August 14, 2020

Non-Consolidated Financial Results for the Second 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: 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, 2020 (January 1 to June 30, 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	%
Second quarter of the fiscal year ending December 31, 2020	5,524	9.9	564	97.3	566	98.9	261	54.6
Second quarter of the fiscal year ended December 31, 2019	5,027	10.8	286	−	284	−	169	−

	Net income per share	Net income per share fully diluted
	Yen	Yen
Second quarter of the fiscal year ending December 31, 2020	44.25	43.59
Second quarter of the fiscal year ended December 31, 2019	28.77	28.43

(2) Financial Position

	Total assets	Net assets	Shareholders' capital ratio
	Millions of yen	Millions of yen	%
As of June 30, 2020	8,074	5,005	62.0
As of December 31, 2019	7,753	4,736	61.1

For reference: Shareholders' equity
As of June 30, 2020 5,005 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	–	0.00			
Fiscal year ending December 31, 2020 (Forecast)			–	–	–

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

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)

	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	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)

June 30, 2020	6,156,917 shares	December 31, 2019	6,150,198 shares

  (b) Number of treasury shares at end of period

June 30, 2020	246,723 shares	December 31, 2019	250,223 shares

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

June 30, 2020	5,904,921 shares	June 30, 2019	5,877,555 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 has experienced a sharp slowdown due to restrictions on economic activities caused by the impacts of 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 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 has also worked to differentiate 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. Furthermore, in July 2020 we concluded a top partner agreement with Yokohama B-Corsairs, a professional basketball team that we have an existing official sponsorship agreement with, in order to further strengthen our relationship. By teaming up with this club that aims to foster new sports entertainment opportunities with the Company as part of its mission to connect contents and fans, the Company will contribute to the further development of the entertainment world and basketball world.

Moreover, in light of the growing COVID-19 pandemic, the Company implemented countermeasures for preventing the occurrence and spread of infections and securing the safety of suppliers, employees and other stakeholders, and strived to balance these initiatives with business growth.

As a result, net sales in the second quarter cumulative period under review increased 490 million yen year over year to 5,520 million yen.

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 100 original titles while promoting differentiation of content, including distribution of original labels such as exclusive first-release titles. 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 actively carried out sales promotion activities for acquiring a broad range of users and appealing a sense of value, including launching a new loyalty points program that rebates up to 45% of spending every day for both the purchase of points and works and implementing various promotional campaigns. As a result, the Company received the distinction of "No. 1 Value" (number one ranking in services with the greatest sense of value) in a survey of e-comic services conducted by a third-party research institution.

Through these initiatives, the Company has recorded sustained growth, as cumulative downloads broke through the 1.2-billion mark in March 2020 and the number of registered members broke through the 4-million mark in July 2020 (cumulative total downloads include free titles and titles in comic strip format converted to books).

As for free manga app called "Comic every," the Company has a broad offering of contents after increasing the number of titles that can be read for free to 1,600 covering more than 49,000 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 “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 BK Books from Bunkasha Co., Ltd. in April 2020. Furthermore, the number of works in the service was expanded to more than 17,000. Moreover, in the same month, the Company jointly held a love novel contest with Publishing Link, Ltd. that guarantees publication of an e-novel with Takeshobo Co., Ltd. as the grand prize. This is helping to invigorate the site and providing support to author debuts.

In the games business, an in-app main story was added to the proprietary interactive smartphone game “RenCa:A/N” and events were held to expand contents. At the same time, other production related initiatives were held in various forms including collaboration café in Tokyo and Osaka. The Company has decided to carry out development, operation and streaming of this app from August 2020 in order to further speed up service improvements.

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

As a result, net sales for the second quarter cumulative period totaled 5,524,692 thousand yen (up 9.9% over the previous year), operating profit came at 564,771 thousand yen (up 97.3%), ordinary profit was 566,547 thousand yen (up 98.9%) and profit totaled 261,313 thousand yen (up 54.6%).

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 8,074,183 thousand yen, up 321,109 thousand yen compared to the previous fiscal year end.

Current assets totaled 3,755,325 thousand yen, up 463,293 thousand yen over the previous fiscal year end. This is mainly attributable to increases in accounts receivable - trade of 402,912 thousand yen, and prepaid expenses of 26,534 thousand yen.

Non-current assets totaled 4,318,858 thousand yen, down 142,184 thousand yen compared to the previous fiscal year end. This is mainly attributable to an increase in investments and other assets of 43,225 thousand yen, while intangible assets declined 181,761 thousand yen.

(Liabilities)

Total liabilities at the end of second quarter amounted to 3,069,014 thousand yen, up 52,384 thousand yen compared to the previous fiscal year end.

