May 15, 2020

# Non-Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2020 [Japanese GAAP]


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Date for commencement of dividend payments: –
Supplementary notes to quarterly financial statements: None
Briefing on quarterly financial statements: None

(Rounded down to nearest million yen)

## 1. Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2020 (January 1 to March 31, 2020)

(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 | % |
| First quarter of the fiscal year ending December 31, 2020 | 2,684 | 8.9 | 402 | 144.9 | 401 | 145.3 | 225 | 133.9 |
| First quarter of the fiscal year ended December 31, 2019 | 2,464 | 14.4 | 164 | – | 163 | – | 96 | – |

| | Net income per share | Net income per share fully diluted |
|---|---|---|
| | Yen | Yen |
| First quarter of the fiscal year ending December 31, 2020 | 38.29 | 37.75 |
| First quarter of the fiscal year ended December 31, 2019 | 16.44 | 16.25 |

(2) Financial Position

| | Total assets | Net assets | Shareholders' capital ratio |
|---|---|---|---|
| | Millions of yen | Millions of yen | % |
| As of March 31, 2020 | 7,807 | 4,965 | 63.6 |
| As of December 31, 2019 | 7,753 | 4,736 | 61.1 |

For reference: Shareholders' equity
As of March 31, 2020 4,965 million yen
As of December 31, 2019 4,735 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, 2019 | – | 0.00 | – | 0.00 | 0.00 |
| Fiscal year ending December 31, 2020 | – | | | | |
| Fiscal year ending December 31, 2020 (Forecast) | | – | – | – | – |

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

Note: The Company's date of record for dividends is the final day of the second quarter and final day of the fiscal year per the provisions of the Articles of Incorporation. The dividend forecast amount for the applicable date of record is undetermined at the current point in time.

## 3. Earnings Forecast for the Fiscal Year Ending December 31, 2020 (January 1 to December 31, 2020)

(*Percentage indicates the rate of change year on year for full-year figures and year on year of the same quarter for quarterly figures)

| | Net sales | | Operating profit | | Ordinary profit | | Profit | | Net income per share |
|---|---|---|---|---|---|---|---|---|---|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % | Millions of yen | % | Yen |
| First half (cumulative) | 5,446 | 8.3 | 376 | 31.7 | 371 | 30.5 | 220 | 30.3 | 37.47 |
| Full year | 11,538 | 10.9 | 1,009 | 23.4 | 1,001 | 23.3 | 586 | 18.0 | 99.67 |

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: None
  (b) Changes in accounting policy other than those listed in (a): None
  (c) Changes in accounting estimates: None
  (d) Restatements: None

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

| | | | |
|---|---|---|---|
| March 31, 2020 | 6,156,462 shares | December 31, 2019 | 6,150,198 shares |

  (b) Number of treasury shares at end of period

| | | | |
|---|---|---|---|
| March 31, 2020 | 250,223 shares | December 31, 2019 | 250,223 shares |

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

| | | | |
|---|---|---|---|
| March 31, 2020 | 5,902,004 shares | March 31, 2019 | 5,877,251 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

Forward-looking statements made below have been determined by the Company as of the final day of the first quarter under review.

During the first quarter under review, Japan's economy continued to see a moderate recovery up to January as the employment environment improved, despite some weakness seen in corporate earnings and capital investment. Since February, however, Japan's economy has experienced a sharp slowdown caused by the COVID-19 pandemic.

The e-book market, mainly comics, continues to see an increase in customer traffic and higher average purchases. The e-book and e-comic markets are expected to continue growing. (Source: Impress Corporation estimates, "eBook Marketing Report 2019"). Furthermore, the Company believes that the COVID-19 pandemic has spurred on consumption at home, which has resulted in strong sales.

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 is also focused on obtaining licenses for works that are not under contract to help expand its contents. In addition, the Company focused on strengthening its brand, including holding campaigns marketing service improvements and a sense of value, in order to increase the absolute number of subscribers by promoting the flow of visit, retention and purchase.

As a result, net sales in the first quarter increased 220 million yen year over year to 2,680 million yen.

The following section discusses the main activities of the Company's Contents Platform Business in the first quarter.

Through the comic distribution service "Manga Kingdom," a mainstay service in the e-book business, the Company has uploaded a cumulative total of 93 original titles while promoting differentiation of content, including distribution of original labels such as exclusive first-release titles. In February 2020, the Company launched an exclusive fully comicalized version of the "SHIROBAKO" television anime series. Also, in April 2020, "Guilty – Nakanu hotaruga miwo kogasu," a popular manga made available first and exclusively on Manga Kingdom through a joint project between the Company and Kodansha Ltd., was turned into a television drama and broadcast on the Yomiuri Telecasting and Nippon Television networks. As for the Manga Kingdom website, the Company expanded its appealing measures that provide benefits to customers based on visits, subscriptions and money spent. The Company also actively carried out various sales promotion activities for greater retention of a broad range of users and implementation of various promotional campaigns. Furthermore, from March 2020, the Company has sought to market a greater sense of value in its services by enrolling in Japan's Point Reward Project for Consumers using Cashless Payment and allowing credit card payments for point purchases to be eligible for these rebates. Through these initiatives, the Company has recorded sustained growth, as the number of registered members broke through the 3.5-million mark in March 2020 and cumulative downloads broke through the 1.2-billion mark (cumulative total downloads include free titles and titles in comic strip format converted to books). Meanwhile, the Company also focused on advertising activities with an emphasis on efficiency. Furthermore, starting in April 2020, the Company is promoting online store operations where works can be enjoyed anytime with a sense of value by launching a new loyalty points program that rebates up to 45% of spending every day for both the purchase of points and works.

