

**BRIEF STATEMENT OF CONSOLIDATED FINANCIAL RESULTS
FOR THE 2nd 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.

November 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: November 14, 2019
 Starting Date of the Dividend Payment: December 10, 2019
 Preparation of Supplementary Materials for Quarterly Financial Results: Applicable
 Information Meeting for Quarterly Financial Results to be Held: None

Amounts are rounded down to the nearest JPY 1 million.

1. Results for the 2nd Quarter of the Fiscal Year Ending March 2020
(From April 1, 2019 to September 30, 2019)

(1) Consolidated Operating Results (% indicate changes compared with the same quarter of the previous fiscal year.)

Q2 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 2020	10,184	△3.9	334	52.9	383	97.3	△373	—
March 2019	10,600	△1.0	218	△75.9	194	△77.2	213	△62.0

(Note) Comprehensive income: 2nd quarter of the fiscal year ending March 2020: △¥219 million (—%); 2nd quarter of fiscal year ending March 2019: ¥195 million (△76.0%)

	Net Income per Share	Diluted Net Income per Share
Q2 of the year ending	Yen	Yen
March 2020	△28.16	—
March 2019	15.84	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Ratio of Equity Capital
Q2 of the year ending	Millions of yen	Millions of yen	%
March 2020	25,117	17,192	68.4
Year ending March 2019	24,343	17,520	72.0

(Reference) Equity capital: 2nd quarter of fiscal year ending March 2020: ¥17,192 million; fiscal year ending March 2019: ¥17,520 million

2. Dividends

(Record dates)	Dividends per Share				
	1 st Quarter	Interim	3 rd Quarter	Year-end	Total
Year ending March 2019	yen	yen	yen	yen	yen
Year ending March 2020	—	5.00	—	5.00	10.00
Year ending March 2020 (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 2020
(from April 1, 2019 to March 31, 2020)

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

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to the Shareholders of the Parent Company		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	20,000	△4.6	300	107.9	300	—	△450	—	△34.02

(Note) These figures have not 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, (4) Notes Concerning the Consolidated Financial Statements (Adoption of Simplified Methods in the Preparation of the Quarterly Financial Statements)" on page 12 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 2nd 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 term:
The 2nd quarter of the fiscal year ending March 2020: 628,164 shares
The fiscal year ending March 2019: 572,000 shares
(iii) Average number of shares during the interim accounting period:
The 2nd quarter of the fiscal year ending March 2020: 13,2439,524 shares
The 2nd quarter of the fiscal year ending March 2019: 13,447,409 shares

(Note) The number of shares of treasury stock at the end of the period includes the Company's shares contributed as trust assets in the performance-based stock compensation plan (2nd quarter of fiscal year ending March 2020: 262,500 shares, fiscal year ending March 2019: – shares).

Moreover, such shares are also included in the treasury shares that are deducted in calculating the average number of shares during the period (the 2nd quarter of the fiscal year ending March 2020: 43,750 shares, the 2nd quarter of the fiscal year ending March 2019: – 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 2nd Quarter, (3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc." on page 3 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.

Contents

- 1. Qualitative Information Concerning the Settlement of Accounts for the 2nd Quarter 2
 - (1) Explanation Concerning the Operating Results 2
 - (2) Explanation Concerning the Financial Position 4
 - (3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc. 5

- 2. Consolidated Financial Statements and Important Explanatory Notes 6
 - (1) Consolidated Balance Sheet 6
 - (2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income 8
 - (Consolidated Statement of Income) 8
 - (Consolidated Statement of Comprehensive Income)..... 8
 - (3) Consolidated Statement of Cash Flows 10
 - (4) Notes Concerning the Consolidated Financial Statements 12
 - (Note Concerning the Premise of a Going Concern)..... 12
 - (Note in the Case of Significant Changes in the Amount of Shareholders' Equity) 12
 - (Adoption of Simplified Methods in the Preparation of the Quarterly Financial Statements) 12
 - (Segment Information) 13

