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Summary of Consolidated Financial Results for the Six Months Ended August 31, 2021

(Based on Japanese GAAP)

October 13, 2021

Company name: MEDIA DO Co., Ltd.
Stock exchange listing: Tokyo
Stock code: 3678 (URL: https://mediado.jp/english/)
Representative: President and CEO Yasushi Fujita
Inquiries: Director and CAO Yoshiyuki Suzuki (Tel: +81-3-6212-5113)

Scheduled date of filing quarterly securities report: October 13, 2021
Scheduled date for commencing dividend payment: —
Preparation of supplementary materials on quarterly financial results: Yes
Quarterly financial results briefing for institutional investors and analysts: Yes

(Amounts less than one million yen are rounded down.)

1. Consolidated Financial Results for the Six Months Ended August 31, 2021 (June 1, 2021 to August 31, 2021)

(1) Consolidated operating results

(Percentages indicate year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended August 31, 2021	55,233	32.3	1,688	10.3	1,683	6.3	836	-8.1
Six months ended August 31, 2020	41,734	30.9	1,529	64.8	1,583	85.8	910	88.0

(Note) Comprehensive income: Six months ended August 31, 2021: ¥629 million (-33.5%)
Six months ended August 31, 2020: ¥946 million (156.2%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended August 31, 2021	53.12	53.07
Six months ended August 31, 2020	63.97	62.32

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of August 31, 2021	52,069	15,951	30.6
As of February 28, 2021	43,187	12,169	28.0

(Reference) Shareholders' equity: As of August 31, 2021 ¥15,920 million As of February 28, 2021 ¥12,104 million

2. Dividends

	Dividends per share (Yen)				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
FY2020	—	0.00	—	21.00	21.00
FY2021	—	0.00			
FY2021 (Forecast)			—	21.00	21.00

(Note) Revisions to the most recently announced dividend forecast: Yes

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3. Consolidated Earnings Forecasts for Fiscal Year Ending February 28, 2022 (March 1, 2021 to February 28, 2022)

(Percentage figures are changes from the corresponding period of the previous fiscal year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	100,000	19.7	3,000	12.6	2,820	3.7	1,600	5.3	100.90

(Note) Revisions to forecast of financial results in this quarter: No

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Qualitative Information Regarding Financial Results

(1) Analysis of operating results

The mission of the MEDIA DO Group is “unleashing a virtuous cycle of literary creation,” which inspires the Group to do its utmost to distribute written works as widely as possible, while ensuring that they are used under fair conditions and that the profits from these works are appropriately returned to their creators. The Group’s vision is “More Content for More People!” Based on this mission and vision, we are actively expanding the scope of our business and pursuing improvements in corporate value in order to contribute to the development of culture and enrichment of society in Japan.

Article 1 under Section 1 General Rules of Chapter I General Provisions of the Copyright Act of Japan refers to how authors’ rights contribute to cultural development and speaks of ensuring protection for the rights of authors while according attention to the fair exploitation of cultural products. These ideas serve as our guiding principle as we develop our business based on our mission of “unleashing a virtuous cycle of literary creation” in which countless digitized written works are delivered to as many people as possible and the profits generated through the use of these works are appropriately returned to their creators, thereby stimulating the creation of new written works.

The six months ended August 31, 2021, saw a continuation of the growth trend in leisure demand, which was driven by the extension of the state of emergency issued in response to the COVID-19 pandemic as well as by increases in free time and changes in consumer lifestyles resulting from the ensuing government requests to engage in teleworking and refrain from going outside. In addition, the eBook market continued to grow as a result of the ongoing shift from paper books to eBooks, which has become irreversible trend. In the MEDIA DO Group’s core eBook distribution business, we approached the continuation of promotional campaigns by certain eBook retailers as an opportunity to expand our share of distribution, and our strategic focus on expanding the top line resulted in sales growth. In addition, we were able to move forward with the laying of foundations for the future expansion of the business, such as developing digital content using non-fungible tokens (NFTs) and other blockchain technologies, and investing in newly acquired subsidiaries.

Furthermore, in the six months ended August 31, 2021, the Company recorded an extraordinary loss (impairment loss) of ¥394 million in relation to consolidated subsidiary Nagisa, Inc. This was due to changes in the external environment in the form of compliance with internet advertising regulations as the operator of a digital platform. Taking these into account, we scrutinized progress toward the initial earnings forecast in the manga app operations that are the core business of the subsidiary as well as considering the recoverability of goodwill, and as a result applied impairment loss accounting.

