August 14, 2019

Non-Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2019 [Japanese GAAP]

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Supplementary notes to quarterly financial statements: Yes
Briefing on quarterly financial statements: Yes (For institutional investors and analysts)

(Rounded down to nearest million yen)

1. Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2019 (January 1 to June 30, 2019)

(1) Operating Results (cumulative) (Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Second quarter of the fiscal year ending December 31, 2019	5,027	10.8	286	−	284	−	169	−
Second quarter of the fiscal year ended December 31, 2018	4,535	1.1	(89)	−	(107)	−	(113)	−

	Net income per share	Net income per share fully diluted
	Yen	Yen
Second quarter of the fiscal year ending December 31, 2019	28.77	28.43
Second quarter of the fiscal year ended December 31, 2018	(18.79)	−

(2) Financial Position

	Total assets	Net assets	Shareholders' capital ratio
	Millions of yen	Millions of yen	%
As of June 30, 2019	7,402	4,397	59.4
As of December 31, 2018	7,104	4,882	68.7

For reference: Shareholders' equity
As of June 30, 2019 4,397 million yen
As of December 31, 2018 4,882 million yen

2. Dividends

	Annual dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Full year
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2018	–	0.00	–	0.00	0.00
Fiscal year ending December 31, 2019	–	0.00			
Fiscal year ending December 31, 2019 (Forecast)			–	–	–

Note: Revisions from the most recently announced dividend forecast: None

3. Earnings Forecast for the Fiscal Year Ending December 31, 2019 (January 1 to December 31, 2019)

(*Percentage indicates the rate of change year on year)

	Net sales		Operating profit		Ordinary profit		Profit		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	10,055	9.4	797	54.2	787	58.9	471	80.7	79.05

Note: Revisions from the most recently announced earnings forecast: None

* Notice

(1) Application of special accounting treatment for the preparation of the quarterly financial statements: Yes

(2) Changes in accounting policy and changes and restatements of accounting estimates
  (a) Changes in accounting policy accompanying the revision of accounting standards: Yes
  (b) Changes in accounting policy other than those listed in (a): Yes
  (c) Changes in accounting estimates: None
  (d) Restatements: None

  Note: For details, please refer to "2. Quarterly Financial Statements and Notes (4) Notes to Quarterly Financial Statements (Changes in Accounting Policy)" on page 9.

(3) Number of shares issued (common stock)
  (a) Number of shares issued at end of period (including treasury shares)

June 30, 2019	6,128,403 shares	December 31, 2018	6,127,348 shares

  (b) Number of treasury shares at end of period

June 30, 2019	250,223 shares	December 31, 2018	250,180 shares

  (c) Average number of shares during the period (cumulative from the beginning of the fiscal year)

June 30, 2019	5,877,555 shares	June 30, 2018	6,052,908 shares

* The Company's quarterly financial statements are not subject to quarterly review by a certified public accountant or audit corporation.

*Appropriate use of earnings forecasts and other pertinent information

(Cautionary Statement with Respect to Forward-Looking Statements)

These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of preparation as well as certain reasonable assumptions. Actual results may differ materially from those expressed or implied by forward-looking statements due to a range of factors. For notices concerning underlying assumptions of the earnings forecast and the use of the earnings forecast, refer to page 4 of the attachment entitled "1. Qualitative Information on the Quarterly Financial Results (3) Explanation of Forward Looking Information including Earnings Forecast."

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1. Qualitative Information on the Quarterly Financial Results

(1) Explanation of Operating Results

During the second quarter cumulative period under review, Japan's economy continued to see a moderate recovery. This was underpinned by rising corporate earnings and the improved employment and income environment. However, the future economic outlook remains cloudy due to political instability overseas, including US-China trade friction and Brexit negotiations, and concerns over geopolitical risks.

Driven by the growing use of smartphones and tablet devices, the e-book market, mainly comics, continues to see an increase in customer traffic thanks to TV and online advertisements and the spread of manga apps. It also is seeing higher average purchases buoyed by an increase in sales campaigns by e-book stores and publishers along with the growing marketing know-how of e-book stores. There is also a growing number of manga apps monetizing their free services through in-app purchases and advertising. At the same time, publishers are launching their own apps, too.

With smartphones and tablet devices set to evolve and see increased ownership, the e-book and e-comic markets are expected to continue growing. Other factors supporting growth include the growing use from rising visibility and improving convenience, an increase in works being published simultaneously in print and e-book forms, advancements in e-book store marketing know-how, sales of e-books with original content or value-added content, and growth in self-publishing. (Source: Impress Corporation estimates, "eBook Marketing Report 2018")

However, the e-book market is expected to gradually become saturated as e-book business models diversify and mature.