1. Qualitative Information Concerning the Settlement of Accounts for the 2nd 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 in 2018, the Internet usage rate exceeded the TV viewing rate on weekdays and holidays for the first time. ^{(*)2} Furthermore, 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,
FY2018 Survey Report on Survey on Time Spent for Information and Communication Media and Information Behaviors

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 their 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 ^{(*)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, Inc. was the first company in the world to commercialize ringtones, and has steadily grown focusing on the music distribution business together 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 send out information to society, and media diversification such as social media, 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 facility named CROKET MIMIC TOKYO in Roppongi, Tokyo that specializes in on impersonation performances. As illustrated by these examples, for new markets that are expected to expand in future, Faith will propose new lifestyles in the form of spaces that combine the elements of art, food and entertainment with a focus on music.

On October 8, 2019, Faith agreed to acquire all the shares of KSR Corporation, thereby welcoming that company into the Faith Group. KSR was founded in 2000 and is a domestic music label. Musician Shinji Nira (also known as Wakadanna), a member of the Japanese reggae group Shonan no Kaze, serves on the

board of directors. In addition to producing wide-ranging artists with a strong focus on dance and hip-hop music, KSR is developing a variety of businesses in the entertainment field including music production, promotion, and event development. From now on, KSR will work to achieve synergies with the Faith Group's artist platform business as well as in the artist development and music production.

Regarding the Faith Group business performance for the second quarter of the consolidated fiscal year ending March 2020, revenue from existing distribution services, which account for a major share of overall sales, continued to decline, and although revenue from new businesses in the Content Business segment made a contribution, the Label Business recorded a year-on-year decrease in sales. As a result of these factors, the Group reported a decrease in net sales of 3.9% compared with the same period of previous fiscal year to ¥10,184 million. On the profit side, the Group's operating profit increased by 52.9% year-on-year to ¥334 million driven by improved profitability of the Label Business, and ordinary profit increased by 97.3% year-on-year to ¥383 million. Moreover, due to the recording of a valuation loss of ¥549 million on securities, the Group recorded a net loss attributable to the shareholders of the parent company of ¥373 million (compared with a net income attributable to shareholders of the parent company of ¥213 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' such as 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 ¥1,855 million (an increase of 14.0% 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 ¥315 million (compared with an operating loss of ¥248 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 7.3% year-on-year to ¥1,433 million while operating income increased by 44.2% year-on-year to ¥75 million.

Label Business

Amid the difficult environment facing the music and video-related industry in line with the continuing decrease of package products in the music 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 package product sales.

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 9.7% year-on-year to ¥6,895 million. However, due to strong sales of live performances by Columbia artists and the steady sales of products using sound sources, operating income increased by 38.3% year on year to ¥572 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

(Analysis of Financial Position)

As of the end of the second quarter of the current consolidated fiscal year ending March 2020 (June 30, 2019), total assets increased by ¥774 million compared to the end of the previous consolidated fiscal year to ¥25,117 million. This result was mainly due to an increase in cash and deposits.

Total liabilities increased by ¥1,102 million compared to the end of the previous consolidated fiscal year to ¥7,925 million. This result was mainly due to an increase of ¥135 million in short-term loans payable, an increase of ¥493 million in long-term loans payable, and an increase of ¥223 million in other fixed liabilities.

Net assets decreased by ¥327 million compared to the end of the previous consolidated fiscal year to ¥17,192 million. This was mainly due to the recording of net loss attributable to the shareholders of the parent company and to a decrease in the capital surplus.

As a result of the above, the equity ratio decreased by 3.5 percentage points to 68.4%.

(Cash Flow Situation)

The balance of cash and cash equivalents at the end of the second quarter of the current consolidated fiscal year was ¥13,298 million, an increase of ¥1,198 million from the end of the previous consolidated fiscal year. Details of cash flow for the consolidated cumulative 2nd quarter and its contributory factors are as follows:

(Cash flow from operating activities)

Cash flow from operating activities amounted to an inflow of ¥1,093 million (compared with an inflow of ¥156 million for the same period of the previous fiscal year), due mainly to the recording of ¥166 million in respect of a net loss before income taxes and other adjustments, ¥156 million in respect of depreciation expenses, ¥549 million in respect of a loss on valuation of investment securities, ¥588 million in respect of a decrease in trade receivables, ¥120 million in respect of an increase in inventory assets, and ¥210 million in respect of income tax refunded, etc.

