

August 13, 2021

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

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Stock code:	3981	URL: https://www.beaglee.com/
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Scheduled date of quarterly report submission:	August 13, 2021
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. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2021 (January 1 to June 30, 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	%
Second quarter of the fiscal year ending December 31, 2021	9,249	–	723	–	651	–	272	–
Second quarter of the fiscal year ended December 31, 2020	–	–	–	–	–	–	–	–

For reference: Comprehensive income

Second quarter of the fiscal year ending December 31, 2021:	272 million yen (- %)
Second quarter of the fiscal year ended December 31, 2020:	–million yen (- %)

	Net income per share	Net income per share fully diluted
	Yen	Yen
Second quarter of the fiscal year ending December 31, 2021	45.95	45.36
Second quarter of the fiscal year ended December 31, 2020	–	–

Note: Figures for the second 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	%
June 30, 2021	19,675	5,516	28.0
December 31, 2020	19,741	5,224	26.5

For reference: Shareholders' equity

As of June 30, 2021	5,516 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	–	0.00			
Fiscal year ending December 31, 2021 (Forecast)			–	–	–

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

3. Consolidated Earnings Forecast for the Fiscal Year Ending December 31, 2021 (January 1 to December 31, 2021)

(Percentages represent year-on-year changes)

	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
Full year	19,682	–	1,350	–	1,210	–	524	–	84.87

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

Note: Year-on-year changes have been omitted because the Company began preparing consolidated financial statements from the end of the fiscal year ended December 31, 2020.

* Notice

(1) Changes in important subsidiaries during the consolidated cumulative second 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 11 of the attached materials “(4) 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)

June 30, 2021	6,200,850 shares	December 31, 2020	6,175,661 shares
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(b) Number of treasury shares at end of period

June 30, 2021	243,228 shares	December 31, 2020	246,723 shares
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(c) Average number of shares during the period (cumulative from the beginning of the fiscal year)

June 30, 2021	5,936,314 shares	June 30, 2020	5,904,921 shares
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* 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 5 of the Supplemental Materials “(3) Explanation of Forward-Looking Information including Consolidated Earnings Forecast.”

○ Supplemental Materials

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1. Qualitative Information on the Quarterly Financial Results

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

Furthermore, the Group has not carried out comparison analysis with the previous cumulative second quarter because it began preparing consolidated financial statements from the end of the previous fiscal year.

(1) Explanation of Operating Results

During the consolidated cumulative second quarter under review, Japan's economy continued to experience a recovery amid countermeasures to stop the spread of COVID-19 including the rollout of vaccinations from April 2021, but uncertainty remains concerning the future.

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, although damages to the e-book market from pirated comic websites are growing, the Group believes that it is only minimally impacted. 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, as well as reinforcing editing functions aimed at expansion of the product lineup through serialized works and first to distribute titles and the creation of hits, striving to develop contents. Also, the Group continued to deepen collaboration with Bunkasha Group Co., Ltd. to maximize synergies.

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.

In this management environment, Manga Kingdom recorded its highest ever net sales following a similar result in the first quarter.

As a result, consolidated net sales for the cumulative second quarter under review totaled 9,249,577 thousand yen, consolidated operating profit came in at 723,810 thousand yen, consolidated ordinary profit was 651,094 thousand yen and profit attributable to owners of the parent totaled 272,791 thousand yen.

The management results for each segment are presented below.

(Platform Segment)

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, which included holding a number of campaigns to commemorate its 15th anniversary in April 2021. Additionally, the Group is actively deploying a broad range of advertising activities to drive traffic to the site and promote greater interest among users, such as TV commercials and tie-ups with

television programs. In this manner, Manga Kingdom promoted various events both on and off the site to promote its “No. 1 Value” (the Group received 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) as a comic streaming service. Furthermore, “Koi no Rokudou, Ai no Tsuji,” a work created jointly between the original author and the winner of auditions held on THE TOKIWA, a documentary and variety program to find up-and-coming manga artist talent broadcast by the Nippon Television Network Corporation, and works created during a television program called “Manga Michi” on TV Asahi, were uploaded to Manga Kingdom in June 2021. 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 1.5 billion cumulative download mark in May 2021 and breaking through the 5 million mark for the number of registered members in June 2021.

