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Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending February 29, 2020 [Japanese GAAP]

October 15, 2019



Listing Market TSE

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 Stock Code 6182 URL <https://www.rozetta.jp>
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 Scheduled date of filing of quarterly report: October 15, 2019 Scheduled date of commencement of dividend payment: -
 Preparation of supplementary materials for quarterly financial results: Yes
 Holding of quarterly financial results briefing: Yes

(Figures are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending February 29, 2020 (March 1, 2019-August 31, 2019)

(1) Consolidated Results of Operation (Cumulative)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Q2 FY2/20	1,935	49.8	309	274.9	310	269.8	168	176.1
Q2 FY2/19	1,292	29.9	82	149.6	84	154.7	61	680.3

(Note)

Comprehensive income Q2 FY2/20 176 Millions of yen (188.8%) Q2 FY2/19 61 Millions of yen (680.3%)

	Net income per share	Diluted net income per share
	Yen	Yen
Q2 FY2/20	16.38	15.89
Q2 FY2/19	6.08	5.80

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio
	Millions of yen	Millions of yen	%
Q2 FY2/20	2,937	1,372	46.4
FY2/19	2,642	1,194	45.1

(Reference)

Shareholders' equity Q2 FY2/20 1,362 Millions of yen FY2/19 1,191 Millions of yen

2. Dividend payment

	Annual dividend per share				
	End of Q1	End of Q2	End of Q3	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2/19	-	0.00	-	0.00	0.00
FY2/20	-	0.00	-	-	-
FY2/20 (Forecast)	-	-	-	0.00	0.00

(Note) Revisions to the most recently announced dividend forecast: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending February 29, 2020 (March 1, 2019-February 29, 2020)

At present, the MT business has entered a period of rapid growth since the fourth quarter of the fiscal year ended February 28, 2018, and we are concentrating our management policy on maximizing medium-to long-term growth rather than short-term profits. For the time being, we will not disclose the forecast as a fixed value until the sales growth rate of the MT business settles down (roughly 150% compared to the previous year), in order not to adjust expenses in accordance with earnings forecasts, and therefore we make decisive choices that best meet its long-term growth objectives on an occasional basis. For the consolidated business forecasts for the fiscal year ending February 29, 2020, we announced only the minimum figures, for example, by indicating record-high sales (2,908 million yen) or over and record-high profit (operating income of 338 million yen) or over.

*Notes

(1) Changes in significant subsidiaries during the period

(changes in specified subsidiaries resulting in changes in scope of consolidation): Yes

New consolidated (Company name) - Company

Excluded: 2 (Company name) - Inter media Inc., Quicktranslate, Inc.

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements, (4) Notes on Quarterly Consolidated Financial Statements (Changes in Significant Subsidiaries during the Period)" on page 7 of the Appendix.

(2) Adoption of special accounting methods for presenting quarterly consolidated financial statements: Yes

(Note) For details, please refer to "2. Quarterly Consolidated Financial Statements, (4) Notes on Quarterly Consolidated Financial Statements (Application of Accounting Procedures Specific to Preparation of Quarterly Consolidated Financial Statements)" on page 7 of the Appendix.

(3) Changes in accounting policies and changes or restatement of accounting estimates

(i) Changes in accounting policies due to revisions of accounting standards, etc.: None

(ii) Changes in accounting policies due to other reasons: None

(iii) Changes in accounting estimates: None

(iv) Restatement of prior period financial statements after error corrections: None

(4) Number of shares outstanding (common stock)

① Number of shares outstanding at the end of the period (including treasury stock)

Q2 FY2/20	10,309,460 shares	FY2/19	10,296,260 shares
Q2 FY2/20	349 shares	FY2/19	286 shares
Q2 FY2/20	10,296,789 shares	Q2 FY2/19	10,049,518 shares

② Number of treasury stock at the end of the period

③ Average number of shares outstanding during the period (cumulative)

*This quarterly financial report is not subject to the quarterly review by a certified public accountant or an auditing firm.