Given this market climate, the Company is working to shore up its product lineup and strengthen its editing functions by creating original content and being the first to distribute exclusive titles. The Company has also worked to improve services that customers will continue using over the long term, including improving data analysis and product recommendations using AI and refreshing the website. At the same time, the Company has engaged in aggressive advertising activities. Moreover, work was put into streamlining management at subsidiary Novelba Inc., which provides the digital novel service "novelba." Additionally, the decision was made to engage in an absorption-type merger to increase business synergy and the sense of solidarity among employees and promote expansion of the e-book business domain.

In the games business, joint development was promoted for multiple titles for release.

As a result, the monthly sales record was broken in May and June 2019 consecutively, and net sales for the second quarter reached a record high.

The following section discusses the main activities of the Company's Contents Platform Business in the second quarter cumulative period of the year under review.

Through the comic distribution service "Manga Kingdom," a mainstay service in the e-book business, the Company has uploaded a cumulative total of 57 original titles while promoting enhancement of content, including distribution of original labels such as "UTUTU," a new label jointly produced with Shinchosha Publishing Co., Ltd. Furthermore, the Company has also rolled out measures to promote customer use, including launching provision of "all-you-can-read" monthly subscription plans for various genres and labels. Additionally, with the active deployment of advertising, the number of registered members has been steadily growing, breaking through the 2.5 million mark in May 2019.

As a result, cumulative downloads broke through the several billion mark in April 2019, and in May 2019, the record for daily charges was broken multiple times. As mentioned above, the Company posted its highest ever net sales in June 2019 and continues the growth trend from the previous quarter.

The Company expanded content for the free manga app called “Comic every” to increase the lineup broadly from new to old titles. The Company increased the number of titles that can be read for free to 900 covering more than 27,000 stories.

In the digital novel service “novelba,” commercial novels featuring a “free after a wait” system were introduced in June to complement the service for posting novels that has been available up to now.

In the games business, the first fan meeting (“RenCa:A/N Gathering: Pre-event) was held for the “RenCa:A/N” app game for smartphones project in April 2019, and new cast information was announced. This project leverages the mutual strengths of the Company and Alt Plus Inc.

In other businesses, the Company worked on producing various content, including through the search for IP.

As a result, net sales for the second quarter cumulative period totaled 5,027,144 thousand yen (up 10.8% over the previous year), operating profit came at 286,184 thousand yen (compared to an operating loss of 89,596 thousand yen in the previous year), ordinary profit was 284,853 thousand yen (compared to an ordinary loss of 107,024 thousand yen in the previous year) and profit totaled 169,070 thousand yen (compared to a loss of 113,732 thousand yen in the previous year). Additionally, the application of “Accounting Standard on Revenue Recognition” will only have a minimal impact on the Company’s business results.

The Company engages in the Contents Platform Business only; therefore, there are no individual segments to report.

(2) Explanation of Financial Condition

i. Financial Position

(Assets)

Total assets at the end of second quarter amounted to 7,402,918 thousand yen, up 298,315 thousand yen compared to the previous fiscal year end.

Current assets totaled 2,985,334 thousand yen, up 350,530 thousand yen over the previous fiscal year end. This is mainly attributable to increases in cash and deposits of 306,503 thousand yen, and accounts receivable - trade of 144,176 thousand yen, while consumption taxes receivable declined 125,161 thousand yen.

Non-current assets totaled 4,417,584 thousand yen, down 52,214 thousand yen compared to the previous fiscal year end. This is mainly attributable to a decrease in intangible assets of 49,931 thousand yen.

(Liabilities)

Total liabilities at the end of second quarter amounted to 3,005,332 thousand yen, up 783,685 thousand yen compared to the previous fiscal year end.

Current liabilities totaled 2,525,332 thousand yen, up 903,685 thousand yen over the previous fiscal year end. This is mainly attributable to increases in accounts payable - trade of 140,514 thousand yen, income taxes payable of 117,379 thousand yen and deferred revenue of 767,483 thousand yen, and a decrease in provision for point card certificates of 81,755 thousand yen. Part of deferred revenue that was recorded as net sales according to the previous accounting standard has been newly recognized as contract liabilities according to the application of the “Accounting Standard on Revenue Recognition.”

Non-current liabilities totaled 480,000 thousand yen, down 120,000 thousand yen compared to the previous fiscal year end. This is attributable to a decrease in long-term loans payable of 120,000 thousand yen.

