

Consolidated Financial Results for the First Half of Fiscal Year Ending March 31, 2015
(Six Months Ended September 30, 2014) (Based on J-GAAP)

November 5, 2014

Company name: Marvelous Inc. Listing: First Section of Tokyo Stock Exchange
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 Scheduled commencement date of dividend payout: —
 Explanatory documents supplemental to the abridged Quarterly Financial Statement: Yes
 Quarterly results briefing: Yes (For Institutional Investors and Analysts)

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

1. Consolidated Financial Results for the First Half of Fiscal Year Ending March 31, 2015
(April 1, 2014 – September 30, 2014)

(1) Consolidated Results of Operations (six months) (Percentages represent year-over-year changes)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
1H FY 2015	11,387	18.8	1,449	6.2	1,514	9.3	934	8.6
1H FY 2014	9,585	21.3	1,365	23.5	1,385	35.6	860	33.4

Note: Comprehensive income (million yen): 1H FY 2015: 942 (8.4%) 1H FY 2014: 869 (34.7%)

	Net income per share	Diluted net income per share
	Yen	Yen
1H FY 2015	17.48	17.48
1H FY 2014	16.10	—

On October 1, 2013, the Company executed a stock split of its common shares at the ratio of 100 shares to 1. In conjunction with this action, the Company has calculated net income per share for the quarter and diluted net income per share for the quarter as if the stock split had taken place at the start of the previous fiscal year.

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
1H FY 2015	18,231	12,180	66.8	227.80
FY 2014	16,816	11,921	70.9	223.02

Reference: Shareholders' equity (million yen): 1H FY 2015: 12,180 FY 2014: 11,921

2. Dividends

	Dividends per share				
	1Q-end	Interim	3Q-end	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2014	—	0.00	—	13.00	13.00
FY 2015	—	0.00			
FY 2015 (forecasts)			—	15.00	15.00

Note: Revisions to the dividend forecast in the current quarter: None

3. Consolidated Forecasts for the Fiscal Year Ending March 31, 2015 (April 1, 2014 – March 31, 2015)

(Percentages represent year-over-year changes)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
Full year	25,000	23.0	3,800	26.4	3,790	24.6	2,274	20.8	42.53

Note: Revisions to the financial forecast in the current quarter: None

***Notes**

(1) Changes in significant subsidiaries during the consolidated period (six months) under review (changes in subsidiaries accompanying change in the scope of consolidation): None

New: None (Company name:)
Excluded: None (Company name:)

(2) Application of accounting procedures specific to creation of quarterly financial statement: Yes

(3) Changes in accounting principles, estimates and restatement

- 1) Changes in accounting principles caused by revision of accounting standards: None
- 2) Changes in accounting principles other than those mentioned above: None
- 3) Changes in accounting estimates: None
- 4) Restatement: None

(4) Number of shares issued and outstanding (shares of common stock)

1) Number of shares outstanding (including treasury stock) at end of period	1H FY 2015	53,593,100 shares	FY 2014	53,593,100 shares
2) Number of treasury stock at end of period	1H FY 2015	122,400 shares	FY 2014	138,000 shares
3) Average number of shares outstanding during the period (six months)	1H FY 2015	53,464,818 shares	1H FY 2014	53,455,100 shares

On October 1, 2013, the Company executed a stock split of its common shares at the ratio of 100 shares to 1. In conjunction with this action, the Company has calculated the number of shares issued and outstanding (shares of common stock) as if the stock split had taken place at the start of the previous fiscal year.

*** Information regarding the implementation of quarterly review procedures**

This summary of quarterly financial statements is not subject to quarterly review procedures pursuant to the Financial Instruments and Exchange Act (FIEA), and at the time of disclosure of this summary of consolidated quarterly financial statements, the quarterly review procedures of consolidated financial statements pursuant to the FIEA were not completed.

*** Cautionary statement with respect to forward-looking statements**

This document contains forward-looking statements including forecasts of the Company's business performance, which are based on information currently available to the Company as well as on certain assumptions that the Company deems reasonable. Therefore, results including actual business performance could differ materially from those described in these forward-looking statements as a result of numerous factors.

