

Summary of Financial Statements for the Year Ended December 31, 2017 (J-GAAP) (Consolidated)

February 13, 2018

Company Name: Segue Group Co., Ltd. Stock Exchange: Tokyo Stock Exchange
 Code Number: 3968 URL: <http://segue-g.jp/>
 Representative: Yasuyuki Aisu, President and CEO
 Contact: Yasuhiro Fukuda, Director, Manager of Administration Department Tel.: +81-3-6228-3822
 Scheduled date of annual general meeting of shareholders: March 28, 2018
 Scheduled date of filing securities report: March 29, 2018
 Scheduled date of dividend payment: -
 Earnings supplementary explanatory documents: Yes
 Earnings presentation: Yes (for institutional investors and analysts)

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

1. Forecast for the Year Ended December 31, 2017 (from January 1, 2017, to December 31, 2017)

(1) Consolidated Results of Operations (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	%
FY 2017	7,792	13.2	382	75.2	437	53.0	319	96.2
FY 2016	6,881	11.5	218	69.6	286	99.9	162	64.5

Note: Comprehensive income (million yen) FY 2017: 744 (429.8%) FY 2016: 140 (423.2%)

	Net income per share	Diluted net income per share	Return on equity	Ratio of ordinary income to total assets	Ratio of operating income to net sales
	Yen	Yen	%	%	%
FY 2017	57.10	54.43	16.5	9.9	4.9
FY 2016	34.31	34.11	12.4	8.2	3.2

Reference: Investment gains or losses using the equity method (million yen) FY 2017: - FY 2016: -

Notes: Basic earnings per share and diluted earnings per share have been calculated taking into account a common stock split executed at the ratio of one hundred shares for one on September 21, 2016, 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, 2016.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	million yen	million yen	%	Yen
FY 2017	5,154	2,320	45.0	409.39
FY 2016	3,708	1,546	41.7	280.45

Reference: Shareholders' equity (million yen) FY 2017: 2,320 FY 2016: 1,546

Notes: The number of common shares issued and outstanding has been calculated taking into account a common stock split executed at the ratio of one hundred shares for one on September 21, 2016, 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. Net assets per share is calculated under the assumption that the stock split took effect at the beginning of the fiscal year ended December 31, 2016.

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of fiscal year
	million yen	million yen	million yen	million yen
FY 2017	670	- 127	- 95	1,569
FY 2016	158	- 44	162	1,121

2. Dividends

	Annual dividends					Total dividends paid (total)	Payout ratio (consolidated)	Ratio of dividend paid to net assets (consolidated)
	End of Q1	End of Q2	End of Q3	End of fiscal year	Total			
	Yen	Yen	Yen	Yen	Yen	million yen	%	%
FY 2016	-	0.00	-	0.00	0.00	-	-	-
FY 2017	-	0.00	-	0.00	0.00	-	-	-
FY 2018 (forecast)	-	0.00	-	0.00	0.00	-	-	-

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

* Explanatory notes

(1) Changes in major subsidiaries during the fiscal year

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

(2) 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

(3) 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

FY 2017	5,668,800 shares	FY 2016	5,514,800 shares
FY 2017	- shares	FY 2016	- shares
FY 2017	5,586,916 shares	FY 2016	4,738,564 shares

* This Summary of Financial Statements is not subject to audit.

* Explanation and other explanatory notes pertaining to 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. Summary of business results (4) Outlook" on page 3 of the attached materials.
- The Company plans to hold a results briefing for institutional investors and analysts on February 21, 2018. The materials distributed at the results meeting are scheduled to be posted on the Company's website promptly after the meeting.

1. Summary of business results

(1) Summary of business results for the period under review

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 security and IT infrastructure industry of the Group, new technologies such as AI and IoT are increasingly taking center stage and the investment inclination toward IT overall continues unabated. In security reinforcement measures, there has been a rising trend in moves and investments addressing legislative amendments, external threats such as increasingly diverse and complex cyber attacks, and internal threats relating to access control and vulnerability management.