*Explanations and other special notes concerning the appropriate use of business forecasts

(Cautionary Statement with Respect to Forward-Looking Statements)

Forecasts regarding future performance in this material are based on information currently available to us and certain assumptions that we deem to be reasonable at the time this report was prepared. We do not make promises about the achievements. Actual results may differ significantly from the forecasts due to various factors. Please refer to "1. Qualitative Information on Consolidated Financial Results (4) Consolidated Business Forecasts" on page 3 of the Attachment for the assumptions underlying the forecasts and cautions concerning the use thereof.

(Method of Obtaining Financial Results Briefing Materials)

Supplementary materials for financial results were disclosed on the TDnet on the same date.

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1. Qualitative Information on Quarterly Financial Results

(1) Results of Operations

During the second quarter of the current fiscal year (March 1, 2019 to August 31, 2019), sales of T-400 continued to be strong in the MT business. Accordingly, we continuously increased the staff of all sections, including the marketing and management sections, to fortify our organizational structure before expanding our business rapidly.

As a result, our group posted net sales of 1,935,744 thousand yen (up 49.8% year on year), operating income of 309,778 thousand yen (up 274.9% year on year), ordinary income of 310,918 thousand yen (up 269.8% year on year), and profit attributable to owners of parent of 168,710 thousand yen (up 176.1% year on year) for the cumulative second quarter of the current fiscal year.

The performance of each business segment is as follows:

① MT Business

As for the MT business, sales were 969,790 thousand yen (up 197.5% year on year) due to continuous strong sales of T-400. Segment income was 134,102 thousand yen (up 624.0% year on year) as a result of a significant increase in SG & A expenses from the sales division to the administration division in preparation for the rapid expansion of the MT business.

② HT business

As for the HT business, sales were 740,358 thousand yen (down 8.4% year on year). Segment income was 183,247 thousand yen (up 54.4% year on year), mainly due to the rationalization of SG & A expenses due to a review of administrative headquarters functions.

③ Crowdsourcing business

As for the Crowdsourcing business, sales were 225,595 thousand yen (up 42.4% year on year). Segment income was 22,514 thousand yen (up 93.1% year on year), as a result of rationalization of SG & A expenses, such as a reduction of administrative headquarters functions.

(2) Explanation of Financial Position

(Assets)

Current assets increased by 146,972 thousand yen from the end of the previous fiscal year to 1,470,230 thousand yen at the end of the second quarter of the current fiscal year. This was mainly due to an increase of 38,326 thousand yen in cash and deposits and an increase of 52,683 thousand yen in notes and accounts receivable. Non-current assets increased by 147,946 thousand yen from the end of the previous fiscal year to 1,467,538 thousand yen. This was mainly due to an increase of 62,183 thousand yen in property, plant and equipment and an increase of 90,516 thousand yen in intangible assets.

(Liabilities)

Current liabilities increased by 194,881 thousand yen from the end of the previous fiscal year to 1,351,394 thousand yen at the end of the second quarter of the current fiscal year. This was mainly due to an increase of 248,200 thousand yen in advances received and a decrease of 42,714 thousand yen in notes and accounts payable-trade. Non-current liabilities decreased by 78,037 thousand yen from the end of the previous fiscal year to 214,134 thousand yen. This was due to the repayment of long-term debt.

(Net assets)

Net assets increased by 178,074 thousand yen from the end of the previous fiscal year to 1,372,241 thousand yen at the end of the second quarter of the current fiscal year. This was mainly due to an increase of 168,710 thousand yen in retained earnings.

(3) Cash flows

Cash and cash equivalents at the end of the second quarter of the fiscal year under review increased by 37,496 thousand yen from the end of the previous fiscal year to 889,308 thousand yen.

The status of each cash flow during the second quarter of the current fiscal year and the factors thereof are as follows.

(Cash-flow from operating activities)

Net cash provided by operating activities was 517,158 thousand yen (compared to net cash provided of 348,103 thousand yen in the previous fiscal year).

This was mainly due to income before income taxes of 273,208 thousand yen, depreciation and amortization of 180,206 thousand yen, amortization of goodwill of 10,631 thousand yen, and an increase in advances received of 248,200 thousand yen.