Current liabilities totaled 2,829,014 thousand yen, up 172,384 thousand yen over the previous fiscal year end. This is mainly attributable to decreases in accounts payable - other of 75,529 thousand yen, deferred revenue of 121,625 thousand yen, and provision for bonuses of 45,783 thousand yen, while accounts payable - trade increased by 441,510 thousand yen.

Non-current liabilities totaled 240,000 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 5,005,169 thousand yen, up 268,725 thousand yen compared to the previous fiscal year end. This is mainly attributable to an increase in retained earnings of 260,549 thousand yen.

As a result, the shareholders' capital ratio came to 62.0%.

ii. Cash Flow Position

The balance of cash and cash equivalents ("cash") was 1,981,455 thousand yen at the end of the second quarter cumulative period of the year under review, up 16,927 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)

Cash flows from operating activities in the second quarter cumulative period of the year under review saw the following items mainly added to profit before income taxes of 440,516 thousand yen: depreciation of 126,109 thousand yen, impairment loss of 126,516 thousand yen, amortization of goodwill of 146,074 thousand yen, and increase in notes and accounts payable – trade of 441,510 thousand yen. In contrast, the main items subtracted include a decrease in provision for bonuses of 45,783 thousand yen, an increase in notes and accounts receivable – trade of 402,912 thousand yen, an increase in prepaid expenses of 25,117 thousand yen, a decrease in accounts payable - other of 71,210 thousand yen, a decrease in deferred revenue of 121,625 thousand yen, and income taxes paid of 198,087 thousand yen.

As a result, net cash provided by operating activities amounted to 391,337 thousand yen (compared to 563,009 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 212,199 thousand yen expenditure for the purchase of intangible assets.

As a result, net cash used in investing activities amounted to 257,848 thousand yen (compared to 137,306 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 116,561 thousand yen (compared to 119,199 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, 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.

2. Quarterly Financial Statements and Notes

(1) Quarterly Balance Sheet

(Unit: thousands of yen)

	End of Previous Fiscal Year (As of December 31, 2019)	Second Quarter (As of June 30, 2020)
Assets		
Current assets		
Cash and deposits	1,664,528	1,681,455
Accounts receivable - trade	1,279,639	1,682,551
Securities	300,000	300,000
Merchandise	2,987	3,067
Supplies	1,323	1,246
Advance payments - trade	19,728	21,893
Prepaid expenses	25,263	51,798
Other	404	14,964
Allowance for doubtful accounts	(1,843)	(1,652)
Total current assets	3,292,031	3,755,325
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	132,874
Accumulated depreciation	(110,579)	(115,247)
Accumulated impairment loss	(9,426)	(9,426)
Total property, plant and equipment	38,165	34,517
Intangible assets		
Goodwill	3,717,017	3,570,942
Trademark right	432	381
Software	188,135	209,721
Contents assets	403,767	287,346
Software in progress	8,264	4,832
Content assets in progress	34,371	97,002
Total intangible assets	4,351,988	4,170,227
Investments and other assets		
Leasehold deposits	43,919	84,334
Deferred tax assets	26,968	26,968
Other	0	2,809
Total investments and other assets	70,888	114,113
Total non-current assets	4,461,042	4,318,858
Total assets	7,753,074	8,074,183

(Unit: thousands of yen)

	End of Previous Fiscal Year (As of December 31, 2019)	Second Quarter (As of June 30, 2020)
Liabilities		
Current liabilities		
Accounts payable - trade	1,087,702	1,529,212
Current portion of long-term loans payable	240,000	240,000
Accounts payable - other	284,377	208,847
Accrued expenses	21,648	18,186
Income taxes payable	216,586	197,702
Accrued consumption taxes	30,927	38,678
Deferred revenue	710,192	588,566
Deposits received	7,850	7,221
Provision for bonuses	45,783	–-
Other	11,561	598
Total current liabilities	2,656,630	2,829,014
Non-current liabilities		
Long-term loans payable	360,000	240,000
Total non-current liabilities	360,000	240,000
Total liabilities	3,016,630	3,069,014
Net assets		
Shareholders' equity		
Capital stock	1,868,930	1,870,650
Capital surplus	1,868,430	1,870,150
Retained earnings	1,371,988	1,632,538
Treasury shares	(373,392)	(368,169)
Total shareholders' equity	4,735,957	5,005,169
Share acquisition rights	486	–
Total net assets	4,736,443	5,005,169
Total liabilities and net assets	7,753,074	8,074,183

(2) Quarterly Statement of Income

Second Quarter Cumulative Period

(Unit: thousands of yen)