In this environment, the Group engaged in proactive efforts surrounding security and IT infrastructure products and services as well as sales of combinations of both as solutions geared at large companies. As a result, sales of solutions centered on security and IT infrastructure products increased. Sales of own-developed products and new additions of third-party products performed also favorably.

As a result of the above, net sales in the Solutions Products Business during the current fiscal year increased by 712,642 thousand yen (21.0%) year-over-year to 4,104,571 thousand yen, and in the Solutions Services Business they increased by 198,732 thousand yen (5.7%) to 3,688,169 thousand yen. Consolidated sales thus grew by 911,374 thousand yen (13.2%) overall to 7,792,741 thousand yen.

Income increased, with operating income rising to 382,292 thousand yen (up 164,049 thousand yen, or 75.2%), buoyed not only in proportion to the sales expansion but also by sales of own-developed products and newly added third-party products, with ordinary income of 437,805 thousand yen (up 151,616 thousand yen, or 53.0%) and with 319,024 thousand yen (up 156,450 thousand yen, or 96.2%) in net income attributable to shareholders of the parent company.

(2) Summary of financial status for the period under review

Total assets at the end of the fiscal year came to 5,154,021 thousand yen, an increase of 1,445,644 thousand yen from the previous fiscal year. Current assets were 4,078,956 thousand yen, an increase of 785,118 thousand yen from the previous fiscal year. Non-current assets were 1,075,065 thousand yen, an increase of 660,525 thousand yen from the previous fiscal year.

The main factor behind the rise in current assets was an increase in cash, deposits, and inventories. The main factor behind the rise in non-current assets was an increase in investment securities.

Total liabilities for the fiscal year came to 2,833,298 thousand yen, an increase of 671,565 thousand yen from the previous fiscal year. Current liabilities were 2,520,277 thousand yen, an increase of 604,013 thousand yen from the previous fiscal year. Non-current liabilities were 313,020 thousand yen, an increase of 67,552 thousand yen from the previous fiscal year.

The main factor behind the rise in current liabilities was an increase in accounts payable - trade and advances received. The main factor behind the rise in non-current liabilities was an increase in deferred tax liabilities.

Total assets at the end of the fiscal year came to 2,320,723 thousand yen, an increase of 774,078 thousand yen from the previous fiscal year. The main factors behind this result were increases in retained earnings and valuation difference on available-for-sale securities.

(3) Summary of cash flows for the period under review

For the current fiscal year, cash and cash equivalents came to 1,569,371 thousand yen an increase year-over-year of 447,920 thousand yen (39.9%).

For the respective cash flow categories, the primary factors were as follows.

[Cash flows from operating activities]

Cash flows from operating activities increased by a net inflow of 511,480 thousand yen to 670,090 thousand yen.

Main factors were 466,123 thousand yen in profit before income taxes, a 461,793 thousand yen increase in accounts payable-trade, and a 157,649 thousand yen increase in advances received, as well as a 466,748 thousand yen increase in inventories.

[Cash flows from investing activities]

Cash flows from investing activities increased by 82,878 thousand yen to a net outflow of 127,025 thousand yen.

Main factors were purchase of property, plant and equipment of 99,635 thousand yen, and purchase of investment securities of 108,814 thousand yen.

[Cash flows from financing activities]

Net cash used in financing activities was 95,497 thousand yen (compared with 162,599 thousand yen in net cash provided by financing activities in the previous fiscal year). The main factor was 85,004 thousand yen in expenditure for the repayment of long term loans.

Reference: Trends in cash flow indicators

	Fiscal year ended December 31, 2014	Fiscal year ended December 31, 2015	Fiscal year ended December 31, 2016	Fiscal year ended December 31, 2017
Equity ratio	30.5	32.5	41.7	45.0
Equity ratio based on market value	-	-	3.0	2.2
Ratio of interest-bearing debt to cash flow liabilities	1.5	29.0	1.2	0.1
Interest coverage ratio	47.8	2.3	45.8	408.4

Equity ratio: Shareholders' equity / Total assets

Equity ratio based on market value: Market value of stocks / Total assets

Ratio of interest-bearing debt to cash flow: Interest-bearing debt / Cash flow

Interest coverage ratio: Cash flow / Interest paid

Note 1: All calculations use financial values that are stated on a consolidated basis.

