



Consolidated Summary Report of Operating Results for the Third Quarter of Fiscal 2019 (Year ending December 2019) [Japan GAAP]

October 30, 2019

Company name: Future Corporation Shares listed on: First Section of Tokyo Stock Exchange
 Security code number: 4722 URL: <https://www.future.co.jp>
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 Scheduled submit date of quarterly report: November 13, 2019
 Scheduled date for distribution of dividend payments: -
 Creation of supplemental material on quarterly financial results: No
 Holding of quarterly results briefing: No

(Amount rounded off to million yen)

1. Consolidated Results for the Third Quarter of Fiscal 2019 (January 1, 2019 to September 30, 2019)

(1) Consolidated operating results (cumulative)

(Percentage figures indicate year-on-year changes)

| | Net sales | | Operating income | | Quarterly profit attributable to owners of parent | |
|----------------------------|-------------|------|------------------|------|---|------|
| | Million yen | % | Million yen | % | Million yen | % |
| Third quarter, fiscal 2019 | 33,879 | 17.7 | 4,883 | 19.7 | 3,199 | 1.1 |
| Third quarter, fiscal 2018 | 28,794 | 8.7 | 4,080 | 27.9 | 3,164 | 31.4 |

(Note) Comprehensive income Third quarter, Fiscal 2019: 2,868 million yen (-38.1%)
 Third quarter, Fiscal 2018: 4,635 million yen (103.6%)

| | Quarterly profit per share |
|----------------------------|----------------------------|
| | Yen |
| Third quarter, fiscal 2019 | 71.55 |
| Third quarter, fiscal 2018 | 70.78 |

(2) Consolidated financial position

| | Total assets | Net assets | Shareholders' equity ratio | Net assets per share |
|----------------------------|--------------|-------------|----------------------------|----------------------|
| | Million yen | Million yen | % | Yen |
| Third quarter, fiscal 2019 | 37,698 | 29,319 | 77.8 | 655.66 |
| Fiscal 2018 | 37,240 | 28,108 | 75.2 | 626.53 |

(Reference) Shareholders' equity Third quarter, fiscal 2019: 29,319 million yen Fiscal 2018: 28,008 million yen

2. Dividends

| | Dividends per share | | | | |
|------------------------|----------------------|-----------------------|----------------------|----------|-------|
| | End of first quarter | End of second quarter | End of third quarter | Year end | Total |
| | Yen | Yen | Yen | Yen | Yen |
| Fiscal 2018 | - | 15.00 | - | 17.00 | 32.00 |
| Fiscal 2019 | - | 18.00 | - | - | - |
| Fiscal 2019 (Forecast) | - | - | - | 21.00 | 39.00 |

(Note) Changes from the previous release of dividends-per-share forecasts: None

(Note) The year-end dividend of 21 yen for Fiscal 2019 comprises an ordinary dividend of 18 yen and a dividend of 3 yen to commemorate the 30th anniversary of the Company's foundation.

3. Projected Consolidated Results for Fiscal 2019 (January 1, 2019 to December 31, 2019)

(Percentage figures indicate year-on-year changes)

| | Net sales | | Operating income | | Profit attributable to owners of parent | | Profit per share |
|-----------|-------------|-----|------------------|-----|---|-----|------------------|
| | Million yen | % | Million yen | % | Million yen | % | Yen |
| Full year | 43,500 | 8.2 | 6,400 | 9.9 | 4,355 | 6.4 | 97.42 |

(Note) Changes from the previous release of earnings forecasts: None

* Notes

(1) Changes in significant subsidiaries during the consolidated period under review (changes in specified subsidiaries that involved changes in the scope of consolidation): None

(2) Application of accounting treatment peculiar to quarterly consolidated financial statement preparation: None

(3) Change in accounting policies or estimates and retrospective restatements

- | | |
|---|------|
| 1) Change in accounting policies in accordance with revision of accounting standards: | None |
| 2) Change in accounting policies other than item 1) above: | None |
| 3) Change in accounting estimates: | None |
| 4) Retrospective restatements: | None |

(4) Number of outstanding shares (common stock)

- 1) Total outstanding shares as of the end of the period (including treasury shares)
- 2) Total treasury shares as of the end of the period
- 3) Average number of outstanding shares during the period under review

| | | | |
|----------------------------|-------------------|----------------------------|-------------------|
| Third quarter, fiscal 2019 | 47,664,000 shares | Fiscal 2018 | 47,664,000 shares |
| Third quarter, fiscal 2019 | 2,946,587 shares | Fiscal 2018 | 2,959,049 shares |
| Third quarter, fiscal 2019 | 44,708,613 shares | Third quarter, fiscal 2018 | 44,705,065 shares |

* Quarterly financial results reports are outside the scope of auditing by Certified Public Accountants or Audit firms.