	Previous Second Quarter Cumulative Period (January 1 to June 30, 2019)	Current Second Quarter Cumulative Period (January 1 to June 30, 2020)
Net sales	5,027,144	5,524,692
Cost of sales	2,823,772	3,361,961
Gross profit	2,203,372	2,162,731
Selling, general and administrative expenses	1,917,188	1,597,959
Operating profit	286,184	564,771
Non-operating income		
Interest income	465	7
Dividend income	42	53
Reversal of provision for bonuses	408	–
Interest on refund	508	–
Reimbursement receivables	1,080	6,532
Penalty income	1,000	–
Other	779	44
Total non-operating income	4,284	6,637
Non-operating expenses		
Interest expenses	2,519	1,784
Borrowing expenses	2,850	2,877
Other	246	199
Total non-operating expenses	5,616	4,861
Ordinary profit	284,853	566,547
Extraordinary income		
Gain on reversal of share acquisition rights	–	486
Total extraordinary income	–	486
Extraordinary losses		
Impairment loss	–	126,516
Total extraordinary losses	–	126,516
Profit before income taxes	284,853	440,516
Income taxes	115,782	179,203
Profit	169,070	261,313

(3) Quarterly statement of cash flows

(Unit: thousands of yen)

	Previous Second Quarter Cumulative Period (January 1 to June 30, 2019)	Current Second Quarter Cumulative Period (January 1 to June 30, 2020)
Cash flows from operating activities		
Profit before income taxes	284,853	440,516
Depreciation	66,812	126,109
Impairment loss	–	126,516
Amortization of goodwill	121,948	146,074
Increase (decrease) in allowance for doubtful accounts	(412)	(191)
Increase (decrease) in provision for bonuses	(20,663)	(45,783)
Interest and dividend income	(507)	(60)
Interest expenses	2,519	1,784
Borrowing expenses	2,850	2,877
Decrease (increase) in notes and accounts receivable - trade	(144,176)	(402,912)
Decrease (increase) in advance payments – trade	(21,017)	(2,165)
Decrease (increase) in prepaid expenses	(4,250)	(25,117)
Increase (decrease) in notes and accounts payable - trade	140,514	441,510
Increase (decrease) in accounts payable - other	(21,962)	(71,210)
Increase (decrease) in accrued expenses	406	(3,461)
Increase (decrease) in advances received	351	(10,962)
Increase (decrease) in deferred revenue	30,501	(121,625)
Increase (decrease) in accrued consumption taxes	124,088	7,750
Other	4,362	(14,876)
Subtotal	566,216	594,772
Interest and dividend income received	507	60
Interest expenses paid	(2,504)	(1,715)
Payments of borrowing expenses	(2,808)	(3,693)
Income taxes refunded (paid)	1,596	(198,087)
Cash flows from operating activities	563,009	391,337
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,804)	(4,594)
Purchase of intangible assets	(134,502)	(212,199)
Payments for lease and guarantee deposits	–	(41,054)
Cash flows from investing activities	(137,306)	(257,848)
Cash flows from financing activities		
Repayments of long-term loans payable	(120,000)	(120,000)
Proceeds from issuance of common shares	844	3,438
Purchase of treasury shares	(43)	–
Cash flows from financing activities	(119,199)	(116,561)
Net increase (decrease) in cash and cash equivalents	306,503	16,927
Cash and cash equivalents at beginning of period	874,075	1,964,528
Cash and cash equivalents at end of period	1,180,578	1,981,455

(4) Notes to Quarterly Financial Statements

(Notes on the Going-Concern Assumption)

N/A

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

The Company disposed of 3,500 treasury shares based on a resolution at the meeting of the board of directors held on April 23, 2020 as restricted share compensation paid to the Company's directors. As a result, retained earnings decreased by 763 thousand yen and treasury shares decreased by 5,222 thousand yen to 1,632,538 thousand yen and 368,169 thousand yen respectively at the end of the second quarter.

(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.

(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)

Change in Presentation Method

(Quarterly Balance Sheet Related)

"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 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.

(Quarterly Cash Flow Statement Related)

"Decrease (increase) in inventories" presented as a standalone item in cash flows from operating activities during the previous second quarter cumulative period is no longer significant in terms of amount; therefore, it will be presented in "Other" from the second quarter cumulative period under review. In addition, "Decrease (increase) in prepaid expenses" and "Increase (decrease) in advances received" presented in "Other" of cash flows from operating activities in the previous second quarter cumulative period will be restated as a standalone item from the second quarter cumulative period under review because the materiality of the monetary amount has increased. The financial statements for the previous second quarter cumulative period have been restated in order to reflect this change in presentation method.

As a result, the amount of (69) thousand yen of “Decrease (increase) in inventories” presented as a standalone item in cash flows from operating activities and 532 thousand yen presented in “Other” of cash flows from operating activities in the previous quarterly statement of cash flows have been restated in (4,250) thousand yen in “Decrease (increase) in prepaid expenses,” 351 thousand yen in “Increase (decrease in advances received” and 4,362 thousand yen in “Other.”