Note 2: The FY 2014 and FY 2015 equity ratios based on market value are not stated because the Company's shares were not listed.

Note 3: The total market value of the Company's shares are calculated based on issued shares exclusive of treasury shares.

Note 4: Cash flow uses the value of operating cash flow.

Note 5: Interest bearing debt covers all liabilities, presented in the consolidated balance sheet for which interest is paid.

(4) Outlook

We expect the mild recovery to continue in Japan, despite the risk that the domestic economy will underperform the world economy in 2018.

In the fields in which the Segue Group does business, we are projecting continued growth in the desire to invest in IT in general.

In this environment, the Group has been working at business expansion through efforts such as strengthening own-product development capabilities and stepping up sales promotion, sustained expansion of the third-party products line-up of security products and services, and cross-selling of new and existing merchandise. Based on these efforts, projections call for consolidated sales of 8,436,064 thousand yen (up 8.3% from the period under review), with operating income of 458,424 thousand yen (up 19.9%), ordinary income of 459,441 thousand yen (up 4.9%), and 362,239 thousand yen (up 13.5%) in net income attributable to the shareholders of the parent company.

2. Basic approach regarding selection of an accounting standard

In order to ensure comparability with other Japanese companies in the same industry, the Group applies the Japanese accounting standard.

4. Consolidated financial statements and major explanatory notes

(1) Consolidated balance sheets

(units: 1,000 yen)

	FY 2016 (as of December 31, 2016)	FY 2017 (as of December 31, 2017)
Assets		
Current assets		
Cash and deposits	1,212,782	1,469,381
Notes and accounts receivable - trade	1,180,937	1,102,032
Electronically recorded monetary claims - operating	28,286	14,416
Securities	-	99,990
Inventories	302,085	768,834
Advance payments - trade	303,092	317,612
Accounts receivable - other	186,182	225,939
Deferred tax assets	28,625	22,605
Other	52,083	58,286
Allowance for doubtful accounts	-237	-143
Total current assets	3,293,838	4,078,956
Non-current assets		
Property, plant and equipment		
Buildings and structures	36,992	39,244
Accumulated depreciation	-24,178	-26,138
Buildings and structures, net	12,814	13,105
Tools, furniture and fixtures	719,450	748,421
Accumulated depreciation	-612,552	-596,381
Tools, furniture and fixtures, net	106,897	152,040
Land	639	639
Leased assets	5,170	5,170
Accumulated depreciation	-4,960	-5,117
Leased assets, net	209	52
Total property, plant and equipment	120,561	165,838
Intangible assets		
Goodwill	34,908	6,700
Other	23,128	27,917
Total intangible assets	58,037	34,618
Investments and other assets		
Investment securities	24,389	705,105
Long-term guarantee deposits	72,012	77,118
Deferred tax assets	54,253	10,429
Insurance funds	76,541	64,924
Other	8,743	17,031
Total investments and other assets	235,940	874,608
Total non-current assets	414,539	1,075,065
Total assets	3,708,377	5,154,021

(units: 1,000 yen)