(Cash-flow from investing activities)

Net cash used in investing activities was 366,551 thousand yen (compared to an expenditure of 241,780 thousand yen in the previous fiscal year).

This was mainly due to purchase of intangible assets of 239,739 thousand yen.

(Cash-flow from financing activities)

Net cash used in financing activities was 113,482 thousand yen (compared to an expenditure of 128,688 thousand yen in the previous fiscal year).

This was mainly attributable to repayments of long-term debts of 115,470 thousand yen.

(4) Consolidated Business Forecasts

At present, the MT business has entered a period of rapid growth since the fourth quarter of the fiscal year ended February 28, 2018, and we are concentrating our management policy on maximizing medium-to long-term growth rather than short-term profits. For the time being, we will not disclose the forecast as a fixed value until the sales growth rate of the MT business settles down (roughly 150% compared to the previous year), in order not to adjust expenses in accordance with earnings forecasts, and therefore we make decisive choices that best meet its long-term growth objectives on an occasional basis. For the consolidated business forecasts for the fiscal year ending February 29, 2020, we announced only the minimum figures, for example, by indicating record-high sales (2,908 million yen) or over and record-high profit (operating income of 338 million yen) or over.

2. Quarterly Consolidated Financial Statements and Major Notes

(1) Quarterly Consolidated Balance Sheets

(Thousands of yen)

	Previous fiscal year (February 28, 2019)	Current second quarter (August 31, 2019)
Assets		
Current assets		
Cash and deposits	853,378	891,705
Notes and accounts receivable	360,515	413,198
Inventories	51,237	32,675
Other	66,716	139,216
Allowance for doubtful accounts	(8,589)	(6,565)
Total current assets	1,323,258	1,470,230
Fixed assets		
Property, plant and equipment	236,489	298,673
Intangible assets		
Goodwill	89,513	78,882
Software	432,361	743,401
Software in progress	423,287	213,165
Other	468	698
Total intangible assets	945,631	1,036,148
Investments and other assets	137,471	132,717
Total fixed assets	1,319,592	1,467,538
Total assets	2,642,850	2,937,769
Liabilities		
Current liabilities		
Notes and accounts payable-trade	140,961	98,247
Current portion of long-term loans payable	231,601	194,168
Income taxes payable	111,002	32,259
Provision for bonuses	26,577	32,595
Advances received	440,309	688,509
Other	206,061	305,614
Total current liabilities	1,156,513	1,351,394
Long-term liabilities		
Long-term debt	292,171	214,134
Total long-term liabilities	292,171	214,134
Total liabilities	1,448,684	1,565,528
Net assets		
Shareholders' equity		
Capital stock	250,794	251,870
Capital surplus	1,230,983	1,232,058
Retained earnings	(289,839)	(121,129)
Treasury stock	(435)	(600)
Total shareholders' equity	1,191,502	1,362,199
Share subscription rights	458	89
Non-controlling interests	2,206	9,952
Total net assets	1,194,166	1,372,241
Total liabilities and net assets	2,642,850	2,937,769

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income
(Quarterly Consolidated Statements of Income)
(For the Six-month Period)

(Thousands of yen)

	Previous second quarter (From March 1, 2018 To August 31, 2018)	Current second quarter (From March 1, 2019 To August 31, 2019)
Net sales	1,292,496	1,935,744
Cost of sales	531,319	665,348
Gross profit	761,177	1,270,395
Selling, general and administrative expenses		
Salaries, allowances and bonuses	229,521	314,439
Provision for bonuses	17,018	14,288
Other	432,008	631,889
Total selling, general and administrative expenses	678,549	960,617
Operating income	82,627	309,778
Non-operating income		
Interest income	25	150
Dividends income	10	10
Subsidy income	-	1,425
Foreign exchange gain	238	-
Other	2,914	552
Total non-operating income	3,189	2,138
Non-operating expenses		
Interest expenses	1,610	863
Foreign exchange loss	-	133
Other	120	-
Total non-operating expenses	1,730	997
Ordinary income	84,086	310,918
Special income		
Surrender value of insurance	11,513	-
Gain on reversal of share subscription rights	-	369
Total special income	11,513	369
Special loss		
Loss on retirement of noncurrent assets	1,672	38,079
Total special loss	1,672	38,079
Income before income taxes	93,927	273,208
Income taxes	32,822	96,752
Net income	61,104	176,456
Net income attributable to non-controlling interests	-	7,746
Net income attributable to owners of parent	61,104	168,710