(Cash flow from investing activities)

Cash flow from investing activities amounted to an outflow of ¥404 million (compared with an inflow of ¥177 million for the same period of the previous fiscal year), due mainly to the recording of ¥59 million in respect of expenditure for the acquisition of tangible fixed assets, ¥70 million in respect of expenditure for the acquisition of software, and ¥280 million in respect of expenditure for the acquisition of investment securities, etc.

(Cash flow from financing activities)

Cash flow from financing activities amounted to an inflow of ¥519 million (compared with an outflow of ¥897 million for the same period of the previous fiscal year), due mainly to income from long-term borrowing.

(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 financial year is unchanged from the forecast issued on November 8, 2019.

2. Consolidated Financial Statements and Important Explanatory Notes
 (1) Consolidated Balance Sheet

	(Unit: thousands of yen)	
	FY 2018	2nd Quarter of FY 2019
	(As of March 31, 2019)	(As of Sept. 30, 2019)
(Assets)		
Current assets		
Cash and deposits	12,150,463	13,348,899
Accounts and notes receivable	2,063,965	1,896,285
Marketable securities	232,066	234,729
Commercial products	484,367	479,812
Products in progress	394,308	529,614
Primary materials and inventory goods	61,544	50,995
Corporation tax refund receivable, etc.	212,102	1,097
Other current assets	534,205	509,744
Allowance for doubtful accounts	△19,401	△19,384
Total current assets	16,113,621	17,031,794
Fixed assets		
Tangible fixed assets	3,257,801	3,218,733
Intangible fixed assets		
Goodwill	1,541,584	1,488,588
Others	556,635	515,348
Total intangible fixed assets	2,098,219	2,003,937
Investment and other assets		
Investment securities	1,957,225	1,945,587
Deferred tax assets	454,354	454,465
Other intangible fixed assets	942,793	968,930
Allowance for doubtful accounts	△480,799	△505,774
Total investments and other assets	2,873,573	2,863,209
Total fixed assets	8,229,594	8,085,880
Total assets	24,343,216	25,117,674
(Liabilities)		
Current liabilities		
Accounts and notes payable	905,762	906,627
Short-term loans payable	509,950	644,950
Lease obligations	662	301
Accrued expenses payable	2,749,170	2,924,230
Income taxes payable	116,814	238,371
Reserve for bonuses	79,633	82,984
Reserve for point card certificates	374	720
Reserve for sales returns	62,356	38,037
Other current liabilities	1,516,430	1,422,535
Total current liabilities	5,941,156	6,258,759
Fixed liabilities		
Long-term loans payable	63,000	556,500
Net defined retirement benefits	632,538	639,917
Lease obligations	60	60
Deferred tax liabilities	139,595	200,452
Other fixed liabilities	46,577	269,634
Total fixed liabilities	881,771	1,666,564
Total liabilities	6,822,927	7,925,324

	(Unit: thousands of yen)	
	FY 2018	2nd Quarter of FY 2019
	(As of March 31, 2019)	(As of Sept. 30, 2019)
(Net assets)		
Shareholder's equity		
Common stock	3,218,000	3,218,000
Capital surplus	3,019,175	2,840,095
Retained earnings	11,872,088	11,432,732
Treasury stock	△802,315	△665,847
Total shareholder's equity	17,306,948	16,824,980
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	307,035	456,747
Foreign currency translation adjustments	△10,936	△21,356
Cumulative adjustment for retirement benefit obligations	△82,758	△68,021
Total other accumulated comprehensive income	213,340	367,368
Non-controlling interests	—	—
Total net assets	17,520,288	17,192,349
Total liabilities and net assets	24,343,216	25,117,674