In the six months ended August 31, 2021, net sales amounted to ¥55,233 million, up 32.3% year on year; operating profit totaled ¥1,688 million, up 10.3%; ordinary profit was ¥1,683 million, up 6.3%; and profit attributable to owners of parent came to ¥836 million, down 8.1%.

(2) Segment information

eBook Distribution

In the eBook distribution segment, MEDIA DO is developing its operations based on two policies: “stimulate the growth of eBook markets,” which entails supporting the growth of the eBook market, and “invent future eBook markets,” which will involve utilizing blockchain technologies to create new markets.

Initiatives to “stimulate the growth of eBook markets” included the ongoing provision of distribution and eBook transmission solutions to eBook distributors such as LINE MANGA, Amazon Kindle, and Comic Cmoa. The MEDIA DO Group is contributing to the development of the publishing industry as the largest eBook wholesaler in Japan, with business relationships with more than 2,200 publishers and 150 eBook distributors, a content library of over 2 million eBooks, and a track record of helping conduct more than 10,000 campaigns together with publishers and distributors (as of August 31, 2021).

Focusing on society both during and after the pandemic, we will address the challenge of striking a balance between resolving societal issues and achieving sustainable growth by playing our role in providing infrastructure to support eBook distribution to match “the new normal,” and confronting head-on the requests and problems of all stakeholders associated with digital content, such as creators, publishers, eBook retailers, and users.

In terms of recent developments, the Group has been accelerating collaborative efforts to create a new publishing culture and build a distribution ecosystem by entering into a capital/operational alliance with TOHAN CORPORATION. In addition, as a way of making a contribution to the digital transformation (DX) of the publishing industry, we continued to focus on the PUBNAVI eBook sales royalty management system being developed to support enterprise resource planning for sales and royalty management not only for eBooks but also for paper book publishing.

In terms of inventing future eBook markets, the Group aims to provide secure and convenient infrastructure that combines eBooks and paper books’ respective advantages to further expand the eBook market. Toward this end, it has been researching and developing a new blockchain-enabled distribution platform to realize its Digital Content Asset (DCA) model as a new digital content distribution model and asset model. Our new service for awarding readers who buy books at distributors with digital benefits via NFTs is expected to go live in October 2021. In parallel to these efforts, we are working with Tohan Corporation to test new models whereby eBooks and digital content can be sold and purchased at physical book retailers in the same way as paper books.

As a result, net sales in the eBook distribution segment came to ¥52,881million, up 28.3% year on year, and segment income was ¥1,530million, up 6.0%.

Other

In the Other segment, the Company continued to invest for earnings improvements and growth.

We are promoting the expansion of the "flier" business book summary service as a core growth driver for the B2B SaaS business, seeking to increase the number of subscribers through the use of television commercials, promotions, and measures to improve paths to purchasing.

In August 2021, ARTRA ENTERTAINMENT Inc., which provides eComic coloring and comic production support services, completed the relocation and expansion of its office, and is working to respond to rising demand for new digital content, such as vertical scrolling and motion manga.

In addition, the Firebrand Group (Quality Solutions, Inc., NetGalley, LLC, and its subsidiaries) and NIHONBUNGEISHA Co., Ltd., which became part of the Group as consolidated subsidiaries, began to contribute to earnings during the six months ended August 31, 2021.

In the case of both businesses, we are promoting their expansion to enable them to respond to trends that have changed during and after the COVID-19 pandemic, and to contribute to the further development of the publishing industry.

As a result, net sales in the Other segment totaled ¥2,352 million, up 345.1% year on year, and the segment loss amounted to ¥23 million, compared with ¥97 million in the previous equivalent period.

(3) Analysis of financial position

On August 31, 2021, total assets stood at ¥52,069 million, an increase of ¥8,881 million from the previous fiscal year-end. Factors behind this increase included higher working capital attributable to sales growth and a rise in investment securities due to the acquisition of shares of Tohan in relation to the capital and business alliance with the company. Another factor was the inclusion of assets related to companies newly introduced into the scope of consolidation, namely Quality Solutions, NetGalley, and their subsidiaries (the Firebrand Group) and Nihonbungeisha.

Total liabilities on August 31, 2021, amounted to ¥36,117 million, up ¥5,099 million from the previous fiscal year-end, due to an increase in accounts payable – trade stemming from higher costs of procurement attributable to sales growth.

Total net assets stood at ¥15,951 million on August 31, 2021, an increase of ¥3,782 million from the previous fiscal year-end, due to higher retained earnings from the recording of ¥767 million in profit attributable to owners of parent, and increases in capital stock and capital surplus following the third-party allocation of shares from Tohan, despite the positing of ¥322 million in dividends from retained earnings.

