

Summary of Financial Statements for the First Quarter of the Year Ending December 31, 2018 (J-GAAP) (Consolidated)

May 14, 2018

Company Name: Segue Group Co., Ltd. Stock Exchange: Tokyo Stock Exchange
 Code Number: 3968 URL: <http://segue-g.jp/>
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 Scheduled date of filing quarterly securities report: May 14, 2018
 Scheduled date of dividend payment: —
 Explanatory documents supplement to the abridged quarterly financial statements: None
 Briefing for summary of quarterly financial results: None

(All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the First Quarter of the Year Ending December 31, 2018 (from January 1, 2018, to March 31, 2018)

(1) Consolidated Results of Operations (for three months) (Percentages indicate year-over-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
Q1 FY 2018	2,772	25.5	288	9.6	298	10.3	211	8.9
Q1 FY 2017	2,209	—	263	—	270	—	193	—

Note: Comprehensive income (million yen) Q1 FY 2018: 173 (-3.3%) Q1 FY 2017: 179 (— %)

	Net income per share		Diluted net income per share	
	Yen		Yen	
Q1 FY 2018	37.21		36.05	
Q1 FY 2017	35.07		33.13	

- Notes: 1. Because the Company did not prepare quarterly consolidated financial statements for the first quarter of FY 2016, comparisons of changes in earnings with the first quarter of FY 2017 are not presented.
2. Basic earnings per share and diluted earnings per share for the quarter have been calculated taking into account a common stock split executed at the ratio of two shares for one on April 1, 2017, and a common stock split executed at the ratio of two shares for one on October 1, 2017. For the purposes of the said calculations, all stock splits mentioned are assumed to have occurred at the beginning of the fiscal year ended December 31, 2017.

(2) Consolidated Financial Position

	Total assets		Net assets		Equity ratio	
	million yen		million yen		%	
Q1 FY 2018	5,422		2,498		46.1	
FY 2017	5,154		2,320		45.0	

Reference: Shareholders' equity (million yen) Q1 FY 2018: 2,498 FY 2017: 2,320

2. Dividends

	Annual dividends				
	End of Q1	End of Q2	End of Q3	End of fiscal year	Total
	Yen	Yen	Yen	Yen	Yen
FY 2017	—	0.00	—	0.00	0.00
FY 2018	—				
FY 2018 (forecast)		0.00	—	0.00	0.00

Note: Revision of the latest published dividend forecast: None

3. Forecast for the Year Ending December 31, 2018 (from January 1, 2018, to December 31, 2018)

(Percentages indicate year-over-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	Yen
Full year	8,436	8.3	458	19.9	459	4.9	362	13.5	63.90

Note: Revision of the latest published earnings forecast: None

* Explanatory notes

(1) Changes in major subsidiaries during the fiscal quarter

(changes in specified subsidiaries in conjunction with change in the scope of consolidation): None

(2) Application of accounting procedures specific to creation of quarterly consolidated financial statements: None

(3) Change of accounting policies; change or restatement of accounting estimates

(i) Change of accounting policies caused by revision of accounting standards : None

(ii) Change of accounting policies other than stated in (i) : None

(iii) Change of accounting estimates : None

(iv) Restatement : None

(4) Issued shares (common stock)

(i) Number of issued shares at end of period

(including treasury shares)

(ii) Number of Treasury shares at end of period

(iii) Average number of shares outstanding during the period

(cumulative quarterly statistics)

Q1 FY 2018	5,680,000 shares	FY 2017	5,668,800 shares
Q1 FY 2018	41 shares	FY 2017	- shares
Q1 FY 2018	5,675,059 shares	Q1 FY 2017	5,529,500 shares

Notes: The number of common shares issued and outstanding has been calculated taking into account a common stock split executed at the ratio of two shares for one on April 1, 2017, and a common stock split executed at the ratio of two shares for one on October 1, 2017. For the purposes of the said calculations, all stock splits mentioned are assumed to have occurred at the beginning of the fiscal year ended December 31, 2017.

* Quarterly summary of financial statements is outside the scope of the quarterly review by certified public accountant or audit firm.

