May 14, 2021

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2021 [Japanese GAAP]

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Scheduled date of quarterly report submission: May 14, 2021
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. Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2020 (January 1 to March 31, 2021)

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

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First quarter of the fiscal year ending December 31, 2021	4,422	–	463	–	426	–	224	–
First quarter of the fiscal year ended December 31, 2020	–	–	–	–	–	–	–	–

For reference: Comprehensive income
First quarter of the fiscal year ending December 31, 2021: 224 million yen (–%)
First quarter of the fiscal year ended December 31, 2020: – million yen (–%)

	Net income per share	Net income per share fully diluted
	Yen	Yen
First quarter of the fiscal year ending December 31, 2021	37.88	37.35
First quarter of the fiscal year ended December 31, 2020	–	–

Note: Figures for the first quarter of the fiscal year ended December 31, 2020 and year-on-year change have been omitted because the Company began preparing consolidated financial statements from the end of the fiscal year ended December 31, 2020.

(2) Consolidated Financial Position

	Total assets	Net assets	Capital-to-asset ratio
	Millions of yen	Millions of yen	%
March 31, 2021	19,495	5,452	28.0
December 31, 2020	19,741	5,224	26.5

For reference: Shareholders' equity
As of March 31, 2021 5,452 million yen
As of December 31, 2020 5,224 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, 2020	–	0.00	–	0.00	0.00
Fiscal year ending December 31, 2021	–				
Fiscal year ending December 31, 2021 (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. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2021 (January 1 to December 31, 2021)

(*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 attributable to owners of the parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
First half	9,374	–	660	–	586	–	241	–	40.78
Full year	19,682	–	1,350	–	1,210	–	524	–	84.87

Note: Revisions from the most recently announced earnings forecast: Yes

Note: Figures for the previous fiscal year and the rate of change year on year have been omitted because the Company began preparing consolidated financial statements from the end of the fiscal year ended December 31, 2020.

Note: For the earnings forecast, refer to the timely disclosure document released today (May 14, 2021) "Notice Concerning Revisions to the Earnings Forecast for the First Half of the Fiscal Year Ending December 31, 2021."

* Notice

(1) Changes in important subsidiaries during the first quarter under review (change in specified subsidiaries which accompanies a change in the scope of consolidation): None
New: None Exclusion: None

(2) Application of special accounting treatment for the preparation of the quarterly financial statements: Yes
Note: For details, refer to page 9 of the attached materials "(3) Notes to Quarterly Consolidated Financial Statements."

(3) 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

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

March 31, 2021	6,182,180 shares	December 31, 2020	6,175,661 shares

(b) Number of treasury shares at end of period

March 31, 2021	246,728 shares	December 31, 2020	246,723 shares

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

March 31, 2021	5,930,388 shares	March 31, 2020	5,902,004 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 Supplemental Materials "1. Qualitative Information on the Quarterly Financial Results (3) Explanation of Forward-Looking Information including Consolidated Earnings Forecast."

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1. Qualitative Information on the Quarterly Financial Results

(1) Explanation of Operating Results

During the first quarter under review, Japan's economy experienced a moderate recovery in some parts driven by the effects of the national government's various economic stimulus measures, but the resurgence of COVID-19 cases from January to March culminated in Japan's second state of emergency, resulting in restrictions on economic activities. As a result, the future economic outlook remains one of uncertainty.

Amidst this situation, 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. Furthermore, the COVID-19 pandemic has spurred on consumption at home, and it is expected to increase user numbers further and contribute to the retention of users. (Source: Impress Corporation estimates, "eBook Marketing Report 2020")

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

In addition, there is growing damages from pirated comic websites. The Group will continue to gather information while closely monitoring the situation and take necessary measures after coordinating with relevant industry groups.

Given this market climate, the Group focused on building and growing the Manga Kingdom brand and worked to develop content by promoting a product lineup and strengthening its editing functions through creating serialized works and being the first to distribute titles. Also, the Group is deepening collaboration to generate synergies with Bunkasha Group Co., Ltd. which it acquired in October 2020.