* Points to note about the proper use of projections, and other noteworthy events

Any forward-looking statement, including earnings forecasts, contained in this document is based on information currently held by the Company and assumptions the Company considers as reasonable, and the Company does not promise to achieve any of them. Actual results may differ significantly from forecasts due to various uncertain factors.

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1. Qualitative Information Regarding Quarterly Financial Results

(1) Explanation on business performance

The group's consolidated net sales for the first nine months were 33,879 million yen, up 17.7% from a year ago, while operating income grew 19.7% to 4,883 million yen and quarterly profit attributable to owners of parent increased 1.1% to 3,199 million yen over the same period of the previous fiscal year.

During the first nine-month period, net sales and operating income of the IT Consulting & Service Business increased significantly year-on-year due to the strong performance of Future Architect, Inc., the technology division of Future Corporation and other subsidiaries, while the Business Innovation Business's operating loss declined. As a result of the above, the group posted record-high consolidated net sales and operating income for the first nine months.

Details of the performance of each segment are as follows.

1) IT Consulting & Service Business

Future Architect, Inc. and the technology division of Future Corporation increased sales in the apparel, distribution and service industries that are promoting strategic IT investment using big data and AI and also from new customers such as a media company, real estate company and railway company with which no transactions have been made in the past. These new customers are trying to achieve zero-based management reforms through digital strategies using the world's cutting-edge strategies. In addition, an increasing number of regional banks have introduced "FutureBANK," a business-support and lending-support system. As a result, net sales and operating income increased year on year.

Future Inspace, Inc. increased both its net sales and operating income year on year as maintenance and operation service deals for projects completed by Future Architect, Inc. and original development deals increased, as was the case last year.

Net sales and operating income of FutureOne, Inc. rose thanks to increased orders from relatively larger medium-sized companies (e.g., subsidiaries of listed companies) mainly for InfiniOne, its original sales management software package, and thanks to development deals related to the reduced tax rate system for the consumption tax.

YDC Corporation's net sales and operating income decreased from a year ago in the first nine months as it had a large deal involving YDC Sonar, a software program for analyzing product quality information, in the same period a year ago.

As a result, net sales of the segment increased 19.4% from a year ago to 28,067 million yen, while operating income came to 4,658 million yen, up 15.0% from a year ago.

2) Business Innovation Business

Net sales of eSPORTS Co., Ltd. increased year on year owing to strong sales of private-brand outdoor wagons, fitness equipment, and national-brand outdoor-related products. It also improved its gross margin ratio by making strategic purchases based on strengthened relationships with suppliers, turning around from a loss last year to an operating profit.

CodeCamp, Inc. increased its net sales and operating income from the same period a year ago due to steadily increased monthly orders for its online programming course targeting individuals.

LaiBlitz, Inc.'s net sales and operating income increased compared with the level a year ago as it developed a system for strengthening a new professional baseball team, as well as fan club and e-commerce sites of another professional baseball team and an e-commerce site of eSPORTS Co., Ltd.

Tokyo Calendar Inc. posted an operating loss in the first half as its magazine and online advertising revenues underperformed the target figures, but turned around to an operating profit due to third-quarter advertising revenues that surpassed those for the first and second quarters and due to efforts for cost reduction. Its sales for the first nine months increased year on year thanks to increased sales of services such as "Tokyo Calendar Date," but its operating loss increased.

As a result, Business Innovation Business's operating results improved year-on-year, with net sales rising 9.8% to 5,878 million yen and operating loss shrinking to 53 million yen from the year-ago level of 176 million yen.