In the novel posting service called “novelba,” in addition to finalizing plans for publication of an e-novel with Takeshobo Co., Ltd., a love novel contest that will comicalize winning works online via Manga Kingdom and Bunkasha Co., Ltd. was held jointly with Publishing Link, Ltd. in April 2021. In this manner, the Group established a regular program to support the professional debut of posters in an effort to promote differentiation of services and support author debuts. Furthermore, the Group commenced sales of official merchandise from the Novelba Novels original label on a direct marketing website called FUNDIY STORE in the same month. In May 2021, a comicalized version of popular posted novel “Youtoutsukai ga CHEAT SKILL wo motte ISEKAI HOUROU ~Umaremotta CHEAT ha SAIKYOU~” was uploaded to Manga Kingdom through a tie-up with MAG Garden Corp. In this way, the Group worked to promote synergies between services.

In terms of IP production, the Group launched the smartphone game of popular animation “Mushoku Tensei: Isekai Ittara Honki Dasu,” called “Mushoku Tensei: Game Ni Nattemo Honki Dasu” in March 2021. Afterwards, in-app events were held and in-game contents were expanded through the implementation of new functions. At the same time, the Group also made efforts to generate synergies with other services, such as collaborative events with Manga Kingdom and the launch of merchandise sales on FUNDIY STORE.

As a result, segment net sales totaled 6,042,222 thousand yen and operating loss came in at 42,855 thousand yen.

(Contents Segment)

In the Contents Segment, the Group continued to see strong sales as large scale measures aimed at e-bookstores during the long holiday were effective and new label “&.Emo comics” of manga genre geared toward women launched in April 2021 got off to a solid start.

In terms of printed products, 20-second edition comic titles (2.5 times the previous second quarter) were printed and in regular magazines the Group maintained strong sales mainly in the women’s fashion and car genres.

In the light novel business, newly launched as a focus field, the Group commenced editing and production activities in an effort to strengthen the Group’s presence in the genre and steady progress was also made with the production of comics for Manga Kingdom.

As a result, segment net sales totaled 3,291,830 thousand yen and operating profit came in at 767,075 thousand yen.

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

i. Financial Position

(Assets)

Total assets at the end of the second quarter amounted to 19,675,711 thousand yen, down 65,399 thousand yen compared to the previous fiscal year end.

Current assets totaled 8,051,991 thousand yen, up 198,718 thousand yen over the previous fiscal year end. This is mainly attributable to a decrease in notes and accounts receivable - trade of 123,369 thousand yen, while cash and deposits increased by 336,465 thousand yen.

Non-current assets totaled 11,623,719 thousand yen, down 264,118 thousand yen compared to the previous fiscal year end. This is mainly attributable to a decrease of intangible assets of 279,145 thousand yen.

(Liabilities)

Total liabilities at the end of the second quarter amounted to 14,159,526 thousand yen, down 356,872 thousand yen compared to the previous fiscal year end.

Current liabilities totaled 8,312,351 thousand yen, up 79,374 thousand yen over the previous fiscal year end. This is mainly attributable to decreases in notes and accounts payable - trade of 72,935 thousand yen, income taxes payable of 93,914 thousand yen and refund liabilities of 122,512 thousand yen, which was offset by increases in accounts payable - other of 101,033 thousand yen and accrued expenses of 267,652 thousand yen.

Non-current liabilities totaled 5,847,175 thousand yen, down 436,247 thousand yen compared to the previous fiscal year end. This is attributable to a decrease in long-term loans payable of 470,000 thousand yen.

(Net assets)

Net assets at the end of the second quarter totaled 5,516,184 thousand yen, up 291,472 thousand yen compared to the previous fiscal year end. This is mainly attributable to an increase in retained earnings of 272,513 thousand yen.

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

ii. Cash Flow Position

The balance of cash and cash equivalents ("cash") was 3,566,801 thousand yen at the end of the second quarter consolidated cumulative period of the year under review, up 336,465 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 consolidated cumulative period of the year under review saw the following items mainly added to profit before income taxes of 634,270 thousand yen: depreciation of 165,064 thousand yen, amortization of goodwill of 334,885 thousand yen, a decrease in notes and accounts receivable - trade of 123,369 thousand yen, and an increase in accrued expenses of 266,370 thousand yen. In contrast, the main items subtracted include a decrease in refund liabilities of 122,512 thousand yen and income taxes paid of 399,142 thousand yen.

As a result, net cash provided by operating activities amounted to 1,048,699 thousand yen.