Moreover, in light of the growing COVID-19 pandemic, following similar efforts in the previous fiscal year, the Group is implementing countermeasures for preventing the occurrence and spread of infections and securing the safety of suppliers, employees, and other stakeholders, and striving to balance these initiatives with business growth.

As a result, consolidated net sales in the first quarter totaled 4,400 million yen, as Manga Kingdom recorded its highest ever net sales.

The following section discusses the main activities of the Group's Platform Segment and Contents Segment in the first quarter under review.

In terms of the comic distribution service "Manga Kingdom," a mainstay service in the Platform Segment, the Group focused on promotional campaigns appealing a sense of value and branding activities, in order to increase subscribers and customer spending by promoting the flow of visit, retention and purchase. In addition to the loyalty points program provided on the Manga Kingdom website that rebates up to 50% of spending every day for both the purchase of points and works, the Group actively carried out sales promotion activities for acquiring a broad range of users and appealing a sense of value. Also, the Group 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 from October to November 2020. Additionally, the Group is actively deploying a broad range of advertising activities to drive traffic to the site and promote greater interest among users. In the television commercials commenced on January 1, 2021, the Group captured the top share (No. 1) in Twitter reactions to TV commercials by an e-book company for the first three days of the New Year.

Furthermore, in February 2021, jointly held auditions were broadcast for four consecutive weeks on THE TOKIWA, a documentary and variety program to find up-and-coming manga artist talent produced by the Nippon Television Network Corporation. This program, which will identify the next generation of manga artist stars, aims to produce the manga of participants who make it past the audition through a collaborative effort with original authors and then post the works to Manga Kingdom. In this manner, the Group is promoting not just the expansion of contents on Manga Kingdom, but also supporting the debut of new artists and differentiation of contents. These initiatives have enabled

the Group to grow continuously, including breaking through the 4.5 million mark for the number of registered members in January 2021.

In the novel posting service called “novelba,” the Group established a program to support the professional debut of posters in an effort to promote differentiation of services and support author debuts. Also, the Group is working to invigorate the website by focusing on acquiring licenses for commercial works, including launching distribution of works from TO BOOKS, Inc. and MAG Garden Corporation.

In terms of IP production, the Group is investing in projects with an eye toward synergies with Manga Kingdom. This includes launching the first smartphone game of popular animation “Mushoku Tensei: Isekai Ittara Honki Dasu,” which began broadcasting in January 2021, called “Mushoku Tensei: Game Ni Nattemo Honki Dasu” in March 2021.

In the Contents Segment, the Group made greater progress than expected amid hit manga content mainly in e-comics and strong results from fashion magazines. Additionally, the Group held the Manga Yomonga New Author Awards on the comic website for smartphones Manga Yomonga in order to identify new, up-and-coming creators. The Group is also working to boost its ability to create works, including enhancing the organizational structure for development of new genres and carrying out preparation work.

As a result, consolidated net sales for the first quarter under review totaled 4,422,622 thousand yen, consolidated operating profit came in at 463,611 thousand yen, consolidated ordinary profit was 426,645 thousand yen and profit attributable to owners of the parent totaled 224,639 thousand yen.

The management results for each segment are presented below.

(Platform Segment)
Segment net sales totaled 2,848,912 thousand yen and operating profit came in at 69,976 thousand yen.

(Contents Segment)
Segment net sales totaled 1,619,185 thousand yen and operating profit came in at 394,472 thousand yen.

Comparisons with the previous first quarter and analysis are omitted because the Group began preparing consolidated financial statements from end of the previous fiscal year.

(2) Explanation of Financial Condition for the First Quarter Under Review

(Assets)

Total assets at the end of the first quarter amounted to 19,495,037 thousand yen, down 246,073 thousand yen compared to the previous fiscal year end.

Current assets totaled 7,633,602 thousand yen, down 219,670 thousand yen over the previous fiscal year end. This is mainly attributable to an increase in cash and deposits of 125,032 thousand yen, which was offset by a decrease in notes and accounts receivable – trade of 365,818 thousand yen.