	FY 2016 (as of December 31, 2016)	FY 2017 (as of December 31, 2017)
Liabilities		
Current liabilities		
Accounts payable - trade	394,574	856,368
Current portion of bonds	40,000	20,000
Current portion of long-term loans payable	85,004	38,732
Lease obligations	165	55
Accounts payable - other	65,206	103,942
Accrued expenses	116,783	128,417
Income taxes payable	95,712	105,958
Accrued consumption taxes	79,607	64,249
Advances received	952,601	1,110,251
Other	86,610	92,302
Total current liabilities	1,916,263	2,520,277
Non-current liabilities		
Bonds payable	20,000	-
Long-term loans payable	38,732	-
Lease obligations	55	-
Deferred tax liabilities	-	114,549
Net defined benefit liability	119,903	131,873
Long-term accounts payable - other	66,778	66,598
Total non-current liabilities	245,468	313,020
Total liabilities	2,161,732	2,833,298
Net assets		
Shareholders' equity		
Capital stock	483,470	498,306
Capital surplus	255,970	270,806
Retained earnings	823,957	1,142,981
Total shareholders' equity	1,563,398	1,912,094
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	984	421,293
Deferred gains or losses on hedges	-17,737	-12,663
Accumulated other comprehensive income	-16,752	408,629
Total net assets	1,546,645	2,320,723
Total liabilities and net assets	3,708,377	5,154,021

(2) Consolidated statements of income and comprehensive income

Consolidated statement of income

(units: 1,000 yen)

	FY 2016 (from January 1, 2016, to December 31, 2016)	FY 2017 (from January 1, 2017, to December 31, 2017)
Net sales	6,881,366	7,792,741
Cost of sales	5,310,690	5,921,449
Gross margin on sales	1,570,675	1,871,291
Selling, general and administrative expenses	1,352,432	1,488,998
Operating income	218,243	382,292
Non-operating income		
Interest and dividend income	211	271
Foreign exchange gains	17,170	-
Surrender value of insurance	64,926	48,440
Subsidy income	5,453	6,670
Other	3,724	2,748
Total non-operating income	91,486	58,131
Non-operating expenses		
Interest expenses	3,275	1,617
Guarantee commission	99	381
Foreign exchange losses	-	125
Share issuance cost	3,201	365
Expenses related to stock listing	16,858	-
Other	105	128
Total non-operating expenses	23,541	2,617
Ordinary income	286,189	437,805
Extraordinary income		
Gain on sales of investment securities	-	28,317
Gain on transfer of business	15,000	-
Gain on sales of non-current assets	59	-
Total extraordinary income	15,059	28,317
Extraordinary losses		
Loss on valuation of investment securities	33,070	-
Total extraordinary losses	33,070	-
Profit before income taxes	268,178	466,123
Income taxes - current	93,498	138,245
Income taxes - deferred	12,106	8,853
Total income taxes	105,604	147,098
Profit	162,574	319,024
Profit attributable to non-controlling interests	-	-
Profit attributable to owners of parent	162,574	319,024

Consolidated statement of comprehensive income

	(units: 1,000 yen)	
	FY 2016 (from January 1, 2016, to December 31, 2016)	FY 2017 (from January 1, 2017, to December 31, 2017)
Profit	162,574	319,024
Other comprehensive income		
Valuation difference on available-for-sale securities	-15	420,308
Deferred gains or losses on hedges	-22,041	5,073
Accumulated other comprehensive income	-22,057	425,381
Comprehensive income	140,516	744,406
(Breakdown)		
Comprehensive income attributable to owners of parent	140,516	744,406
Comprehensive income related to non-controlling interests	-	-

(3) Consolidated statement of changes in equity

FY 2016 (from January 1, 2016, to December 31, 2016)

(units: 1,000 yen)

	Shareholders' equity			
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity
Balance at beginning of current period	318,000	90,500	661,382	1,069,882
Changes during period				
Issuance of new shares	165,470	165,470		330,941
Profit attributable to owners of parent Profit			162,574	162,574
Net changes during period other than shareholders' equity				—
Total changes during period	165,470	165,470	162,574	493,515
Balance at end of current period	483,470	255,970	823,957	1,563,398

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total accumulated other comprehensive income	
Balance at beginning of current period	1,000	4,304	5,304	1,075,187
Changes during period				
Issuance of new shares				330,941
Profit attributable to owners of parent Profit				162,574
Net changes during period other than shareholders' equity	-15	-22,041	-22,057	-22,057
Total changes during period	-15	-22,041	-22,057	471,457
Balance at end of current period	984	-17,737	-16,752	1,546,645