1. Qualitative Information Concerning Quarterly Results

(1) Explanation of consolidated business results

The entertainment industry in the period under review saw the smartphone game market expand on the back of rapid smartphone proliferation to what has been said twice the size or more of the market for home-use games. This market has thus left the growth phase and entered the maturation phase. Moreover, the Japanese market, the world's largest, has been attracting much interest from foreign companies and prompted a string of market entries of foreign-made content, associated with intensifying competition. On the other hand, with growth of the domestic market slowing, Japanese companies on their part have been making conspicuous efforts developing foreign markets. In the market for home-use games, the domestic software market remains under intense pressure. However, along with the emergence of high-performance hardware like PlayStation 4 and Xbox One, the possibilities of new game categories involving the use of wearable devices and virtual reality have moved into focus. Incidentally, the Tokyo Game Show 2014 marked the highest ever number of exhibitors and the second-highest number of visitors on record. In the market for arcade games, amid the emergence of a range of games for young children and a growing number of consoles featuring game/anime crossovers, there is an oligopoly situation due to the strength of some highly attractive contents offerings. In the audio & visual sectors, although pressure on the software market continues, the live entertainment business has been seeing steadily growing demand, raising expectations for overseas customer acquisitions and advances into foreign markets.

Under these circumstances, the Group has been operating as a comprehensive entertainment provider deploying a "multi-content, multi-use, and multi-device" strategy to deliver diverse entertainment content in all business segments and on a variety of devices. In order to establish robust IPs, the Group has been driving its strategy in the three key areas of branding, alliances, and global business, and is working to offer content that generates "buzz" among today's users while endeavoring to enhance its services.

As a result, the Group's net sales in the first half (April 1, 2014 to September 30, 2014) marked 11,387 million yen (up 18.8% compared with the same period of the previous year), with operating income of 1,449 million yen (up 6.2% compared with the same period of the previous year), ordinary income of 1,514 million yen (up 9.3% compared with the same period of the previous year), and net income of 934 million yen (up 8.6% compared with the same period of the previous year).

Results by business segment are described below.

(Online Game Business)

The online game business saw "Browser Sangokushi" continue to show strong performance, now five years after the initiation of service. In mobile browser games, "Ikki-Tousen Burst Fight" remains popular two years after the service start, while "High School DxD," now one year in service, has been showing steady growth. As to other existing titles, with the market shifting to smartphone applications, online and mobile browser games of Marvelous have been showing favorable performances. In native apps, sales of "Logres of Swords and Sorcery: Goddess of Ancient" released in December 2013 have been solid, generating significant contributions to earnings for the period. TV commercials for this title launched in September paid off with cumulative downloads surpassing 4 million instances and accelerating sales growth. In new titles, service was initiated in August for "HIGH SCHOOL DxD NEWFIGHT" as Marvelous' first free-to-play game for PS Vita, attended by preparations for the release of several native apps in the second half of the fiscal year. However, after a comprehensive assessment of game characteristics and future earnings potential, the development of "Browser Evangelion" was terminated despite extensive development work for the title's release. The step follows the development termination of three other titles in the first quarter, also due to uncertain future earnings potential. The costs of the altogether four terminated developments in progress were written off in a single amount. Marvelous will continue to foster and strengthen titles with successful performance records and in the development of new titles, concentrate resources on selections that meet rigorous standards.

As a result, segment net sales totaled 6,117 million yen (up 54.5% compared with the same period of the previous year), with segment operating income of 1,117 million yen (up 411.5% compared with the same period of the previous year).

(Consumer Game Business)

At the Company's sales sector of the Consumer Game Business segment, three new titles were launched ("SENTRAN KAGURA 2 (Nintendo 3DS)" on August 7, "Bakumatsu Rock: Ultra Soul (PS Vita/PSP)" on September 25, and "KINKI NO MAGNA (Nintendo 3DS)" on October 2) with sales for the period recognized on a delivery basis. All three titles missed sales projections. The Company's sales sector of the Consumer Game Business segment launched only one new title in the same period of the previous year.

The amusement division initiated service for "PUZZLE & DRAGONS Z Tamer Battle" on June 26 as a new kids' amusement console, to only moderate success. Although the existing "Pokémon TRETТА" performed well, results fell short of plan, partly due to the severely competitive environment.