(4) Cash flows

Cash and cash equivalents as of August 31, 2021 ("cash") were ¥11,948 million.

The status of cash flows during the six months ended August 31, 2021, and the main contributory factors, were as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥2,894 million (up 17.4% year on year).

The main cash inflows were profit before income taxes of ¥1,395 million, depreciation of ¥206 million, amortization of goodwill of ¥328 million, an increase in trade payables of ¥3,798 million, and a decrease in consumption taxes refund receivable of ¥382 million. Main cash outflows included an increase in trade receivables of ¥2,524 million, and income taxes paid of ¥622 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥5,905 million, compared to net cash used of ¥231 million in the same period of the previous fiscal year.

The main factors were purchase of property, plant and equipment of ¥293 million, purchase of investment securities of ¥2,970 million, and purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥2,627 million.

(Cash flows from financing activities)

Net cash provided by financing activities was ¥2,462 million, compared to net cash used in financing activities of ¥866 million in the same period of the previous fiscal year.

The main cash inflows were proceeds from issuance of shares of ¥2,987 million, and proceeds from share issuance to non-controlling interests of ¥400 million. Main cash outflows included repayments of long-term borrowings of ¥592 million, and dividends paid of ¥322 million.

(5) Forecast for the fiscal year ending February 28, 2022

In the six months ended August 31, 2021, impairment loss accounting was applied in relation to goodwill at subsidiary Nagisa.

However, the eBook market in which the Group operates remains in an expansionary trend, driven by the development and rising awareness of the irreversible shift from paper books to eBooks, and by factors such as strengthened campaign measures being taken by eBook retailers. Moving forward, the MEDIA DO Group will continue to contribute to increased eBook distribution as the operator of a publishing platform promoting the growth of the publishing market while also implementing various measures to achieve its full-year targets and support the advancement of DX in the publishing industry by heightening the value of content and using new technologies to support the production and use of content. There has been no change to the consolidated earnings forecast for the fiscal year ending February 28, 2022, released on April 13, 2021.

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Consolidated Financial Statements

(1) Consolidated balance sheets

(Millions of yen)

	As of February 28, 2021	As of August 31, 2021
Assets		
Current assets		
Cash and deposits	12,703	11,948
Notes and accounts receivable - trade	19,921	24,300
Other	1,278	1,182
special account for claoms on returned goods unsold	—	(69)
Allowance for doubtful accounts	(0)	(1)
Total current assets	33,902	37,359
Non-current assets		
Property, plant and equipment	303	379
Intangible assets		
Goodwill	5,713	6,632
Software	357	428
Software in progress	199	309
Other	59	831
Total intangible assets	6,329	8,201
Investments and other assets		
Investment securities	2,761	6,236
Deferred tax assets	96	110
Guarantee deposits	375	404
Other	33	33
Allowance for doubtful accounts	(615)	(656)
Total investments and other assets	2,651	6,128
Total non-current assets	9,285	14,710
Total assets	43,187	52,069

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(Millions of yen)

	As of February 28, 2021	As of August 31, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	22,507	26,825
Current portion of long-term borrowings	1,181	1,113
Income taxes payable	686	666
Provision for bonuses	14	44
Provision for point card certificates	84	67
Provision for sales returns	4	215
Other	945	1,432
Total current liabilities	25,425	30,364
Non-current liabilities		
Long-term borrowings	5,471	4,948
Deferred tax liabilities	2	82
Provision for loss on business of subsidiaries and associates	40	40
Retirement benefit liability	―	559
Other	79	123
Total non-current liabilities	5,593	5,752
Total liabilities	31,018	36,117
Net assets		
Shareholders' equity		
Share capital	4,415	5,908
Capital surplus	5,489	7,197
Retained earnings	2,000	2,514
Treasury shares	(1)	(1)
Total shareholders' equity	11,903	15,619
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	198	186
Foreign currency translation adjustment	3	114
Total accumulated other comprehensive income	201	301
Share acquisition rights	11	0
Non-controlling interests	53	30
Total net assets	12,169	15,951
Total liabilities and net assets	43,187	52,069

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(2) Consolidated statements of income and comprehensive income

(Millions of yen)