Quarterly Consolidated Statements of Comprehensive Income
(For the Six-month Period)

(Thousands of yen)

	Previous second quarter (From March 1, 2018 To August 31, 2018)	Current second quarter (From March 1, 2019 To August 31, 2019)
Net income	61,104	176,456
Comprehensive income	61,104	176,456
Comprehensive income (loss) attributable to:		
Owners of parent	61,104	168,710
Non-controlling interests	-	7,746

(3) Quarterly Consolidated Statements of Cash Flows

(Thousands of yen)

	Previous second quarter (From March 1, 2018 To August 31, 2018)	Current second quarter (From March 1, 2019 To August 31, 2019)
Cash-flow from operating activities		
Income before income taxes	93,927	273,208
Depreciation	86,491	180,206
Amortization of goodwill	10,631	10,631
Increase (decrease) in allowance for doubtful accounts	1,775	(799)
Increase (decrease) in accrued bonuses	2,813	6,018
Interest and dividend income	(35)	(160)
Loss (gain) on insurance cancellation	(11,513)	-
Loss on retirement of noncurrent assets	1,672	38,079
Gain on reversal of share subscription rights	-	(369)
Interest expenses	1,610	863
Increase (decrease) in advances received	108,990	248,200
(Increase) decrease in notes and accounts receivable-trade	18,619	(52,683)
(Increase) decrease in inventories	(26,444)	18,561
Increase (decrease) in trade payables	10,035	(42,714)
Other	37,028	(50,201)
Sub-total	335,602	628,841
Interest and dividends received	35	160
Interest paid	(1,610)	(863)
Income taxes	(13,926)	(110,995)
Income taxes refunded	28,002	16
Cash-flow from operating activities	348,103	517,158
Cash-flow from investing activities		
Expenditure from acquisition of fixed assets	(21,200)	(125,223)
Expenditure from acquisition of intangible assets	(262,644)	(239,739)
Payment for loans receivable	-	(3,300)
Proceeds from loans receivable	163	1,193
Expenditure due to fixed term deposit	(638)	(600)
Proceeds from refund of fixed term deposit	15,374	-
Proceeds from lease and guarantee deposits	-	1,118
Proceeds from cancellation of insurance funds	27,164	-
Cash-flow from investing activities	(241,780)	(366,551)
Cash-flow from financing activities		
Repayment of short-term borrowings	(14,075)	-
Repayment of long-term debt	(133,195)	(115,470)
Proceeds from issuance of common stock upon exercise of share subscription rights	18,582	2,151
Purchase of treasury stock	-	(164)
Cash-flow from financing activities	(128,688)	(113,482)
Effect of exchange rate change on cash and cash equivalents	(259)	372
Net increase (decrease) in cash and cash equivalents	(22,623)	37,496
Cash and cash equivalents at beginning of the year	955,840	851,811
Cash and cash equivalents at end of the quarter	933,216	889,308

(4) Notes on Quarterly Consolidated Financial Statements

(Notes on Going Concern Assumptions)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Changes in Significant Subsidiaries during the Period)

During the first quarter of the fiscal year, the Company conducted an absorption-type merger of Inter media, Inc. by GLOVA Corp., our consolidated subsidiary, and an absorption-type merger of Quicktranslate, Inc. by anydooR, Inc. As a result, Inter media, Inc. and Quicktranslate, Inc. have ceased to exist, and therefore, they have been excluded from the scope of consolidation from the first quarter of the current fiscal year.

(Application of Accounting Procedures Specific to Preparation of the Quarterly Consolidated Financial Statements)

Income taxes are calculated by multiplying the net income before income taxes by the forecasted effective tax rate, which is computed by matching the forecasted yearly income taxes with the forecasted yearly income taxes.

(Additional Information)

(Application of Partial Revision of "Accounting Standard for Tax Effect Accounting")

The Company has applied the "Partial Revision to the Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and other accounting standards from the beginning of the first quarter of the current fiscal year.