FY 2017 (from January 1, 2017, to December 31, 2017)

(units: 1,000 yen)

	Shareholders' equity			
	Capital stock	Capital surplus	Retained earnings	Total shareholders' equity
Balance at beginning of current period	483,470	255,970	823,957	1,563,398
Changes during period				
Issuance of new shares	14,835	14,835		29,671
Profit attributable to owners of parent Profit			319,024	319,024
Net changes during period other than shareholders' equity				—
Total changes during period	14,835	14,835	319,024	348,696
Balance at end of current period	498,306	270,806	1,142,981	1,912,094

	Accumulated other comprehensive income			Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total accumulated other comprehensive income	
Balance at beginning of current period	984	-17,737	-16,752	1,546,645
Changes during period				
Issuance of new shares				29,671
Profit attributable to owners of parent Profit				319,024
Net changes during period other than shareholders' equity	420,308	5,073	425,381	425,381
Total changes during period	420,308	5,073	425,381	774,078
Balance at end of current period	421,293	-12,663	408,629	2,320,723

(4) Consolidated statement of cash flows

(units: 1,000 yen)

	FY 2016 from January 1, 2016 to December 31, 2016)	FY 2017 from January 1, 2017 to December 31, 2017)
Cash flows from operating activities		
Profit before income taxes	268,178	466,123
Depreciation	53,698	84,853
Amortization of goodwill	28,208	28,208
Increase (decrease) in allowance for doubtful accounts	237	-94
Increase (decrease) in net defined benefit liability	18,546	11,970
Interest and dividend income	-211	-271
Interest expenses	3,275	1,617
Loss (gain) on sales of investment securities	-	-28,317
Loss (gain) on valuation of investment securities	33,070	-
Foreign exchange losses (gains)	1,069	-352
Gain on transfer of business	-15,000	-
Gain on sales of non-current assets	-59	-
Decrease (increase) in notes and accounts receivable - trade	-197,945	92,773
Decrease (increase) in inventories	218,196	-466,748
Decrease (increase) in advance payments	-105,089	-14,519
Increase (decrease) in notes and accounts payable - trade	-261,947	461,793
Increase (decrease) in advances received	149,976	157,649
Other	-23,713	22,209
Subtotal	170,490	816,894
Interest and dividend income received	211	271
Interest expenses paid	-3,461	-1,640
Income taxes paid	-8,630	-145,434
Cash flows from operating activities	158,610	670,090
Cash flows from investing activities		
Decrease (increase) in time deposits	-6,016	91,331
Purchase of investment securities	-455	-108,814
Proceeds from sales of investment securities	2,000	30,000
Proceeds from transfer of business	15,000	-
Purchase of property, plant and equipment	-39,046	-99,635
Proceeds from sales of property, plant and equipment	61	892
Purchase of intangible assets	-17,591	-27,758
Collection of loans receivable	845	122
Payments for lease and guarantee deposits	-62	-7,537
Proceeds from collection of lease and guarantee deposits	1,118	674
Purchase of memberships	-	-6,300
Cash flows from investing activities	-44,147	-127,025

(units: 1,000 yen)

	FY 2016 from January 1, 2016 to December 31, 2016)	FY 2017 from January 1, 2017 to December 31, 2017)
Cash flows from financing activities		
Repayment of long-term loans payable	-108,976	-85,004
Redemption of bonds	-59,200	-40,000
Repayments of lease obligations	-165	-165
Proceeds from issuance of shares	330,941	29,671
Cash flows from financing activities	162,599	-95,497
Effect of exchange rate change on cash and cash equivalents	-1,069	352
Net increase (decrease) in cash and cash equivalents	275,993	447,920
Cash and cash equivalents at the start of the period	845,458	1,121,451
Cash and cash equivalents at the end of the period	1,121,451	1,569,371