(Note) Segment result figures mentioned above are before adjusting for intersegmental sales and transfers.

(2) Explanation on qualitative information about consolidated earnings forecast

Forecasts for consolidated earnings results for the full fiscal year remain unchanged from those announced in in the Consolidated Summary Report of Operating Results for the Second Quarter as of July 30, 2019.

2. Consolidated Quarterly Financial Statements and Key Remarks

(1) Consolidated quarterly balance sheets

| | (in thousands of yen) | |
|---------------------------------------|---|--|
| | Previous consolidated fiscal year (December 31, 2018) | Consolidated third quarter under review (September 30, 2019) |
| Assets | | |
| Current assets | | |
| Cash and deposits | 13,984,071 | 13,296,504 |
| Notes and accounts receivable - trade | 6,234,600 | 6,922,981 |
| Merchandise and finished goods | 847,865 | 1,099,699 |
| Work in process | 168,574 | 93,729 |
| Accounts receivable - other | 182,123 | 63,988 |
| Other | 1,218,228 | 1,363,650 |
| Allowance for doubtful accounts | (3,007) | (3,008) |
| Total current assets | 22,632,457 | 22,837,545 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures | 1,375,460 | 1,714,633 |
| Accumulated depreciation | (882,265) | (946,729) |
| Buildings and structures, net | 493,194 | 767,903 |
| Land | 855 | 855 |
| Other | 2,505,394 | 2,818,490 |
| Accumulated depreciation | (2,024,762) | (2,178,576) |
| Other, net | 480,631 | 639,914 |
| Total property, plant and equipment | 974,681 | 1,408,673 |
| Intangible assets | | |
| Goodwill | 40,516 | 32,927 |
| Software | 1,707,624 | 1,736,052 |
| Customer-related assets | 832,000 | 676,000 |
| Other | 3,316 | 2,801 |
| Total intangible assets | 2,583,458 | 2,447,781 |
| Investments and other assets | | |
| Investment securities | 9,257,039 | 9,338,658 |
| Lease and guarantee deposits | 1,439,195 | 1,432,623 |
| Deferred tax assets | 84,777 | 7,814 |
| Other | 290,373 | 245,787 |
| Allowance for doubtful accounts | (21,441) | (20,252) |
| Total investments and other assets | 11,049,944 | 11,004,632 |
| Total non-current assets | 14,608,084 | 14,861,086 |
| Total assets | 37,240,542 | 37,698,631 |

(in thousands of yen)

| | Previous consolidated fiscal year (December 31, 2018) | Consolidated third quarter under review (September 30, 2019) |
|---|---|--|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 1,285,569 | 1,383,260 |
| Current portion of long-term loans payable | 161,449 | 7,592 |
| Current portion of bonds | 52,000 | 8,000 |
| Accounts payable - other | 1,129,613 | 920,358 |
| Income taxes payable | 1,093,327 | 478,652 |
| Provision for bonuses | 210,913 | 856,843 |
| Provision for quality assurance | 11,182 | 63,041 |
| Provision for loss on projects | 26,058 | 176,619 |
| Other | 2,178,516 | 2,099,456 |
| Total current liabilities | 6,148,629 | 5,993,825 |
| Non-current liabilities | | |
| Bonds payable | 92,000 | – |
| Long-term loans payable | 222,674 | 4,442 |
| Asset retirement obligations | 354,965 | 407,273 |
| Deferred tax liabilities | 2,233,019 | 1,833,077 |
| Other | 80,831 | 140,581 |
| Total non-current liabilities | 2,983,490 | 2,385,374 |
| Total liabilities | 9,132,120 | 8,379,199 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,421,815 | 1,421,815 |
| Capital surplus | 2,507,763 | 2,525,165 |
| Retained earnings | 20,239,578 | 21,873,967 |
| Treasury shares | (1,499,778) | (1,493,579) |
| Total shareholders' equity | 22,669,379 | 24,327,369 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 5,438,242 | 4,979,348 |
| Deferred gains or losses on hedges | (1,220) | 597 |
| Foreign currency translation adjustment | (97,582) | 12,116 |
| Total accumulated other comprehensive income | 5,339,439 | 4,992,062 |
| Non-controlling interests | 99,602 | – |
| Total net assets | 28,108,422 | 29,319,431 |
| Total liabilities and net assets | 37,240,542 | 37,698,631 |