(Net assets)

Net assets at the end of the second quarter totaled 4,397,585 thousand yen, down 485,370 thousand yen compared to the previous fiscal year end. This is mainly attributable to an increase in retained earnings of 169,070 thousand yen and recording of profit, while beginning balance fell 655,227 thousand yen due to the application of "Accounting Standard on Revenue Recognition."

As a result, the shareholders' capital ratio came to 59.4%.

ii. Cash Flow Position

The balance of cash and cash equivalents ("cash") was 1,180,578 thousand yen at the end of the second quarter cumulative period of the year under review, up 306,503 thousand yen compared to the same period of the previous fiscal year.

Cash flows and the factors behind them are detailed below.

(Cash flows from operating activities)

The main factors for an increase in cash flows from operating activities in the second quarter cumulative period of the year under review were profit before income taxes of 284,853 thousand yen, depreciation of 66,812 thousand yen, amortization of goodwill of 121,948 thousand yen, an increase in notes and accounts payable – trade of 140,514 thousand yen, and a change in consumption taxes receivable/payable of 124,088 thousand yen. On the other hand, the main factor for a decrease in cash flows was an increase in notes and accounts receivable – trade of 144,176 thousand yen.

As a result, net cash provided by operating activities amounted to 563,009 thousand yen (compared to 13,374 thousand yen in the same period of the previous fiscal year).

(Cash flows from investing activities)

The main factor for a decrease in cash flows from investing activities in the second quarter cumulative period of the year under review was a 134,502 thousand yen expenditure for the purchase of intangible assets.

As a result, net cash used in financing activities amounted to 137,306 thousand yen (compared to 133,490 thousand yen in the same period of the previous fiscal year).

(Cash flows from financing activities)

The main factor for a decrease in cash flows from financing activities in the second quarter cumulative period of the fiscal year under review was a 120,000 thousand yen expenditure for repayments of long-term loans payable.

As a result, net cash used in financing activities amounted to 119,199 thousand yen (compared to 468,687 thousand yen in the same period of the previous fiscal year).

(3) Explanation of Forward-Looking Information including Earnings Forecast

There are no changes to the full-year earnings forecast that was announced on February 14, 2019 with the Summary of Financial Results for the Fiscal Year Ended December 31, 2018.

The Company will continue to aim for higher net sales by continuing to improve the "Manga Kingdom" website and services, promoting use of services by members acquired through aggressive promotional activities during the first half and strengthening efforts to promote repeat visits and longer stays. Moreover, in addition to the aforementioned growth in net sales, the Company aims to achieve the forecast for income by engaging in advertising activities with an emphasis on efficiency.

2. Quarterly Financial Statements and Notes

(1) Quarterly Balance sheet

(Unit: thousands of yen)

	End of Previous Fiscal Year (As of December 31, 2018)	Second Quarter (As of June 30, 2019)
Assets		
Current assets		
Cash and deposits	574,075	880,578
Accounts receivable - trade	1,550,087	1,694,264
Securities	300,000	300,000
Merchandise	2,747	2,818
Supplies	81	79
Advance payments - trade	12,673	33,690
Prepaid expenses	19,782	24,017
Accounts receivable from subsidiaries and associates - other	199	648
Consumption taxes receivable	125,161	–
Other	52,076	50,904
Allowance for doubtful accounts	(2,080)	(1,668)
Total current assets	2,634,804	2,985,334
Non-current assets		
Property, plant and equipment		
Buildings	14,662	14,662
Facilities attached to buildings	10,964	10,964
Tools, furniture and fixtures	119,434	121,236
Accumulated depreciation	(100,912)	(104,443)
Accumulated impairment loss	(9,426)	(9,426)
Total property, plant and equipment	34,722	32,993
Intangible assets		
Goodwill	3,739,761	3,617,812
Trademark right	546	489
Software	98,785	136,468
Contents assets	149,282	168,448
Software in progress	4,288	–
Content assets in progress	155,272	174,786
Total intangible assets	4,147,937	4,098,005
Investments and other assets		
Shares of subsidiaries and associates	205,388	205,388
Deferred tax assets	36,722	36,722
Other	45,028	44,473
Total investments and other assets	287,139	286,584
Total non-current assets	4,469,798	4,417,584
Total assets	7,104,602	7,402,918

(Unit: thousands of yen)