* Explanation and other explanatory notes regarding the appropriate use of financial forecasts

- These materials contain forward-looking statements including forecasts of the Company's business performance, which are based on certain assumptions made in accordance with information currently available and judged to be reasonable and are not intended as a guarantee that the Company will achieve these targets. In addition, actual results may differ materially from these forecasts as a result of various factors, including actual business performance. For explanatory notes on the assumptions for these forecasts and the use of the financial forecasts, please refer to "1. Qualitative Information Concerning the Account Closing for the Period under Review (3) Explanatory information concerning future estimates including consolidated financial results projections" on page 1 of the attached materials.

1. Qualitative Information Concerning the Account Closing for the Period under Review

(1) Explanatory information concerning business results

The Japanese economy in the period under review has proceeded on a moderate recovery track amid continuing improvements in corporate earnings and employment. The recovery trend has been holding up also in the global economy despite remaining risks mainly in the geopolitical sphere.

In the IT industry of the Group, new technologies such as AI and IoT are increasingly taking center stage and the investment inclination toward IT overall continues. In security reinforcement measures, we expect the importance of investments addressing not only external threats such as increasingly diverse and complex cyber attacks but also internal threats relating to access control and vulnerability management to detect abnormalities to increase, due in part to the revision of the Cybersecurity Management Guidelines in November 2017.

Under this environment, the Group expanded sales of products, services and solutions that combine products and services as we did the previous year through aggressive sales activities. We have also landed large-scale projects and continue to steadily increase sales of maintenance services. At the same time, personnel expenses have increased as a result of aggressive hiring.

As a result of the above, net sales in the Solutions Products Business during the period under review increased by 214,414 thousand yen (16.6%) year-over-year to 1,507,695 thousand yen, and in the Solutions Services Business they increased by 348,906 thousand yen (38.1%) to 1,264,782 thousand yen. Consolidated sales thus grew by 563,320 thousand yen (25.5%) overall to 2,772,478 thousand yen.

Meanwhile, operating income increased by 25,394 thousand yen (9.6%) year-over-year to 288,736 thousand yen, ordinary income increased by 27,745 thousand yen (10.3%) to 298,334 thousand yen, and net income attributable to shareholders of the parent company increased by 17,257 thousand yen (8.9%) to 211,150 thousand yen.

(2) Explanatory information concerning financial position

[Assets]

Total assets at the end of the period under review came to 5,422,095 thousand yen, an increase of 268,074 thousand yen from the previous fiscal year. Current assets were 4,323,651 thousand yen, an increase of 244,694 thousand yen from the previous fiscal year. Non-current assets were 1,098,444 thousand yen, an increase of 23,379 thousand yen from the previous fiscal year.

The main factor behind the rise in current assets was an increase in cash and deposits and accounts receivable - other. The main factor behind the rise in non-current assets was an increase in tools, furniture and fixtures.

[Liabilities]

Total liabilities at the end of the period under review came to 2,923,174 thousand yen, an increase of 89,876 thousand yen from the previous fiscal year. Current liabilities were 2,620,399 thousand yen, an increase of 100,122 thousand yen from the previous fiscal year. Non-current liabilities were 302,775 thousand yen, a decrease of 10,245 thousand yen from the previous fiscal year.

The main factor behind the rise in current liabilities was an increase in advances received. The main factor behind the fall in non-current liabilities was a decrease in deferred tax liabilities.

[Net assets]

Net assets at the end of the period under review came to 2,498,921 thousand yen, an increase of 178,197 thousand yen from the previous fiscal year. The main factors behind this result were increases in retained earnings.

(3) Explanatory information concerning future estimates including consolidated financial results projections

At this time, there are no changes to the full-year financial forecasts published on February 13, 2018. If any revisions are deemed necessary in the future, they will be disclosed immediately.

1. Consolidated financial statements and major explanatory notes
(1) Consolidated balance sheets

(units: 1,000 yen)