(2) Consolidated quarterly statements of income and comprehensive income

(First nine-month period)

(in thousands of yen)

| | First nine months of the previous consolidated fiscal year (from January 1, 2018 to September 30, 2018) | First nine months of the consolidated fiscal year under review (from January 1, 2019 to September 30, 2019) |
|---|--|--|
| Net sales | 28,794,172 | 33,879,841 |
| Cost of sales | 17,073,043 | 20,126,358 |
| Gross profit | 11,721,128 | 13,753,482 |
| Selling, general and administrative expenses | | |
| Directors' compensations | 311,949 | 356,929 |
| Salaries and bonuses | 2,876,074 | 3,182,596 |
| Training expenses | 310,292 | 280,060 |
| Research and development expenses | 256,954 | 332,579 |
| Depreciation | 269,305 | 284,750 |
| Recruiting expenses | 255,174 | 341,713 |
| Other | 3,361,166 | 4,091,243 |
| Total selling, general and administrative expenses | 7,640,917 | 8,869,873 |
| Operating income | 4,080,211 | 4,883,609 |
| Non-operating income | | |
| Interest income | 438 | 1,053 |
| Dividend income | 104,662 | 74,737 |
| Share of profit of entities accounted for using equity method | 60,192 | 42,951 |
| Foreign exchange gains | 870 | 5,975 |
| Other | 4,461 | 2,589 |
| Total non-operating income | 170,625 | 127,308 |
| Non-operating expenses | | |
| Interest expenses | 5,472 | 5,004 |
| Total non-operating expenses | 5,472 | 5,004 |
| Ordinary income | 4,245,364 | 5,005,912 |
| Extraordinary income | | |
| Gain on litigation | 809,510 | – |
| Gain on change in equity | 100,434 | – |
| Gain on step acquisitions | 19,482 | – |
| Total extraordinary income | 929,427 | – |
| Extraordinary losses | | |
| Loss on realized foreign currency translation adjustment | – | 175,312 |
| Loss on change in equity | – | 1,848 |
| Loss on retirement of intangible assets | 315,274 | – |
| Litigation expenses | 130,000 | – |
| Total extraordinary losses | 445,274 | 177,160 |
| Quarterly profit before income taxes | 4,729,516 | 4,828,752 |
| Income taxes | 1,515,612 | 1,612,811 |
| Quarterly profit | 3,213,904 | 3,215,940 |
| (Profit attributable to) | | |
| Quarterly profit attributable to owners of parent | 3,164,414 | 3,199,109 |
| Quarterly profit attributable to non-controlling interests | 49,489 | 16,831 |

(in thousands of yen)

| | First nine months of the previous consolidated fiscal year (from January 1, 2018 to September 30, 2018) | First nine months of the consolidated fiscal year under review (from January 1, 2019 to September 30, 2019) |
|--|--|--|
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | 1,423,541 | (458,894) |
| Deferred gains or losses on hedges | (143) | 2,110 |
| Foreign currency translation adjustment | (1,875) | 109,963 |
| Share of other comprehensive income of entities accounted for using equity method | (335) | (264) |
| Total other comprehensive income | 1,421,186 | (347,084) |
| Quarterly comprehensive income | 4,635,091 | 2,868,855 |
| (Comprehensive income attributable to) | | |
| Quarterly comprehensive income attributable to owners of parent | 4,585,596 | 2,851,988 |
| Quarterly comprehensive income attributable to non-controlling interests | 49,494 | 16,867 |

(3) Notes to consolidated quarterly financial statements

(Notes on premise of a going concern)

Not applicable.

(Significant change in shareholders' equity)

Not applicable.

(Additional information)

(Implementation of Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.)

The Company has implemented the Partial Amendments to Accounting Standard for Tax Effect Accounting (ASBJ Statement No. 28, February 16, 2018), etc. starting in the first three months ended March 31, 2019. Deferred tax assets and deferred tax liabilities are shown under investments and other assets and non-current liabilities, respectively.