As for free manga app called "Comic every," the Company has continued to expand contents. The Company has a broad offering of contents after increasing the number of titles that can be read for free to 1,400 covering more than 40,000 stories, from new releases to previously released works. In April 2020, the Company launched a new feature called "Daily Free" where members can read one work a day for free. In this manner, the Company will continue to improve services so that customers can enjoy more works on a regular basis.

In the “novelba”, an e-novel service, the Company is working to expand contents across a broad range of genres. The Company focused not only on submissions but also obtaining licenses for commercial works, including launching distribution of paperback books from Takeshobo Co., Ltd. in March 2020. Furthermore, the number of works in the service were expanded to more than 15,000.

In the games business, for the proprietary interactive smartphone game “RenCa:A/N” developed jointly with Alt Plus Inc., the Company held in-app events and expanded contents including adding new features. In addition, the Company held a number of different events, such as a collaboration café and official web radio release, and commercialized character merchandise, expanded the media mix beyond app games.

In other businesses, the Company worked on support activities for various contents production and promotions, including events.

As a result, net sales for the first quarter totaled 2,684,469 thousand yen (up 8.9% over the previous year), operating profit came in at 402,917 thousand yen (up 144.9%), ordinary profit was 401,798 thousand yen (up 145.3%) and profit totaled 225,990 thousand yen (up 133.9%).

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

(2) Explanation of Financial Condition for the Fiscal Year Under Review

(Assets)

Total assets at the end of the first quarter amounted to 7,807,378 thousand yen, up 54,304 thousand yen compared to the previous fiscal year end.

Current assets totaled 3,382,308 thousand yen, up 90,276 thousand yen over the previous fiscal year end. This is mainly attributable to a decrease in cash and deposits of 259,378 thousand yen, while accounts receivable - trade increased 337,260 thousand yen.

Non-current assets totaled 4,425,069 thousand yen, down 35,972 thousand yen compared to the previous fiscal year end. This is mainly attributable to an increase in investments and other assets of 40,776 thousand yen, while intangible assets declined 75,377 thousand yen.

(Liabilities)

Total liabilities at the end of the first quarter amounted to 2,842,218 thousand yen, down 174,411 thousand yen compared to the previous fiscal year end.

Current liabilities totaled 2,542,218 thousand yen, down 114,411 thousand yen over the previous fiscal year end. This is mainly attributable to an increase in accounts payable - trade of 88,230 thousand yen, and decreases in accounts payable - other of 70,540 thousand yen, income taxes payable of 53,130 thousand yen, deferred revenue of 58,552 thousand yen, and provision for bonuses of 45,783 thousand yen.

Non-current liabilities totaled 300,000 thousand yen, down 60,000 thousand yen compared to the previous fiscal year end. This is attributable to a decrease in long-term loans payable of 60,000 thousand yen.

(Net assets)

Net assets at the end of the first quarter totaled 4,965,159 thousand yen, up 228,715 thousand yen compared to the previous fiscal year end. This is mainly attributable to an increase in retained earnings of 225,990 thousand yen.

As a result, the shareholders’ capital ratio came to 63.6%.

(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, 2020 with the Summary of Financial Results for the Fiscal Year Ended December 31, 2019.

As for Manga Kingdom, the Company will strive to improve customer satisfaction by providing high added-value services through a diverse range of promotional campaigns held actively for a broad range of customers. With this site revitalization, the Company aims to further increase sales by promoting visits, retention and subscriptions. In addition, in terms of other services and businesses, the Company will promote improved services and expanded contents, and grow its contents platform business with the goal of deploying various media mixes beyond services.