	FY 2017 (as of December 31, 2017)	Q1 FY 2018 (as of March 31, 2018)
Assets		
Current assets		
Cash and deposits	1,469,381	1,614,308
Notes and accounts receivable - trade	1,102,032	1,214,835
Electronically recorded monetary claims - operating	14,416	26,910
Securities	99,990	—
Inventories	768,834	454,267
Advance payments - trade	317,612	424,885
Accounts receivable - other	225,939	463,597
Deferred tax assets	22,605	36,665
Other	58,286	88,306
Allowance for doubtful accounts	-143	-126
Total current assets	4,078,956	4,323,651
Non-current assets		
Property, plant and equipment		
Buildings and structures	39,244	39,244
Accumulated depreciation	-26,138	-26,585
Buildings and structures, net	13,105	12,658
Tools, furniture and fixtures	748,421	811,854
Accumulated depreciation	-596,381	-612,216
Tools, furniture and fixtures, net	152,040	199,637
Land	639	639
Leased assets	5,170	1,100
Accumulated depreciation	-5,117	-1,061
Leased assets, net	52	39
Total property, plant and equipment	165,838	212,975
Intangible assets		
Goodwill	6,700	4,050
Other	27,917	51,738
Total intangible assets	34,618	55,788
Investments and other assets		
Investment securities	705,105	661,847
Long-term guarantee deposits	77,118	76,842
Deferred tax assets	10,429	11,064
Insurance funds	64,924	63,284
Other	17,031	16,640
Total investments and other assets	874,608	829,679
Total non-current assets	1,075,065	1,098,444
Total assets	5,154,021	5,422,095

Segue Group Co. Ltd. (3968) Summary of Financial Statements
for the First Quarter of the Year Ending December 31, 2018

(units: 1,000 yen)

	FY 2017 (as of December 31, 2017)	Q1 FY 2018 (as of March 31, 2018)
Liabilities		
Current liabilities		
Accounts payable - trade	856,368	851,780
Current portion of bonds	20,000	—
Current portion of long-term loans payable	38,732	17,481
Lease obligations	55	13
Accounts payable - other	103,942	68,342
Accrued expenses	128,417	128,512
Income taxes payable	105,958	117,124
Accrued consumption taxes	64,249	58,495
Provision for bonuses	—	54,840
Advances received	1,110,251	1,259,717
Other	92,302	64,091
Total current liabilities	2,520,277	2,620,399
Non-current liabilities		
Deferred tax liabilities	114,549	100,507
Net defined benefit liability	131,873	135,669
Long-term accounts payable - other	66,598	66,598
Total non-current liabilities	313,020	302,775
Total liabilities	2,833,298	2,923,174
Net assets		
Shareholders' equity		
Capital stock	498,306	500,619
Capital surplus	270,806	273,119
Retained earnings	1,142,981	1,354,131
Treasury shares	—	-79
Total shareholders' equity	1,912,094	2,127,791
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	421,293	390,773
Deferred gains or losses on hedges	-12,663	-19,643
Accumulated other comprehensive income	408,629	371,129
Total net assets	2,320,723	2,498,921
Total liabilities and net assets	5,154,021	5,422,095

(2) Consolidated statements of income and comprehensive income

Consolidated statement of income
First quarter

(units: 1,000 yen)

	FY 2017 (from January 1, 2017, to December 31, 2017)	FY 2018 (from January 1, 2018, to December 31, 2018)
Net sales	2,209,157	2,772,478
Cost of sales	1,596,016	2,091,086
Gross margin on sales	613,141	681,392
Selling, general and administrative expenses	349,798	392,655
Operating income	263,342	288,736
Non-operating income		
Interest and dividend income	63	71
Foreign exchange gains	3,091	—
Surrender value of insurance	3,817	12,087
Other	1,450	394
Total non-operating income	8,423	12,554
Non-operating expenses		
Interest expenses	874	119
Foreign exchange losses	—	2,676
Other	302	160
Total non-operating expenses	1,177	2,957
Ordinary income	270,588	298,334
Extraordinary income		
Gain on sales of investment securities	—	9,198
Total extraordinary income	—	9,198
Profit before income taxes	270,588	307,533
Income taxes - current	87,930	109,467
Income taxes - deferred	-11,233	-13,084
Total income taxes	76,696	96,383
Profit	193,892	211,150
Profit attributable to non-controlling interests	—	—
Profit attributable to owners of parent	193,892	211,150

Consolidated statement of comprehensive income
First quarter

(units: 1,000 yen)

	FY 2017 (from January 1, 2017, to December 31, 2017)	FY 2018 (from January 1, 2018, to December 31, 2018)
Profit	193,892	211,150
Other comprehensive income		
Valuation difference on available-for-sale securities	383	-30,519
Deferred gains or losses on hedges	-14,754	-6,979
Accumulated other comprehensive income	-14,370	-37,499
Comprehensive income	179,521	173,650
(Breakdown)		
Comprehensive income attributable to owners of parent	179,521	173,650
Comprehensive income related to non-controlling interests	—	—