(Cash flows from investing activities)

The main factor for a decrease in cash flows from investing activities in the second quarter consolidated cumulative period of the year under review was a 241,975 thousand yen expenditure for the purchase of intangible assets.

As a result, net cash used in investing activities amounted to 252,271 thousand yen.

(Cash flows from financing activities)

The main factor for a decrease in cash flows from financing activities in the second quarter consolidated cumulative period of the fiscal year under review was a 470,000 thousand yen expenditure for repayments of long-term loans payable.

As a result, net cash used in financing activities amounted to 459,963 thousand yen.

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

There are no changes to the consolidated earnings forecast that was announced on May 14, 2021 with the Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2021.

In the Platform Segment, the Group will aim to increase sales through continued proactive advertising activities on mainstay service Manga Kingdom. Furthermore, the Group will enhance services to promote Manga Kingdom's mainstay point of appealing a sense of value and increase contents by creating original works and acquiring the first to distribute exclusive titles, both of which will lead to the Group's medium- to long-term growth.

In the Contents Segment, the Group will work to create hits while securing the number of works mainly in the manga genre geared toward women. The Group will also seek to achieve sales growth of digital contents, which is a growth field, by stepping up collaboration with e-bookstores. Also, the Group will actively work on growing the light novel business, a focus field, and creating synergies within the Group.

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 Second Quarter (As of June 30, 2021)
Assets		
Current assets		
Cash and deposits	3,230,336	3,566,801
Notes and accounts receivable - trade	4,433,602	4,310,233
Merchandise and finished goods	76,524	63,028
Supplies	1,265	1,131
Advance payments - trade	10,438	430
Prepaid expenses	36,506	25,749
Accounts receivable - other	51,805	47,063
Other	42,314	65,364
Allowance for doubtful accounts	(29,522)	(27,812)
Total current assets	7,853,272	8,051,991
Non-current assets		
Property, plant and equipment		
Buildings	14,662	14,662
Facilities attached to buildings	48,838	62,247
Tools, furniture and fixtures	185,683	194,405
Accumulated depreciation	(188,816)	(197,664)
Accumulated impairment loss	(9,426)	(9,426)
Total property, plant and equipment	50,941	64,224
Intangible assets		
Goodwill	10,882,880	10,547,995
Software	262,490	242,783
Content assets	296,127	537,441
Software in progress	3,742	—
Content assets in progress	164,586	2,487
Other	1,382	1,357
Total intangible assets	11,611,210	11,332,065
Investments and other assets		
Leasehold and guarantee deposits	148,955	148,449
Deferred tax assets	58,170	58,170
Other	18,560	20,810
Total investments and other assets	225,686	227,430
Total non-current assets	11,887,838	11,623,719
Total assets	19,741,111	19,675,711

(Unit: thousands of yen)

	End of Previous Consolidated Fiscal Year (As of December 31, 2020)	Consolidated Second Quarter (As of June 30, 2021)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	2,943,123	2,870,188
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	448,280
Accrued expenses	163,321	430,973
Income taxes payable	442,286	348,372
Accrued consumption taxes	104,818	75,755
Deferred revenue	631,739	676,475
Refund liabilities	596,896	474,384
Deposits received	28,240	28,192
Other	35,300	19,727
Total current liabilities	8,232,976	8,312,351
Non-current liabilities		
Long-term loans payable	6,245,000	5,775,000
Deferred tax liabilities	38,423	72,175
Total non-current liabilities	6,283,423	5,847,175
Total liabilities	14,516,399	14,159,526
Net assets		
Shareholders' equity		
Capital stock	1,875,831	1,882,704
Capital surplus	1,875,331	1,882,204
Retained earnings	1,841,717	2,114,230
Treasury shares	(368,169)	(362,955)
Total shareholders' equity	5,224,711	5,516,184
Total net assets	5,224,711	5,516,184
Total liabilities and net assets	19,741,111	19,675,711

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

Quarterly consolidated statement of income

Consolidated Cumulative Second Quarter

(Unit: thousands of yen)

