee-based music distribution sales increased by 13% year-on-year to ¥64.5 billion with sales of streaming services in particular leaping by 33% year-on-year to exceed download sales for the first time. Meanwhile, the size of the live entertainment market increased by 4% from the previous year to ¥344.8 billion, driven by an expansion of “experience” consumption ^{(*)5}.

^{*}3. Source: *IFPI Global Music Report 2019*

^{*}4. Source: Recording Industry Association of Japan (RIAJ), *The Recording Industry in Japan 2018*

^{*}5. Source: All Japan Concert & Live Entertainment Promoters Conference (ACPC), *2018 Basic Research Report*

Founded in 1992, Faith was the first company in the world to commercialize ringtones, and has steadily grown focusing on the music distribution business and in step with the spread of mobile phones. In the current music market, amid the growing popularity of smartphones, streaming media, user upload content (UUC) that allows general users to easily transmit information to society, and media diversification such as social media, etc., all kinds of activities in the music industry have been changing, including musical styles and content production methods.

Given this environment, the Faith Group 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, which includes platforms that collect and organize the information flooding the Internet and then providing this to users after increasing its added value.

With the number of tourists visiting Japan continuing to increase steadily, in anticipation of the expansion of the Japanese nighttime economy, Faith opened Tokyo's largest music lounge PLUSTOKYO in Ginza, Tokyo in November 2018 and followed this in June 2019 with the opening of an entertainment spot CROKET MIMIC TOKYO in Roppongi, Tokyo that specializes in world-class impersonation performances. As the above examples illustrate, we are working to create new entertainment hubs for new markets that are expected to expand in future.

Regarding the Group business performance for the first quarter of the consolidated fiscal year ending March 2020, although the Points Business performed strongly, sales of existing distribution services, which account for a major share of overall sales, continued to decline, and sales in the Label Business

also declined year-on-year. As a result of these factors, the Group reported a decrease in net sales of 14.7% compared with the same period of previous fiscal year to ¥4,570 million, an operating loss of loss of ¥54 million (compared with operating income of ¥207 million for the same period of previous fiscal year), an ordinary loss of ¥26 million (compared with ordinary income of ¥216 million for the same period of the previous fiscal year), and a net loss attributable to the shareholders of the parent company of ¥93 million (compared with a net income attributable to the shareholders of the parent company of ¥320 million for the same period of the previous fiscal year).

Information on each business segment is as follows.

Content Business

In the Content Business, while sales in the existing distribution business continue to decline, the Faith Group is actively promoting business development in Asian countries and other countries where high growth rates are expected. In addition, we are interlinking and platforming various services in an effort to develop new products and services and grasp diversified revenue opportunities, and we will continue to invest in growth areas in future.

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. In June 2019, we began working to further expand the functions of Fans' by introducing a system that contributes to the creation of communities by spreading information transmitted by creators through strengthened cooperation with SNS. We are also 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 convenience.

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

Regarding the performance of this segment, buoyed by the contribution of sales in new businesses, the Content Business recorded net sales of ¥927 million (an increase of 13.0% year-on-year). However, due to a decrease in carrier official website service sales and delays in the progress of new business ventures, this segment recorded an operating loss of ¥165 million (compared with an operating loss of ¥85 million for the same period of the previous fiscal year).

Point Service Business

In the Point Service Business, in addition to providing point issue services to retail stores, we offer total support for point issue data acquisition, analysis and sales promotion utilization as a series of cycles from planning to operation, and we provide outsourcing services that maximize retail sales promotion efficiency.

Regarding the performance of this segment, the issue of points at existing member stores remained steady in line with the deployment of sales promotion measures. In addition, sales of solution tools for stores increased, with the result that net sales increased by 2.5% year-on-year to ¥688 million while operating income decreased by 2.6% year-on-year to ¥34 million.

Label Business

Amid the difficult and changing environment of the music and video-related industry, the Label Business is proceeding 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. In order to continue to play a major role in the music industry and expand its revenue, in addition to pursuing the

creation of hit products, artist management, and investment in the live performance business, we consider it necessary to introduce new services that anticipate the ever-changing market environment.

In this segment, sales of animation-related titles released by DREAMUSIC Inc. and sales of live artist performances, animation titles and game titles released by Nippon Columbia, Co., Ltd. decreased compared with the same period of the previous fiscal year, resulting in a decline in sales of 23.6% year-on-year to ¥2,954 million, and a decline in operating income of 70.6% year-on-year to ¥75 million.

*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 2020 (June 30, 2019), total assets increased by ¥59 million compared to the end of the previous consolidated fiscal year to ¥24,403 million. This result was mainly due to a decrease of ¥240 million in accounts and notes receivable and an increase of ¥406 million in investments and other assets.

Total liabilities increased by ¥101 million compared to the end of the previous consolidated fiscal year to ¥6,924 million. This result was mainly due a to decrease of ¥136 million in accounts and notes payable and an increase of ¥266 million yen in other fixed liabilities.

Net assets decreased by ¥41 million compared to the end of the previous consolidated fiscal year to ¥17,478 million. This was mainly due to an increase in retained earnings due to the recording of net loss attributable to the shareholders of the parent company and the payment of dividends.

As a result of the above, the equity ratio decreased by 0.4 percentage points to 71.6%.

(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.

