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Summary of Consolidated Financial Results for the First Three Quarters of Fiscal Year ending September 30, 2020 (Japanese Accounting Standards)

July 31, 2020

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 Scheduled date to submit the Quarterly Securities Report (Shihanki Houkokusho): August 12, 2020
 Scheduled date of dividend payment: -
 Supplementary documents for quarterly results: Yes
 Quarterly results briefing: Yes (for securities analysts and institutional investors(On-demand delivery))

(Figures less than one millions of yen are omitted)

1. Consolidated business results for the nine months ended June 30, 2020

(October 1, 2019– June 30, 2020)

(1) Consolidated operating results (cumulative total)

(Percentages represent year-on-year changes)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First three quarters of fiscal year ending September 30, 2020	19,452	(4.8)	2,017	(10.9)	1,961	(33.5)	1,780	17.0
First three quarters of fiscal year ended September 30, 2019	20,427	(8.0)	2,265	(8.1)	2,951	22.4	2,146	13.2

(Note) Comprehensive income
 Nine months ended June 30, 2020: 1,425 millions of yen (39.1%)
 Nine months ended June 30, 2019: 2,342 millions of yen (18.4%)

	Net income per share	Net income per share/diluted
	Yen	Yen
First three quarters of fiscal year ending September 30, 2020	32.58	32.58
First three quarters of fiscal year ended September 30, 2019	39.24	39.20

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2020	31,691	22,843	64.4
As of September 30, 2019	27,479	21,794	72.3

(Reference) Shareholders' equity: As of June 30, 2020: 20,405 millions of yen
 As of September 30, 2019: 19,886 millions of yen

2. Dividends

	Dividend per share				
	End of first quarter	End of second quarter	End of third quarter	Year end	Annual
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended September 30, 2019	—	8.00	—	8.00	16.00
Fiscal year ending September 30, 2020	—	8.00	—	—	—
Fiscal year ending September 30, 2020 (forecast)	—	—	—	8.00	16.00

(Note) Revisions to dividend forecasts published most recently: No

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1. Qualitative information on financial results for the current quarterly settlement

(1) Explanation on operating results overview of the first three quarters of fiscal year ending September 30, 2020

(Period from October 1, 2019 to June 30, 2020)

In the Group's business environment during the first nine months under review, subscriptions from smartphone-based paying subscribers remained sluggish, mainly reflecting the requirement for large mobile phone carriers to separate communication charges and mobile device prices and the reduced business hours of mobile phone retailers across Japan in an effort to prevent the spread of the novel coronavirus (COVID-19). Meanwhile, demand for digital content increased as part of the stay-at-home order issued to prevent the spread of COVID-19 infection. Sales in the business of providing original comics to digital comic distributors steadily increased thanks to the stay-at-home order.

Net sales stood at ¥19,452 million (down 4.8% year on year) as a result of a fall in the total number of paying subscribers from the same period in the previous year to 4.67 million (down 0.12 million from September 30, 2019), including the number of paying subscribers to smartphones of 3.8 million (down 0.12 million from September 30, 2019), as of June 30, 2020, despite the effect of receiving the transfer of businesses such as the musico music streaming website and sales growth in the distribution of original comics.

Gross profit decreased 7.4% year on year, to ¥14,136 million, mainly due to a fall in net sales.

Operating income came to ¥2,017 million (down 10.9% year on year) chiefly due to the decrease in gross profit, which more than offset the effect of receiving the transfer of businesses such as the musico music streaming website, and substantial reduction of advertising expenses from the same period of the previous fiscal year in particular thanks to the sluggish subscription by smartphone-based paying subscribers.

Ordinary income decreased significantly by 33.5% year on year, to ¥1,961 million, reflecting the raising effect of posting a share of profit of entities accounted for using the equity method mainly associated with a gain on bargain purchase of Shobunsha Publications, Inc. (which was renamed Shobunsha Holdings, Inc. as of April 1, 2020) in the same period of the previous year after it became an equity method company, in addition to a decline in operating income.

Profit attributable to owners of parent decreased 17.0% year on year, to ¥1,780 million, chiefly due to a fall in ordinary income despite the posting of an extraordinary income of ¥694 million resulting from gain on step acquisitions of Crowd Cast, Ltd. as a consolidated subsidiary and gain on sales of investment securities.