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

	(Unit: thousands of yen)	
	2nd Quarter of FY 2018 (April 1-Sept.30, 2018)	2nd Quarter of FY 2019 (April 1-Sept. 30, 2019)
Net sales	10,600,700	10,184,452
Cost of sales	6,945,378	6,313,497
Gross profit	3,655,321	3,870,954
Selling, general and administrative expenses	3,436,394	3,536,220
Operating income	218,927	334,734
Non-operating income		
Interest income	100	149
Dividend income	2,564	3,005
Interest on securities	59	73
Gain on equity method investment	—	24,140
Gain on investment partnership management	19,759	41,014
Gain on valuation of investment securities	—	3,177
Gain on foreign exchange	740	—
Miscellaneous receipts	13,007	6,938
Total non-operating income	36,232	78,499
Non-operating expenses		
Interest paid	3,216	2,979
Loss on equity method investment	53,522	—
Loss on investment partnership management	917	9,556
Loss on valuation of investment securities	2,378	432
Loss on foreign exchange	—	9,866
Miscellaneous expenses	777	7,011
Total non-operating expenses	60,813	29,845
Ordinary income	194,346	383,388
Extraordinary income		
Gain on sale of shares of affiliates	161,965	—
Total extraordinary income	161,965	—
Extraordinary losses		
Loss on disposal of fixed assets	9,119	102
Loss on valuation of investment securities	15,000	549,999
Total extraordinary losses	24,119	550,102
Net income or net loss before income taxes (Δ = net loss)	332,191	Δ 166,713
Corporate, local, and business taxes	144,487	211,488
Income taxes – deferred	Δ 26,004	Δ 5,088
Current quarter net income or net loss (Δ = net loss)	213,709	Δ 373,114
Current quarter net income attributable to non-controlling interests	635	—
Current quarter net income or net loss attributable to shareholders of the parent company (Δ = net loss)	213,073	Δ 373,114

(Consolidated Statement of Comprehensive Income)

	(Unit: thousands of yen)	
	2nd Quarter of FY 2018	2nd Quarter of FY 2019
	(April 1-Sept. 30, 2018)	(April 1-Sept. 30, 2019)
Current quarter net income or net loss (Δ = net loss)	213,709	Δ 373,114
Other comprehensive income		
Valuation difference on other available-for-sale securities	Δ 22,777	149,711
Foreign currency translation adjustments	Δ 5,098	Δ 10,420
Retirement benefit adjustments	10,098	14,737
Total other comprehensive income	<u>Δ 17,776</u>	<u>154,028</u>
Comprehensive income	<u>195,932</u>	<u>Δ 219,085</u>
(Details)		
Comprehensive income attributable to shareholders of the parent company	195,296	Δ 219,085
Comprehensive income attributable to non-controlling interests	635	—

(3) Consolidated Statement of Cash Flows

(Unit: thousands of yen)

	2nd Quarter of FY 2018 (April 1-Sept. 30, 2018)	2nd Quarter of FY 2019 (April 1-Sept. 30, 2019)
Cash flow from operating activities		
Gain or loss before income taxes and other adjustments (Δ = loss)	332,191	Δ 166,713
Depreciation expenses	134,363	156,036
Amortization of goodwill	53,121	52,949
Increase/decrease in allowance for doubtful accounts (Δ = decrease)	9,585	24,957
Increase/decrease in reserve for bonuses (Δ = decrease)	11,719	3,351
Increase/decrease in reserve for point card certificates (Δ = decrease)	Δ 663	345
Increase/decrease in liabilities for retirement benefits (Δ = decrease)	Δ 20,718	7,378
Interest and dividend income	Δ 2,665	Δ 3,154
Interest on securities	Δ 59	Δ 73
Interest paid	3,216	2,979
Gain or loss on foreign exchange (Δ = gain)	Δ 1,086	1,104
Gain or loss on equity method investment (Δ = gain)	53,522	Δ 24,140
Gain or loss on investment partnership management (Δ = gain)	Δ 18,841	Δ 31,458
Gain or loss on sale of shares of affiliates (Δ = gain)	Δ 161,965	—
Gain or loss on valuation of investment securities (Δ = gain)	15,000	549,999
Gain or loss on disposal of fixed assets (Δ = gain)	9,119	12
Increase/decrease in trade receivables (Δ = increase)	Δ 262,254	588,080
Increase/decrease in inventory assets (Δ = increase)	133,232	Δ 120,201
Increase/decrease in trade payables (Δ = decrease)	Δ 124,941	3,881
Others	93,541	Δ 95,287
Sub-total	255,418	950,048
Interest and dividends received	2,743	3,228
Interest paid	Δ 3,222	Δ 2,575
Income tax refunded	19,999	210,963
Income tax paid	Δ 118,797	Δ 68,094
Cash flow from operating activities	156,141	1,093,570