	End of Previous Fiscal Year (As of December 31, 2018)	Second Quarter (As of June 30, 2019)
Liabilities		
Current liabilities		
Accounts payable - trade	992,278	1,132,792
Current portion of long-term loans payable	240,000	240,000
Accounts payable - other	224,726	202,600
Accrued expenses	14,973	15,380
Income taxes payable	14,156	131,535
Accrued consumption taxes	26,119	25,046
Deferred revenue	–	767,483
Deposits received	6,973	10,142
Provision for bonuses	20,663	–
Provision for point card certificates	81,755	–
Other	–	351
Total current liabilities	1,621,646	2,525,332
Non-current liabilities		
Long-term loans payable	600,000	480,000
Total non-current liabilities	600,000	480,000
Total liabilities	2,221,646	3,005,332
Net assets		
Shareholders' equity		
Capital stock	1,862,936	1,863,358
Capital surplus	1,862,436	1,862,858
Retained earnings	1,530,424	1,044,267
Treasury shares	(373,348)	(373,392)
Total shareholders' equity	4,882,448	4,397,091
Share acquisition rights	508	494
Total net assets	4,882,956	4,397,585
Total liabilities and net assets	7,104,602	7,402,918

(2) Quarterly Statement of Income

Second Quarter Cumulative Period

(Unit: thousands of yen)

	Previous Second Quarter Cumulative Period (January 1 to June 30, 2018)	Current Second Quarter Cumulative Period (January 1 to June 30, 2019)
Net sales	4,535,498	5,027,144
Cost of sales	2,475,834	2,823,772
Gross profit	2,059,663	2,203,372
Selling, general and administrative expenses	2,149,260	1,917,188
Operating profit (loss)	(89,596)	286,184
Non-operating income		
Interest income	9	465
Dividend income	67	42
Foreign exchange gains	35	–
Gain on donation of non-current assets	2,247	–
Reversal of provision for bonuses	–	408
Interest on refund	–	508
Reimbursement receivables	813	1,080
Penalty income	–	1,000
Miscellaneous income	0	–
Other	86	779
Total non-operating income	3,258	4,284
Non-operating expenses		
Interest expenses	3,887	2,519
Borrowing expenses	2,201	2,850
Costs related to share listing	13,759	–
Commission for purchase of treasury shares	696	–
Other	142	246
Total non-operating expenses	20,686	5,616
Ordinary profit (loss)	(107,024)	284,853
Extraordinary losses		
Loss on valuation of investments in capital	1,000	–
Total extraordinary losses	1,000	–
Profit (loss) before income taxes	(108,024)	284,853
Income taxes	5,708	115,782
Profit (loss)	(113,732)	169,070

(3) Quarterly statement of cash flows

(Unit: thousands of yen)

	Previous Second Quarter Cumulative Period (January 1 to June 30, 2018)	Current Second Quarter Cumulative Period (January 1 to June 30, 2019)
Cash flows from operating activities		
Profit (loss) before income taxes	(108,024)	284,853
Depreciation	61,740	66,812
Amortization of goodwill	121,948	121,948
Increase (decrease) in allowance for doubtful accounts	295	(412)
Increase (decrease) in provision for bonuses	–	(20,663)
Increase (decrease) in provision for point card certificates	(41,457)	–
Interest and dividend income	(76)	(507)
Interest expenses	3,887	2,519
Borrowing expenses	2,201	2,850
Costs related to share listing	13,759	–
Decrease (increase) in notes and accounts receivable - trade	(48,880)	(144,176)
Decrease (increase) in inventories	(2,753)	(69)
Decrease (increase) in advance payments – trade	–	(21,017)
Increase (decrease) in notes and accounts payable - trade	175,871	140,514
Increase (decrease) in accounts payable - other	228,256	(21,962)
Increase (decrease) in accrued expenses	156	406
Increase (decrease) in deferred revenue	–	30,501
Increase (decrease) in income taxes payable - factor based tax	(31,642)	–
Decrease/increase in consumption taxes receivable/payable	(112,294)	124,088
Other	12,463	532
Subtotal	275,451	566,216
Interest and dividend income received	76	507
Interest expenses paid	(3,819)	(2,504)
Payments of borrowing expenses	(2,285)	(2,808)
Income taxes refunded (paid)	(256,048)	1,596
Cash flows from operating activities	13,374	563,009
Cash flows from investing activities		
Purchase of property, plant and equipment	(1,258)	(2,804)
Purchase of intangible assets	(132,231)	(134,502)
Cash flows from investing activities	(133,490)	(137,306)
Cash flows from financing activities		
Repayments of long-term loans payable	(120,000)	(120,000)
Proceeds from issuance of common shares	19,142	844
Payments of costs related to share listing	(19,699)	–
Purchase of treasury shares	(348,130)	(43)
Cash flows from financing activities	(468,687)	(119,199)
Net increase (decrease) in cash and cash equivalents	(588,803)	306,503
Cash and cash equivalents at beginning of period	1,814,146	874,075
Cash and cash equivalents at end of period	1,225,343	1,180,578