Accordingly, deferred tax assets are presented as investments and other assets, and deferred tax liabilities are presented as non-current liabilities.

(Segment Information)

[Segment Information]

I. Previous second quarter (From March 1, 2018 To August 31, 2018)

1. Information on net sales and income (loss) by reportable segment

(Thousands of yen)

	Reportable Segments				Adjustment (Note 1)	Amounts on the consolidated financial statements (Note 2)
	MT business	HT business	Crowdsourcing Business	Total		
Net sales						
Net sales to unaffiliated customers	326,014	808,021	158,461	1,292,496	-	1,292,496
Intersegment sales or transfer	1,200	109,864	114,808	225,873	(225,873)	-
Total	327,214	917,885	273,270	1,518,369	(225,873)	1,292,496
Segment income	18,521	118,675	11,660	148,857	(66,229)	82,627

(Note)

- Adjustments to segment income of (66,229) thousand yen include eliminations of inter-segment transactions and amortization of goodwill not attributable to reportable segments, and corporate expenses. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.
- Segment income is adjusted with operating income in the quarterly consolidated statements of income.

II Current second quarter (From March 1, 2019 To August 31, 2019)

1. Information on net sales and income (loss) by reportable segment

(Thousands of yen)

	Reportable Segments				Adjustment (Note 1)	Amounts on the consolidated financial statements (Note 2)
	MT business	HT business	Crowdsourcing Business	Total		
Net sales						
Net sales to unaffiliated customers	969,790	740,358	225,595	1,935,744	-	1,935,744
Intersegment sales or transfer	40,530	4,181	84,126	128,838	(128,838)	-
Total	1,010,321	744,539	309,721	2,064,583	(128,838)	1,935,744
Segment income	134,102	183,247	22,514	339,864	(30,086)	309,778

(Note)

- Adjustments to segment income of (30,086) thousand yen include eliminations of inter-segment transactions and corporate expenses. Corporate expenses mainly consist of expenses related to the administrative departments of the parent company that are not attributable to reportable segments.
- Segment income is adjusted with operating income in the quarterly consolidated statements of income.

2. Changes in reportable segments

In conjunction with the transfer of the GLOZE business to GLOVA Corp., our group has integrated the "GLOZE business," "Translation and Interpretation business," and "Corporate Training business" into the "HT business." As a result, our reportable segments consist of the "MT business," "HT business" and "Crowdsourcing business" since the previous fiscal year.

GLOZE business has provided consigned translation services to standardize quality, reduce costs, and shorten lead times by combining MT (machine translation) technology and HT (human translation).

However, as the precision of our MT increased significantly in the previous fiscal year, our current management task has shifted to the stage of "the last mile to the full automation (the complete replacement of HT by MT)", and we decided to reorganize the segment to streamline the organizational structure as there is no longer a fundamental difference between the GLOZE business and GLOVA's translation business.

Segment information for the first half of the previous fiscal year has been prepared using the new segmentation method and is included in "I. Previous second quarter (From March 1, 2018 to August 31, 2018) 1. Information on net sales and income by reportable segment."

(Per share Information)

The basis for calculating net income per share and diluted net income per share is as follows.

	Previous second quarter (March 1, 2018 To August 31, 2018)	Current second quarter (March 1, 2019 To August 31, 2019)
(1) Net income per share	6.08 yen	16.38 yen
(Basis of calculation)		
Net income attributable to owners of parent (thousands of yen)	61,104	168,710
Amount not attributable to common shareholders (thousands of yen)	-	-
Net income attributable to owners of parent related to common stock (thousands of yen)	61,104	168,710
Average number of shares of common stock outstanding during the period (shares)	10,049,518	10,296,789
(2) Diluted net income per share	5.80 yen	15.89 yen
(Basis of calculation)		
Adjustment to net income attributable to owners of parent (thousands of yen)	-	-
Increase in number of common shares (shares)	486,851	321,991
Outline of potential shares that had not been included in the calculation of diluted net income per share because they had no dilutive effect, and that had changed significantly since the end of the previous fiscal year	-	-