Consolidated business results

(Period from October 1, 2019 to June 30, 2020)

	First three quarters of the fiscal year ending September 30, 2020	First three quarters of the fiscal year ended September 30, 2019	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	19,452	20,427	(975)	(4.8)
Cost of sales	5,315	5,168	+147	+2.9
Gross profit	14,136	15,259	(1,123)	(7.4)
SG&A	12,119	12,994	(875)	(6.7)
Operating income	2,017	2,265	(247)	(10.9)
Ordinary income	1,961	2,951	(989)	(33.5)
Profit attribute to owners of parent	1,780	2,146	(365)	(17.0)

Breakdown of SG&A

(Period from October 1, 2019 to June 30, 2020)

	First three quarters of the fiscal year ending September 30, 2020	First three quarters of the fiscal year ended September 30, 2019	Change	
			Amount	Percentage
	Millions of yen	Millions of yen	Millions of yen	%
Total	12,119	12,994	(875)	(6.7)
Advertising expense	853	1,990	(1,136)	(57.1)
Personnel expenses	4,664	4,651	+12	+0.3
Commission fee	2,527	2,594	(66)	(2.6)
Subcontract expenses	1,020	739	+281	+38.1
Depreciation	1,182	1,003	+179	+17.9
Other	1,870	2,015	(145)	(7.2)

(Reference)

Business unit performance

(Period from October 1, 2019 to June 30, 2020)

	First three quarters of the fiscal year ending September 30, 2020	First three quarters of the fiscal year ended September 30, 2019	Change	
			Amount	Change ratio
	Millions of yen	Millions of yen	Millions of yen	%
Net sales	19,452	20,427	(975)	(4.8)
Content business	15,194	16,127	(933)	(5.8)
Healthcare business	2,593	2,670	(77)	(2.9)
Other business	1,664	1,629	+34	+2.1
Elimination of consolidation	-	-	-	-

(Period from October 1, 2019 to June 30, 2020)

	First three quarters of the fiscal year ending September 30, 2020	First three quarters of the fiscal year ended September 30, 2019	Change	
			Amount	Amount
	Millions of yen	Millions of yen	Millions of yen	%
Operating income	2,017	2,265	(247)	(10.9)
Content business	5,256	5,042	+214	+4.3
Healthcare business	(1,389)	(1,153)	(235)	-
Other business	(429)	(360)	(68)	-
Cost department	(1,332)	(1,241)	(90)	-
Elimination of consolidation	(88)	(20)	(67)	-

(Note) The Group's quarterly results under review have been compiled as those of a single segment of the content distribution business.

However, it plans to indicate them as those of multiple segments in the future. In doing so, for reference, the Group has decided to disclose operating results by business unit to ensure that realities are understood more clearly with respect to the Group's net sales and profit, starting from this quarter. Specifically, net sales and profit are shown for the three business units (content business, healthcare business and other businesses) classified according to the difference in the services provided.

(2) Explanation on financial position

Assets, liabilities and net assets

At the end of the first three quarters under review, total assets increased ¥4,212 million from the end of September 2019, to ¥31,691 million.

Current assets increased ¥748 million, mainly reflecting an increase in cash and deposits, and notes and accounts receivable-trade. Non-current assets increased ¥3,463 million, due to rises in goodwill and customer-related assets resulting from the accepted transfer of businesses, such as the musico music streaming website.

Current liabilities increased ¥106 million, primarily reflecting an increase in accounts payable-other and the current portion of long-term borrowings in spite of a decrease in income taxes payable. Non-current liabilities increased ¥3,056 million, chiefly due to a rise in long-term loans payable.

Net assets increased ¥1,048 million attributable to the growth in non-controlling interests and ¥1,780 million posted as profit attributable to owners of parent, which offset cash dividends paid.

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of June 30, 2020	31,691	22,843	64.4
As of September 30, 2019	27,479	21,794	72.3

(3) Explanation of future forecast information including consolidated forecast

The Company will focus on raising sales in the healthcare business (new) and work to grow the original comic distribution business and average revenue per user (ARPU) in line with the outlook that the total number of paying subscribers will increase.

The healthcare business (new), in which the Company is engaged with a medium-term perspective, has strong growth potential in the long term and may move toward a stock type business with the provision of long-term support according to customers' life stages. Accordingly, the Company is committed to implementing a variety of measures to achieve sales growth.

The appetite for introducing online medical examinations and online medication advices has been rising amid the increase in COVID-19 infections and the appetite for introducing cloud drug record service has been growing for a long time due to the Revision of Medical Fee. Because these factors contribute to sales growth of the healthcare business (new), the Company plans to actively promote sales in cooperation with its partner, Medipal Holdings Corporation.

Earnings forecast for the fiscal year ending September 30, 2020

(Period from October 1, 2019 to September 30, 2020)

Consolidated profit and loss		
Net sales	26,000 millions of yen	(a decrease of 4.1% y-o-y)
Operating income	2,500 millions of yen	(a decrease of 15.5% y-o-y)
Ordinary income	2,400 millions of yen	(a decrease of 23.4% y-o-y)
Profit attributable to owners of parent	1,700 millions of yen	(an increase of 12.7% y-o-y)

2. Quarterly consolidated financial statements and important notes

(1) Quarterly consolidated balance sheet

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2019)	Current fiscal year (As of June 30, 2020)
Assets		
Current assets		
Cash and deposits	12,421,560	12,724,563
Notes and accounts receivable-trade	4,667,149	4,909,740
Other	1,427,990	1,632,571
Allowance for doubtful accounts	(47,613)	(48,885)
Total current assets	18,469,087	19,217,989
Non-current assets		
Property plant and equipment	258,250	213,731
Intangible assets		
Software	1,870,772	2,124,460
Goodwill	153,609	1,331,929
Customer-related assets	—	1,860,300
Other	37,736	76,262
Total intangible assets	2,062,119	5,392,952
Investments and other assets		
Investment securities	4,977,219	4,856,624
Lease and guarantee deposits	511,987	494,777
Deferred tax assets	1,133,820	1,458,278
Other	92,734	82,984
Allowance for doubtful accounts	(25,824)	(25,824)
Total investment and other assets	6,689,936	6,866,839
Total non-current assets	9,010,306	12,473,523
Total assets	27,479,393	31,691,512