(4) Notes to Quarterly Financial Statements

(Notes on the Going-Concern Assumption)

N/A

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Second quarter cumulative period of the previous fiscal year (January 1 to June 30, 2018)

(Significant Changes in the Amount of Shareholders' Equity)

The Company acquired 233,800 treasury shares based on a resolution at the meeting of the board of directors held on May 15, 2018. As a result, treasury shares increased by 348,130 thousand yen in the second quarter cumulative period of the year under review to 348,330 thousand yen at the end of the period.

Second quarter cumulative period of the fiscal year under review (January 1 to June 30, 2019)

N/A

(Application of Special Accounting Treatment for Preparation of Quarterly Financial Statements)

(Calculation of Tax Costs)

Tax costs are calculated by reasonably estimating the effective tax rate for each business year's profit before income taxes, including this second quarter under review, after application of tax effect accounting and then multiplying this estimated effective tax rate by profit before income taxes.

However, in cases where the calculation of tax costs using the estimated effective tax rate yields a result that is notably lacking rationality, then tax expenses are calculating using the statutory effective tax rate.

(Changes in Accounting Policy)

(Application of "Accounting Standard on Revenue Recognition")

"Accounting Standard on Revenue Recognition" (ASBJ Accounting Standard No. 29; March 30, 2018; hereinafter, "Revenue Recognition Accounting Standard") and "Implementation Guidance on Accounting Standard on Revenue Recognition (ASBJ Implementation Guidance No. 30; March 30, 2018) can be applied from the start of business years beginning on or after April 1, 2018. As a result, the Company has applied Revenue Recognition Accounting Standard from the start of the first quarter under review, and recognizes revenue in the amount estimated to be received in exchange for the promised property or service, at the point in time when control of said property or service is transferred to the customer.

The application of the Revenue Recognition Accounting Standard follows the provisional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative total affect in case of retroactively applying the new accounting standard to before the start of the first quarter is adjusted in retained earnings at the start of the first quarter and the new accounting policy is applied from this initial balance. However, the Company applies the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard and does not retroactively apply the new accounting policy to contracts for which the nearly all revenue is recognized following the previous treatment up to the start of the first quarter. In addition, the Company applies the method stipulated in proviso (1) of Paragraph 86 of the Revenue Recognition Accounting Standard, and for contract changes made prior to the start of the first quarter, the Company will carry out (1) to (3) below and adjust the cumulative total affect in retained earnings of the first quarter, based on contract provisions after reflecting all contract changes.

(1) Classification of met and unmet performance obligations
(2) Estimation of transaction price
(3) Allocation of met and unmet portion of performance obligation to transaction price

Conventionally, for its service “Manga Kingdom,” the Company has recognized the entire amount of points at the time of purchase as revenue. However, the Company changed to a method of recognizing revenue related to points as contract liabilities by deferring it until the points are used or expire. These contract liabilities are presented in the quarterly balance sheet as “Deferred revenue.”

As a result, the balance of retained earnings at the beginning of the year declined 655,227 thousand yen. Furthermore, this will have minimal impact on the Company’s net sales, operating profit, ordinary profit and profit before income taxes for the second quarter cumulative period under review.

(Application of Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions, etc.)

The Company applied “Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions, etc.” (Practical Solution No. 36; January 12, 2018; hereinafter “Practical Solution No. 36”) starting January 1, 2019. The Company decided to perform accounting treatment on transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions, etc. in accordance with “Accounting Standard on Stock Options (ASBJ Accounting Standard No. 8; December 27, 2005).

However, the application of Practical Solution No. 36 follows the transitional treatment stipulated in Paragraph 10 (3) of Practical Solution No. 36, and the previous accounting treatment will continue to be used for transactions where employees are granted stock acquisition rights which involve consideration with vesting conditions prior, etc., to the application date of Practical Solution No. 36.

(Segment Information, etc.)

The Company has only one business segment, the Contents Platform Business. Due to the insignificance of segments, segment information has been omitted.

(Additional Information)

(Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.”)

The Company applied “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.” (ASBJ Accounting Standard No. 28; February 16, 2018) from the start of the first quarter. As a result, deferred tax assets are presented in investments and other assets and deferred tax liabilities are presented in noncurrent liabilities.