Consolidated statements of income	Six months ended August 31, 2020	Six months ended August 31, 2021
Net sales	41,734	55,233
Cost of sales	37,805	50,294
Gross profit	3,929	4,939
Selling, general and administrative expenses	2,399	3,251
Operating profit	1,529	1,688
Non-operating income		
Interest and dividend income	3	8
Subsidy income	6	32
Share of profit of entities accounted for using equity method	20	－
Gain on investments in investment partnerships	8	－
Reversal of allowance for doubtful accounts	29	49
Other	9	7
Total non-operating income	78	97
Non-operating expenses		
Interest expenses	19	16
Share issuance costs	－	15
Loss on investments in investment partnerships	－	8
Share of loss of entities accounted for using equity method	－	6
Donations	－	50
Other	5	4
Total non-operating expenses	24	102
Ordinary profit	1,583	1,683
Extraordinary income		
Gain on sales of non-current assets	－	2
Gain on reversal of share acquisition rights	0	－
Gain on change in equity	－	208
Total extraordinary income	0	211
Extraordinary losses		
Loss on retirement of non-current assets	0	20
Impairment loss	－	394
Loss on valuation of investment securities	27	－
Provision of allowance for doubtful accounts	56	83
Provision for loss on business of subsidiaries and associates	44	－
Total extraordinary losses	128	498
Profit before income taxes	1,455	1,395
Income taxes	546	607
Profit	908	788
Loss attributable to non-controlling interests	(1)	(48)
Profit attributable to owners of parent	910	836

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(Millions of yen)

Consolidated statements of Comprehensive income

	Six months ended August 31, 2020	Six months ended August 31, 2021
Profit	908	788
Other comprehensive income		
Valuation difference on available-for-sale securities	37	(267)
Foreign currency translation adjustment	0	108
Total other comprehensive income	38	(158)
Comprehensive income	946	629
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	948	677
Comprehensive income attributable to non-controlling interests	(1)	(48)

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(3) Consolidated statements of cash flows

(Millions of yen)

	Six months ended August 31, 2020	Six months ended August 31, 2021
Cash flows from operating activities		
Profit before income taxes	1,455	1,395
Depreciation	130	206
Impairment loss	―	394
Amortization of goodwill	233	328
Increase (decrease) in allowance for doubtful accounts	27	34
Increase (decrease) in provision for bonuses	(185)	4
Increase (decrease) in provision for point card certificates	5	(17)
Increase (decrease) in provision for loss on business of subsidiaries and associates	44	―
Increase (decrease) in retirement benefit liability	―	17
Interest and dividend income	(3)	(8)
Subsidy income	(6)	(32)
Interest expenses	19	16
Loss (gain) on valuation of investment securities	27	―
Loss (gain) on investments in investment partnerships	(8)	8
Share of loss (profit) of entities accounted for using equity method	(20)	6
Loss (gain) on change in equity	―	(208)
Decrease (increase) in trade receivables	(3,204)	(2,524)
Increase (decrease) in advances received	32	34
Decrease (increase) in inventories	(14)	(12)
Decrease (increase) in prepaid expenses	(50)	69
Increase (decrease) in trade payables	3,917	3,798
Increase (decrease) in accounts payable - other	49	(107)
Increase (decrease) in deposits received	359	(108)
Increase (decrease) in accrued consumption taxes	(63)	(66)
Decrease (increase) in consumption taxes refund receivable	183	382
Other, net	13	(120)
Subtotal	2,940	3,492
Interest and dividends received	7	8
Subsidies received	6	32
Interest paid	(18)	(16)
Income taxes paid	(471)	(622)
Net cash provided by (used in) operating activities	2,464	2,894
Cash flows from investing activities		
Purchase of property, plant and equipment	(6)	(17)
Purchase of intangible assets	(165)	(293)
Purchase of investment securities	(31)	(2,970)

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Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(2,627)
Payments of guarantee deposits	(0)	(4)
Proceeds from refund of guarantee deposits	1	5
Other, net	(29)	1
Net cash provided by (used in) investing activities	(231)	(5,905)
Cash flows from financing activities		
Repayments of long-term borrowings	(1,062)	(592)
Proceeds from issuance of shares	—	2,987
Proceeds from issuance of shares resulting from exercise of share acquisition rights	380	—
Expenditure for acquisition of own stock acquisition rights	—	(10)
Proceeds from share issuance to non-controlling shareholders	—	400
Dividends paid	(184)	(322)
Purchase of treasury shares	(0)	(0)
Net cash provided by (used in) financing activities	(866)	2,462
Effect of exchange rate change on cash and cash equivalents	(1)	111
Net increase (decrease) in cash and cash equivalents	1,365	(436)
Cash and cash equivalents at beginning of period	8,089	12,703
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	—	(318)
Cash and cash equivalents at end of period	9,454	11,948