	(Unit: thousands of yen)	
	2nd Quarter of FY 2018 (April 1-Sept. 30, 2018)	2nd Quarter of FY 2019 (April 1-Sept. 30, 2019)
Cash flow from investing activities		
Income from withdrawal of term deposits	500,000	—
Expenditure for acquisition of tangible fixed assets	△427,315	△59,509
Expenditure for acquisition of software	△43,369	△70,383
Expenditure for acquisition of investment securities	—	△280,000
Income from distribution of profits from investment partnerships	59,610	2,418
Income from sale of subsidiary shares accompanying changes in the scope of consolidation	179,613	—
Expenditure for payments of loans receivable	△1,138	—
Income from collection of loans receivable	—	265
Expenditure for guaranteeing security deposits	△120,000	—
Income from collection of security deposits	1,389	37
Others	28,294	3,030
Net cash flow from investing activities	<u>177,084</u>	<u>△404,141</u>
Cash flow from financing activities		
Net increase/decrease in short-term loans payable (△ = decrease)	—	112,600
Expenditure for repayment of financing and lease obligations	△361	△361
Expenditure for repayment of long-term borrowing	△127,204	△108,999
Income from long-term borrowing	—	624,900
Expenditure for acquisition of treasury stock	△701,838	△231,611
Income from sale of treasury stock	158	189,000
Payment of dividends	△68,534	△66,032
Net cash flow from financing activities	<u>△897,781</u>	<u>519,493</u>
Effect of exchange rate on cash and cash equivalents	△3,299	△10,486
Net increase/decrease in cash and cash equivalents (△ = decrease)	<u>△567,854</u>	<u>1,198,436</u>
Cash and cash equivalents at beginning of year	12,910,303	12,100,452
Cash and cash equivalents at end of the quarter	<u>12,342,448</u>	<u>13,298,888</u>

(4) 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 second quarter, and then multiplying the amount of quarterly net income before tax deduction by the current estimated effective tax rate.

(Segment Information)

I 2nd quarter of the previous consolidated fiscal year/FY 2018 (April 1, 2018 through Sept. 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	1,627,737	1,335,707	7,637,254	10,600,700	—	10,600,700
Intersegment sales or transfer amount	40,666	481	1,583	42,730	△42,730	—
Total	1,668,403	1,336,188	7,638,838	10,643,431	△42,730	10,600,700
Segment income or loss (△)	△248,416	52,085	414,413	218,082	844	218,927

Notes: 1. The segment income or loss (△) adjustment amount of ¥844 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 2nd quarter of the current consolidated fiscal year/FY 2019 (April 1, 2019 through Sept. 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	1,855,128	1,433,580	6,895,743	10,184,452	—	10,184,452
Intersegment sales or transfer amount	57,419	97	3,940	61,457	△61,457	—
Total	1,912,547	1,433,678	6,899,683	10,245,910	△61,457	10,184,452
Segment income or loss (△)	△315,979	75,099	572,952	332,072	2,662	334,734

Notes: 1. The segment income or loss (△) adjustment amount of ¥2,662 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.