	Consolidated Cumulative Second Quarter (January 1 to June 30, 2021)
Net sales	9,249,577
Cost of sales	5,909,233
Gross profit	3,340,344
Selling, general and administrative expenses	2,616,533
Operating profit	723,810
Non-operating income	
Interest income	14
Dividend income	87
Reimbursement receivables	1,672
Subsidy income	150
Refund income	1,002
Other	335
Total non-operating income	3,261
Non-operating expenses	
Interest expenses	71,216
Borrowing expenses	3,699
Other	1,060
Total non-operating expenses	75,976
Ordinary profit	651,094
Extraordinary income	
Gain on sale of non-current assets	13,500
Total extraordinary income	13,500
Extraordinary losses	
Impairment losses	30,324
Total extraordinary losses	30,324
Profit before income taxes	634,270
Income taxes – current	327,726
Income taxes – deferred	33,752
Total income taxes	361,479
Profit	272,791
Profit attributable to owners of the parent	272,791

Quarterly consolidated statement of comprehensive income
Consolidated Cumulative Second Quarter

(Unit: thousands of yen)

	Consolidated Cumulative Second Quarter (January 1 to June 30, 2021)
Profit	272,791
Comprehensive income	272,791
(Breakdown)	
Comprehensive income related to owners of the parent	272,791

(3) Consolidated Quarterly Statement of Cash Flows

(Unit: thousands of yen)

	Consolidated Cumulative Second Quarter (January 1 to June 30, 2021)
Cash flows from operating activities	
Profit before income taxes	634,270
Depreciation	165,064
Impairment loss	30,324
Amortization of goodwill	334,885
Interest expenses	71,216
Borrowing expenses	3,699
Decrease (increase) in notes and accounts receivable – trade	123,369
Decrease (increase) in advances paid	(44,525)
Increase (decrease) in notes and accounts payable - trade	(72,935)
Increase (decrease) in accounts payable - other	88,893
Increase (decrease) in accrued expenses	266,370
Increase (decrease) in deferred revenue	44,736
Increase (decrease) in refund liabilities	(122,512)
Decrease/increase in consumption taxes receivable/payable	16,009
Other	(19,555)
Subtotal	1,519,310
Interest and dividend income received	101
Interest expenses paid	(71,570)
Income taxes paid	(399,142)
Cash flows from operating activities	1,048,699
Cash flows from investing activities	
Purchase of property, plant and equipment	(10,296)
Purchase of intangible assets	(241,975)
Cash flows from investing activities	(252,271)
Cash flows from financing activities	
Repayments of long-term loans payable	(470,000)
Payments of borrowing expenses	(3,699)
Proceeds from issuance of common shares	13,745
Purchase of treasury shares	(9)
Cash flows from financing activities	(459,963)
Net increase (decrease) in cash and cash equivalents	336,465
Cash and cash equivalents at beginning of period	3,230,336
Cash and cash equivalents at end of period	3,566,801

(4) Notes to Quarterly Consolidated Financial Statements

(Notes on the Going-Concern Assumption)

N/A

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

Consolidated Cumulative Second Quarter (January 1 to June 30, 2021)

(Significant changes in the amount of shareholders' equity)

The Company disposed of 3,500 treasury shares on April 23, 2021 based on a resolution at the meeting of the board of directors held on March 25, 2021 as restricted share compensation paid to the Company's directors. As a result, in the first half, retained earnings decreased by 277 thousand yen and treasury shares decreased by 5,222 thousand yen to 2,114,230 thousand yen and 362,955 thousand yen respectively at the end of the consolidated second quarter.

(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 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.)

[Segment Information]

Consolidated Cumulative Second Quarter (January 1 to June 30, 2021)

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

(Unit: thousands of yen)

	Reporting segment			Adjusted amount (Note 1)	Amounts reported on the quarterly consolidated statements of income (Note 2)
	Platform Segment	Contents Segment	Total		
Net sales					
Net sales to external customers	6,042,222	3,207,354	9,249,577	–	9,249,577
Intersegment sales and transfers	–	84,475	84,475	(84,475)	–
Total	6,042,222	3,291,830	9,334,052	(84,475)	9,249,577
Segment profit (loss)	(42,855)	767,075	724,219	(409)	723,810

Notes: 1. Adjustments of segment profit (loss) (409 thousand yen) represents company-wide expenses and elimination of intersegment transactions.

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

2. Information concerning impairment losses of non-current assets or goodwill for each reporting segment

(Material impairment losses related to non-current assets)

In the Platform Segment, the Group recorded impairment losses on intangible assets related to certain services related to comics and certain services related to games.

Furthermore, these impairment losses amounted to 30,324 thousand yen in the first half.

(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.