Non-current assets totaled 11,861,435 thousand yen, down 26,403 thousand yen compared to the previous fiscal year end. This is mainly attributable to a decrease of intangible assets of 26,547 thousand yen.

(Liabilities)

Total liabilities at the end of the first quarter amounted to 14,042,436 thousand yen, down 473,962 thousand yen compared to the previous fiscal year end.

Current liabilities totaled 7,975,774 thousand yen, down 257,202 thousand yen over the previous fiscal year end. This is mainly attributable to an increase in notes and accounts payable – trade of 86,693 thousand yen, which was offset by decreases in income taxes payable of 247,499 thousand yen and refund liabilities of 142,552 thousand yen.

Non-current liabilities totaled 6,066,662 thousand yen, down 216,760 thousand yen compared to the previous fiscal year end. This is attributable to a decrease in long-term loans payable of 235,000 thousand yen.

(Net assets)

Net assets at the end of the first quarter totaled 5,452,600 thousand yen, up 227,889 thousand yen compared to the previous fiscal year end. This is mainly attributable to an increase in retained earnings of 224,639 thousand yen.

As a result, the shareholders' capital ratio came to 28.0%.

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

The Company has revised the earnings forecast for the first half of the fiscal year ending December 31, 2021 based on the performance of the first quarter.

For details, refer to "Notice Concerning Revisions to the Earnings Forecast for the First Half of the Fiscal Year Ending December 31, 2021" released today (May 14, 2021).

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly consolidated balance sheet

(Unit: thousands of yen)

	End of Previous Consolidated Fiscal Year (As of December 31, 2020)	Consolidated First Quarter (As of March 31, 2021)
Assets		
Current assets		
Cash and deposits	3,230,336	3,355,369
Notes and accounts receivable - trade	4,433,602	4,067,784
Merchandise and finished goods	76,524	60,797
Supplies	1,265	1,194
Advance payments - trade	10,438	10,432
Prepaid expenses	36,506	53,634
Accounts receivable - other	51,805	45,303
Other	42,314	64,868
Allowance for doubtful accounts	(29,522)	(25,782)
Total current assets	7,853,272	7,633,602
Non-current assets		
Property, plant and equipment		
Buildings	14,662	14,662
Facilities attached to buildings	48,838	48,838
Tools, furniture and fixtures	185,683	190,814
Accumulated depreciation	(188,816)	(193,183)
Accumulated impairment loss	(9,426)	(9,426)
Total property, plant and equipment	50,941	51,705
Intangible assets		
Goodwill	10,882,880	10,715,438
Software	262,490	256,220
Content assets	296,127	579,462
Software in progress	3,742	—
Content assets in progress	164,586	32,172
Other	1,382	1,370
Total intangible assets	11,611,210	11,584,663
Investments and other assets		
Leasehold and guarantee deposits	148,955	148,702
Deferred tax assets	58,170	58,170
Other	18,560	18,194
Total investments and other assets	225,686	225,066
Total non-current assets	11,887,838	11,861,435
Total assets	19,741,111	19,495,037

(Unit: thousands of yen)

	End of Previous Consolidated Fiscal Year (As of December 31, 2020)	Consolidated First Quarter (As of March 31, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,943,123	3,029,817
Short-term loans payable	2,000,000	2,000,000
Current portion of long-term loans payable	940,000	940,000
Accounts payable - other	347,247	360,078
Accrued expenses	163,321	180,673
Income taxes payable	442,286	194,787
Accrued consumption taxes	104,818	72,120
Deferred revenue	631,739	670,433
Refund liabilities	596,896	454,344
Deposits received	28,240	55,621
Other	35,300	17,897
Total current liabilities	8,232,976	7,975,774
Non-current liabilities		
Long-term loans payable	6,245,000	6,010,000
Deferred tax liabilities	38,423	56,662
Total non-current liabilities	6,283,423	6,066,662
Total liabilities	14,516,399	14,042,436
Net assets		
Shareholders' equity		
Capital stock	1,875,831	1,877,461
Capital surplus	1,875,331	1,876,961
Retained earnings	1,841,717	2,066,356
Treasury shares	(368,169)	(368,178)
Total shareholders' equity	5,224,711	5,452,600
Total net assets	5,224,711	5,452,600
Total liabilities and net assets	19,741,111	19,495,037