As a result, segment net sales totaled 3,430 million yen (down 8.9% compared with the same period of the previous year), with segment operating income of 411 million yen (down 67.7% compared with the same period of the previous year).

(Audio & Visual Business)

The audio & visual production sector of the Audio & Visual business segment implemented the audio-visual product commercialization of the TV animation production "HAPPINESSCHARGE PRETTY CURE!" of the "PRETTY CURE" series. Additionally, broadcast of the TV animation products "BakumatsuRock" and "Tokyo Ghoul," both lead-managed by the Company, started in July.

The stage production division marked a total 68 performances of "MUSICAL THE PRINCE OF TENNIS," accompanied by a release of two related DVDs. "Musical HAKUOKI" achieved altogether 19 performances accompanied with a release of two related DVDs. "Stage Yowamushi Pedal" marked a release of one related DVD. For all performances that were subject to revenue recognition for the period under review, in addition to tickets having been almost sold out, the solid sales of related new and previous DVDs contributed to segment earnings.

As a result, segment net sales totaled 1,844 million yen (down 0.9% compared with the same period of the previous year), with segment operating income of 425 million yen (up 21.7% compared with the same period of the previous year).

(2) Explanation of consolidated financial position

(1) Financial position analysis

On the consolidated balance sheets at the end of the first half, the Group had total assets of 18,231 million yen (up 1,414 million yen from the end of the previous fiscal year), total liabilities of 6,051 million yen (up 1,155 million yen from the end of the previous fiscal year), and net assets of 12,180 million yen (up 259 million yen from the end of the previous fiscal year).

(Current Assets)

Consolidated current assets at the end of the first half totaled 15,322 million yen, which was 738 million yen more than at the end of the previous fiscal year, due to factors including an increase in notes and accounts receivable-trade.

(Noncurrent Assets)

Consolidated noncurrent assets at the end of the first half totaled 2,909 million yen, which was 675 million yen more than at the end of the previous fiscal year, due to factors including an increase in property, plant, and equipment.

(Current Liabilities)

Consolidated current liabilities at the end of the first half totaled 5,990 million yen, which was 1,149 million yen more than at the end of the previous fiscal year, due to factors including a decrease in loans payable and an increase in accounts payable.

(Noncurrent liabilities)

Consolidated noncurrent liabilities at the end of the first half totaled 60 million yen, which was 5 million yen more than at the end of the previous fiscal year, due to factors including a decrease in long-term loans payable and an increase in asset retirement obligations.

(Net assets)

Consolidated net assets at the end of the first half totaled 12,180 million yen, which was 259 million yen more than at the end of the previous fiscal year, mainly due to net income for the period in excess of a decline in retained earnings from dividend payments at the end of the previous fiscal year.

(2) Cash flow analysis

Consolidated net cash and cash equivalents ("Cash") at the end of the first half totaled 7,127 million yen, which was 993 million yen less than at the end of the previous fiscal year.

Main factors for the change in cash were 1,387 million yen provided by operating activities (552 million yen less than in the same period of the previous year), 1,579 million yen used in investing activities (941 million yen more than in the same period of the previous year), and 870 million yen used in financing activities (78 million yen more than in the same period of the previous year), for a total of 993 million yen net cash used (532 million yen more than in the same period of the previous year).

(Cash flows from operating activities)

Net cash provided by operating activities was 1,387 million yen. Main factors included a 760 million yen increase in accounts receivable-trade, 716 million yen in expenditures for income taxes, 1,504 million yen in income for the period before income taxes and minority interests, 478 million yen in depreciation charges, and a 1,015 million yen increase in accounts payable.

(Cash flows from investing activities)

Net cash used in investing activities totaled 1,579 million yen. Main factors included expenditures of 669 million yen for the acquisition of property, plant, and equipment, 610 million yen for the acquisition of intangible non-current assets, and 1,000 million yen for time deposits together with income of 700 million yen from return of time deposits.

(Cash flows from financing activities)

Net cash used in financing activities totaled 870 million yen. Main factors included a 187 million yen net decrease in short-term and long-term borrowings and 694 million yen in expenditures for dividend payments.

(3) Explanation of business outlook including consolidated business forecast

The consolidated business forecast remains unchanged from the business forecast announced on May 9, 2014.