2. Consolidated Financial Statements and Important Explanatory Notes

(1) Consolidated Balance Sheet

	(Unit: thousands of yen)	
	FY 2018	1st Quarter of FY 2019
	(As of March 31, 2019)	(As of June 30, 2019)
(Assets)		
Current assets		
Cash and deposits	12,150,463	12,074,252
Accounts and notes receivable	2,063,965	1,823,888
Marketable securities	232,066	233,450
Commercial products	484,367	467,170
Products in progress	394,308	492,261
Primary materials and inventory goods	61,544	59,905
Corporation tax refund receivable, etc.	212,102	214,378
Other current assets	534,205	490,775
Allowance for doubtful accounts	△19,401	△19,330
Total current assets	16,113,621	15,836,751
Fixed assets		
Tangible fixed assets	3,257,801	3,231,039
Intangible fixed assets		
Goodwill	1,541,584	1,515,086
Other intangible fixed assets	556,635	540,282
Total intangible fixed assets	2,098,219	2,055,368
Investment and other assets		
Investment securities	1,957,225	2,108,107
Deferred tax assets	454,354	450,628
Other investment and other assets	942,793	1,212,889
Allowance for doubtful accounts	△480,799	△491,717
Total investment and other assets	2,873,573	3,279,907
Total fixed assets	8,229,594	8,566,315
Total assets	24,343,216	24,403,067
(Liabilities)		
Current liabilities		
Accounts and notes payable	905,762	769,245
Short-term loans payable	509,950	507,500
Lease obligations	662	482
Accrued expenses payable	2,749,170	2,706,052
Income taxes payable	116,814	33,069
Reserve for bonuses	79,633	41,331
Reserve for point card certificates	374	570
Reserve for sales returns	62,356	53,878
Other current liabilities	1,516,430	1,582,769
Total current liabilities	5,941,156	5,694,899
Fixed liabilities		
Long-term loans payable	63,000	93,900
Net defined retirement benefits	632,538	637,154
Lease obligations	60	60
Deferred tax liabilities	139,595	185,341
Other fixed liabilities	46,577	313,244
Total fixed liabilities	881,771	1,229,699
Total liabilities	6,822,927	6,924,598

	(Unit: thousands of yen)	
	FY 2018	1st Quarter of FY 2019
	(As of March 31, 2019)	(As of June 30, 2019)
(Net assets)		
Shareholder's equity		
Common stock	3,218,000	3,218,000
Capital surplus	3,019,175	3,019,175
Retained earnings	11,872,088	11,712,468
Treasury stock	△802,315	△802,535
Total shareholder's equity	17,306,948	17,147,108
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	307,035	422,407
Foreign currency translation adjustments	△10,936	△15,656
Cumulative adjustment for retirement benefit obligations	△82,758	△75,390
Total other accumulated comprehensive income	213,340	331,360
Non-controlling interests	—	—
Total net assets	17,520,288	17,478,469
Total liabilities and net assets	24,343,216	24,403,067

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

	(Unit: thousands of yen)	
	1st Quarter of FY 2018	1st Quarter of FY 2019
	(April 1-June 30, 2018)	(April 1-June 30, 2019)
Net sales	5,360,908	4,570,396
Cost of sales	3,453,870	2,910,835
Gross profit	1,907,038	1,659,561
Selling, general and administrative expenses	1,699,575	1,713,832
Operating income or operating loss (Δ = loss)	207,462	Δ 54,270
Non-operating income		
Interest income	15	304
Dividend income	2,565	3,005
Interest on securities	28	38
Gain on investment partnership management	19,759	35,329
Gain on valuation of investment securities	—	1,620
Gain on foreign exchange	354	—
Miscellaneous receipts	4,322	4,925
Total non-operating income	27,046	45,223
Non-operating expenses		
Interest paid	1,449	1,316
Loss on equity method investment	15,677	500
Loss on foreign exchange	—	9,590
Miscellaneous expenses	815	6,286
Total non-operating expenses	17,942	17,694
Ordinary income or ordinary loss (Δ = loss)	216,566	Δ 26,741
Extraordinary income		
Gain on sale of shares of affiliates	161,965	—
Total extraordinary income	161,965	—
Extraordinary losses		
Loss on disposal of fixed assets	9,035	12
Gain on valuation of investment securities	—	49,999
Total extraordinary losses	9,035	50,012
Net income or net loss before income taxes	369,496	Δ 76,753
Corporate, local, and business taxes	73,288	17,794
Income taxes - deferred	Δ 23,804	Δ 1,224
Current quarter net income or net loss (Δ = net loss)	320,012	Δ 93,323
Current quarter net income or net loss attributable to non-controlling interests (Δ = net loss)	Δ 379	—
Current quarter net income or net loss attributable to shareholders of the parent company (Δ = net loss)	320,391	Δ 93,323

(Consolidated Statement of Comprehensive Income)

	(Unit: thousands of yen)	
	1st Quarter of FY 2018	1st Quarter of FY 2019
	(April 1-June 30, 2018)	(April 1-June 30, 2019)
Current quarter net income or net loss (Δ = net loss)	320,012	Δ 93,323
Other comprehensive income		
Valuation difference on other available-for-sale securities	10,388	115,372
Foreign currency translation adjustments	Δ 1,800	Δ 4,720
Retirement benefit adjustments	5,048	7,368
Total other comprehensive income	<u>13,636</u>	<u>118,020</u>
Current quarter comprehensive income	<u>333,649</u>	<u>24,696</u>
(Details)		
Comprehensive income attributable to shareholders of the parent company	334,028	24,696
Comprehensive income attributable to non-controlling interests	Δ 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 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 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.

(Segment Information)

I 1st quarter of the previous 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 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 1st quarter of the current consolidated fiscal year/FY 2019 (April 1, 2019 through June 30, 2019)

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	927,951	688,051	2,954,393	4,570,396	—	4,570,396
Intersegment sales or transfer amount	20,856	32	3,328	24,217	△24,217	—
Total	948,807	688,084	2,957,722	4,594,614	△24,217	4,570,396
Segment income or loss (△)	△165,269	34,278	75,475	△55,514	1,243	△54,270

Notes: 1. The segment income adjustment amount of ¥1,243 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.