(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income

Quarterly consolidated statement of income

Consolidated First Quarter

(Unit: thousands of yen)

	Consolidated First Quarter (January 1 to March 31, 2021)
Net sales	4,422,622
Cost of sales	2,765,487
Gross profit	1,657,134
Selling, general and administrative expenses	1,193,522
Operating profit	463,611
Non-operating income	
Interest income	14
Reimbursement receivables	836
Subsidy income	150
Other	296
Total non-operating income	1,296
Non-operating expenses	
Interest expenses	35,855
Borrowing expenses	2,405
Other	2
Total non-operating expenses	38,262
Ordinary profit	426,645
Profit before income taxes	426,645
Income taxes – current	183,766
Income taxes – deferred	18,239
Total income taxes	202,006
Profit	224,639
Profit attributable to owners of the parent	224,639

Quarterly consolidated statement of comprehensive income

Consolidated First Quarter

(Unit: thousands of yen)

	Consolidated First Quarter (January 1 to March 31, 2021)
Profit	224,639
Comprehensive income	224,639
(Breakdown)	
Comprehensive income related to owners of the parent	224,639

(3) Notes to Quarterly Consolidated 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 Consolidated 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 the 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.)

[Segment Information]

Consolidated First Quarter (January 1 to March 31, 2021)

Information on the amount of net sales, profit/loss for each reporting segments

(Unit: thousands of yen)

	Reporting segment			Adjusted amount (Note 1)	Total (Note 2)
	Platform Segment	Contents Segment	Total		
Net sales					
Net sales to external customers	2,848,912	1,573,710	4,422,622	–	4,422,622
Intersegment sales and transfers	–	45,475	45,475	(45,475)	–
Total	2,848,912	1,619,185	4,468,098	(45,475)	4,422,622
Segment profit	69,976	394,472	464,448	(836)	463,611

Notes: 1. Adjustments of segment profit -836 thousand yen represents company-wide expenses and elimination of intersegment transactions.

2. Segment profit is the same as operating profit on the quarterly consolidated statement of income.

(Business combinations)

Transactions under common control

Merger of consolidated subsidiaries

A resolution was passed at the meeting of the board of directors held on October 30, 2020 approving the merger with Bunkasha Holdings Co., Ltd., which is the surviving company from the merger of the Company's consolidated subsidiaries of Bunkasha Holdings Co., Ltd. and Bunkasha Group Co., Ltd., and the subsequent name change. This name change took effect on January 1, 2021.

1. Outline of transaction

(1) Name of combined companies and details of their businesses

A. Company combining

Name	Bunkasha Holdings Co., Ltd.
Details of business	Publishing

B. Business being combined

Name	Bunkasha Group Co., Ltd.
Details of business	Holding company

(2) Date of business combination

January 1, 2021

(3) Legal format of business combination

Absorption-type merger where Bunkasha Holdings Co., Ltd. is the surviving company and Bunkasha Group Co., Ltd. is the non-surviving company.

(4) Name of company after business combination

Bunkasha Group Co., Ltd.

Note: Bunkasha Holdings Co., Ltd. changed its name to the above trade name effective January 1, 2021.

(5) Other matters concerning the overview of this transaction

The Company undertook the business combination and changed the company's trade name in order to clarify that the company is a regional headquarters of affiliated companies and to increase the efficiencies of Group management as part of the management of the Company's Group.

2. Overview of accounting treatment carried out

The transaction was accounted for as a common control transaction pursuant to the Accounting Standard for Business Combinations and Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.

(Additional Information)

Accounting estimates associated with the COVID-19 pandemic

There are no significant changes in the assumptions concerning the impacts of the COVID-19 pandemic appearing in "Additional Information" of the Company's securities report for the previous fiscal year.