(Unit: thousands of yen)

	Previous fiscal year (As of September 30, 2019)	Current fiscal year (As of June 30, 2020)
Liabilities		
Current liabilities		
Accounts payable-trade	1,308,159	1,178,838
Short-term loans payable	2,000	—
Current portion of long-term loans payable	14,280	451,780
Income taxes payable	1,150,276	1,320,130
Accounts payable-other	730,600	359,548
Provision for bonus	—	192,371
Provision for point usage	143,377	124,233
Other	966,371	794,508
Total current liabilities	4,315,064	4,421,410
Non-current liabilities		
Long-term loans payable	52,100	3,024,515
Net defined benefit liability	1,306,642	1,395,157
Negative goodwill	4,069	—
Other	7,188	7,298
Total non-current liabilities	1,370,000	4,426,970
Total liabilities	5,685,065	8,848,381
Net assets		
Shareholders' equity		
Capital stock	5,135,680	5,135,680
Capital surplus	6,706,846	6,553,280
Retained earning	10,989,009	11,978,195
Treasury shares	(3,233,136)	(3,278,157)
Total shareholders' equity	19,598,399	20,388,998
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	271,565	18,690
Foreign currency translation adjustment	(8,332)	(12,499)
Remeasurements of defined benefit plans	5,335	10,047
Total accumulated other comprehensive income	268,568	16,239
Subscription rights to shares	343,187	375,673
Non-controlling interest	1,584,173	2,062,220
Total net assets	21,794,328	22,843,131
Total liabilities and net assets	27,479,393	31,691,512

(2) Quarterly consolidated statements of income and quarterly consolidated statement of comprehensive income

Quarterly consolidated statement of income

For the first three quarters

	(Unit: thousands of yen)	
	For the first three quarters of the previous fiscal year (from October 1, 2018 to June 30, 2019)	For the first three quarters of the current fiscal year (from October 1, 2019 to June 30, 2020)
Net sales	20,427,889	19,452,310
Cost of sales	5,168,020	5,315,484
Gross profit	15,259,869	14,136,825
Selling, general and administrative expenses	12,994,840	12,119,241
Operating income	2,265,028	2,017,583
Non-operating income		
Interest income	121	117
Dividend income	59,673	10,130
Amortization of negative goodwill	6,838	4,069
Share of profit of entities accounted for using equity method	632,449	—
Other	22,228	19,786
Total non-operating income	721,310	34,103
Non-operating expenses		
Interest expenses	146	2,215
Share of loss of entities accounted for using equity method	—	66,909
Foreign exchange losses	18,624	13,630
Other	16,456	7,654
Total non-operating expenses	35,227	90,409
Ordinary income	2,951,111	1,961,278
Extraordinary income		
Gain on step acquisitions	—	272,326
Gain on sales of investment securities	267,143	422,577
Gain on change in equity	10,495	—
Total extraordinary income	277,638	694,904
Extraordinary losses		
Amortization of goodwill	74,569	—
Impairment loss	96,993	25,302
Loss on retirement of non-current assets	13,473	56,659
Loss on valuation of investment securities	59,019	1,631
Total extraordinary losses	244,055	83,593
Profit before income taxes	2,984,693	2,572,588
Income taxes - current	789,596	7,66,638
Income taxes - deferred	100,161	127,907
Total income taxes	889,757	894,546
Profit	2,094,935	1,678,042
Loss attributable to non-controlling interests	(51,297)	(102,537)
Profit attributable to owners of parent	2,146,232	1,780,579

Quarterly consolidated statement of comprehensive income
For the first three quarters

(Unit: thousands of yen)

	For the first three quarters of the previous fiscal year (from October 1, 2018 to June 30, 2019)	For the first three quarters of the current fiscal year (from October 1, 2019 to June 30, 2020)
Profit	2,094,935	1,678,042
Other comprehensive income		
Valuation difference on available-for-sale securities	262,523	(280,633)
Remeasurements of defined benefit plans, net of tax	(13,271)	(4,198)
Remeasurements of defined benefit plans, before tax	(31)	4,712
Share of other comprehensive income of entities accounted for using equity method	(1,929)	27,790
Total other comprehensive income	247,291	(252,328)
Comprehensive income	2,342,227	1,425,713
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,394,297	1,528,251
Comprehensive income attributable to non-controlling interests	(52,070)	(102,537)

(3) Notes concerning quarterly consolidated financial statements
(Notes concerning going concern assumption)
Not applicable.

(Significant subsequent events)
Not applicable.