(Segment information)

I. First nine months of the previous consolidated fiscal year (from January 1, 2018 to September 30, 2018)

1. Information on amounts of net sales and income or loss by reportable segment

(in thousands of yen)

| | Reportable segments | | | Other (Note 1) | Total | Adjustment (Note 2) | Amount stated in financial statements (Note 3) |
|--|-------------------------------------|------------------------------------|------------|-------------------|------------|------------------------|---|
| | IT Consulting & Service Business | Business Innovation Business | Total | | | | |
| Net sales | | | | | | | |
| (1) Net sales to outside clients | 23,459,115 | 5,335,056 | 28,794,172 | – | 28,794,172 | – | 28,794,172 |
| (2) Inter-segment sales or transfer | 54,017 | 18,088 | 72,106 | – | 72,106 | (72,106) | – |
| Total | 23,513,133 | 5,353,145 | 28,866,278 | – | 28,866,278 | (72,106) | 28,794,172 |
| Segment income/loss | 4,050,665 | (176,729) | 3,873,936 | 726 | 3,874,662 | 205,548 | 4,080,211 |

(Note 1) "Other," a segment not included in the reportable segments, includes securities investment, holding, and management activities.

(Note 2) Adjustments to segment income/loss represents the amount of inter-segment transactions eliminated and income and expenses of the holding company excluding the technology segment.

(Note 3) Segment income/loss is adjusted with operating income in the consolidated quarterly financial statements.

II. First nine months of the consolidated fiscal year under review (from January 1, 2019 to September 30, 2019)

1. Information on amounts of net sales and income or loss by reportable segment

(in thousands of yen)

| | Reportable segments | | | Other (Note 1) | Total | Adjustment (Note 2) | Amount stated in financial statements (Note 3) |
|--|-------------------------------------|------------------------------------|------------|-------------------|------------|------------------------|---|
| | IT Consulting & Service Business | Business Innovation Business | Total | | | | |
| Net sales | | | | | | | |
| (1) Net sales to outside clients | 28,029,361 | 5,850,480 | 33,879,841 | – | 33,879,841 | – | 33,879,841 |
| (2) Inter-segment sales or transfer | 37,975 | 27,653 | 65,629 | – | 65,629 | (65,629) | – |
| Total | 28,067,337 | 5,878,133 | 33,945,471 | – | 33,945,471 | (65,629) | 33,879,841 |
| Segment income/loss | 4,658,595 | (53,210) | 4,605,385 | 1,504 | 4,606,889 | 276,719 | 4,883,609 |

(Note 1) "Other," a segment not included in the reportable segments, includes securities investment, holding, and management activities.

(Note 2) Adjustments to segment income/loss represents the amount of inter-segment transactions eliminated and income and expenses of the holding company excluding the technology segment.

(Note 3) Segment income/loss is adjusted with operating income in the consolidated quarterly financial statements.

3. Additional Information

Status of orders received

(in thousands of yen)

| Segment | First nine months of the previous consolidated fiscal year (from January 1, 2018 to September 30, 2018) | | First nine months of the consolidated fiscal year under review (from January 1, 2019 to September 30, 2019) | |
|----------------------------------|--|---------------|--|---------------|
| | Orders received | Order backlog | Orders received | Order backlog |
| IT Consulting & Service Business | 26,164,145 | 12,326,780 | 27,684,440 | 11,565,937 |
| Business Innovation Business | 1,182,690 | 311,370 | 1,313,316 | 362,381 |
| Total | 27,346,835 | 12,638,150 | 28,997,757 | 11,928,319 |

* Orders received and order backlog for the first nine months of the previous consolidated fiscal year show revised figures.

| Segment | Consolidated second quarter under review (from April 1, 2019 to June 30, 2019) | | Consolidated third quarter under review (from July 1, 2019 to September 30, 2019) | |
|----------------------------------|---|---------------|--|---------------|
| | Orders received | Order backlog | Orders received | Order backlog |
| IT Consulting & Service Business | 7,867,123 | 11,378,484 | 9,700,736 | 11,565,937 |
| Business Innovation Business | 361,594 | 317,498 | 497,397 | 362,381 |
| Total | 8,228,718 | 11,695,983 | 10,198,134 | 11,928,319 |