## 2. Financial Statements and Notes

(1) Balance sheet

(Unit: thousands of yen)

| | End of Previous Fiscal Year (As of December 31, 2019) | First Quarter (As of March 31, 2020) |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 1,664,528 | 1,405,150 |
| Accounts receivable - trade | 1,279,639 | 1,616,899 |
| Securities | 300,000 | 300,000 |
| Merchandise | 2,987 | 3,189 |
| Supplies | 1,323 | 1,279 |
| Advance payments - trade | 19,728 | 10,905 |
| Prepaid expenses | 25,263 | 45,942 |
| Other | 404 | 373 |
| Allowance for doubtful accounts | (1,843) | (1,432) |
| Total current assets | 3,292,031 | 3,382,308 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings | 14,662 | 14,662 |
| Facilities attached to buildings | 11,655 | 11,655 |
| Tools, furniture and fixtures | 131,853 | 133,109 |
| Accumulated depreciation | (110,579) | (113,206) |
| Accumulated impairment loss | (9,426) | (9,426) |
| Total property, plant and equipment | 38,165 | 36,793 |
| Intangible assets | | |
| Goodwill | 3,717,017 | 3,643,980 |
| Trademark right | 432 | 404 |
| Software | 188,135 | 205,530 |
| Content assets | 403,767 | 393,038 |
| Software in progress | 8,264 | 2,372 |
| Content assets in progress | 34,371 | 31,285 |
| Total intangible assets | 4,351,988 | 4,276,611 |
| Investments and other assets | | |
| Leasehold deposits | 43,919 | 84,696 |
| Deferred tax assets | 26,968 | 26,968 |
| Other | 0 | 0 |
| Total investments and other assets | 70,888 | 111,664 |
| Total non-current assets | 4,461,042 | 4,425,069 |
| Total assets | 7,753,074 | 7,807,378 |

(Unit: thousands of yen)

| | End of Previous Fiscal Year (As of December 31, 2019) | First Quarter (As of March 31, 2020) |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Accounts payable - trade | 1,087,702 | 1,175,932 |
| Current portion of long-term loans payable | 240,000 | 240,000 |
| Accounts payable - other | 284,377 | 213,836 |
| Accrued expenses | 21,648 | 22,212 |
| Income taxes payable | 216,586 | 163,455 |
| Accrued consumption taxes | 30,927 | 61,578 |
| Deferred revenue | 710,192 | 651,639 |
| Deposits received | 7,850 | 13,559 |
| Provision for bonuses | 45,783 | – |
| Other | 11,561 | 4 |
| Total current liabilities | 2,656,630 | 2,542,218 |
| Non-current liabilities | | |
| Long-term loans payable | 360,000 | 300,000 |
| Total non-current liabilities | 360,000 | 300,000 |
| Total liabilities | 3,016,630 | 2,842,218 |
| Net assets | | |
| Shareholders' equity | | |
| Capital stock | 1,868,930 | 1,870,536 |
| Capital surplus | 1,868,430 | 1,870,036 |
| Retained earnings | 1,371,988 | 1,597,978 |
| Treasury shares | (373,392) | (373,392) |
| Total shareholders' equity | 4,735,957 | 4,965,159 |
| Share acquisition rights | 486 | – |
| Total net assets | 4,736,443 | 4,965,159 |
| Total liabilities and net assets | 7,753,074 | 7,807,378 |

(2) Quarterly Statement of Income

First Quarter

(Unit: thousands of yen)

| | Previous First Quarter (January 1 to March 31, 2019) | Current First Quarter (January 1 to March 31, 2020) |
|---|---|---|
| Net sales | 2,464,434 | 2,684,469 |
| Cost of sales | 1,371,740 | 1,534,031 |
| Gross profit | 1,092,694 | 1,150,438 |
| Selling, general and administrative expenses | 928,157 | 747,521 |
| Operating profit | 164,537 | 402,917 |
| Non-operating income | | |
| Interest income | 234 | 7 |
| Dividend income | 19 | 22 |
| Interest on refund | 504 | – |
| Reimbursement receivables | 691 | 990 |
| Reversal of provision for bonuses | 408 | – |
| Other | 45 | 0 |
| Total non-operating income | 1,903 | 1,020 |
| Non-operating expenses | | |
| Interest expenses | 1,332 | 943 |
| Borrowing expenses | 1,089 | 1,089 |
| Other | 246 | 106 |
| Total non-operating expenses | 2,667 | 2,138 |
| Ordinary profit | 163,773 | 401,798 |
| Extraordinary income | | |
| Gain on reversal of share acquisition rights | – | 486 |
| Total extraordinary income | – | 486 |
| Extraordinary losses | | |
| Impairment losses | – | 21,913 |
| Total extraordinary losses | – | 21,913 |
| Profit before income taxes | 163,773 | 380,371 |
| Income taxes | 67,172 | 154,380 |
| Profit | 96,600 | 225,990 |

(3) Notes to Quarterly Financial Statements

(Notes on the Going-Concern Assumption)

N/A

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

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 first 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.

(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)

"Leasehold deposits" presented in "Other" of "Investments and other assets" in the previous fiscal year will be restated as a standalone item from the first quarter of the fiscal year under review because it has become significant in terms of amount. The financial statements for the previous fiscal year have been restated in order to reflect this change in presentation method.

As a result, the amount of 43,919 thousand yen presented in "Other" of "Investments and other assets" in the balance sheet of the previous fiscal year has been restated as "Leasehold deposits" of 43,919 thousand yen and "Other" of 0 thousand yen.