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Summary of Consolidated Financial Results for the Nine Months Ended November 30, 2021

(Based on Japanese GAAP)

January 13, 2022

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:	January 13, 2022
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 Nine Months Ended November 30, 2021 (March 1, 2021 to November 30, 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	%
Nine months ended November 30, 2021	78,767	27.0	2,250	4.6	2,230	1.5	1,096	-13.3
Nine months ended November 30, 2020	62,007	29.3	2,151	57.6	2,198	76.8	1,264	42.4

(Note) Comprehensive income: Nine months ended November 30, 2021: ¥923 million (-15.6%)
Nine months ended November 30, 2020: ¥1,094 million (43.3%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended November 30, 2021	69.46	69.40
Nine months ended November 30, 2020	88.04	86.24

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of November 30, 2021	49,459	16,245	32.8
As of February 28, 2021	43,187	12,169	28.0

(Reference) Shareholders' equity: As of November 30, 2021 ¥16,232 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: No

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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.

In the nine months ended November 30, 2021, the business environment for the MEDIA DO Group was characterized by signs of the gradual normalization of economic activity, such as the progress made in COVID-19 vaccinations, and the lifting of the state of emergency that followed on October 1, 2021. On the other hand, it appears that stay-at-home consumption, which has been driven by the increase in free time resulting from people working from home and refraining from unnecessary outings, is in the process of peaking out. In some areas we also saw factors hindering the expansion of the eBook market, such as the impact of pirate sites.

The eBook market continued to grow as a result of the ongoing shift from paper books to eBooks, which has become an irreversible trend, but due in part to the above-mentioned factors the revenue increase in the MEDIA DO Group's core eBook distribution business was concentrated in the first and second quarters.

Meanwhile, we used blockchain technology to develop and launch a non-fungible token (NFT) service for new digital content, and began sales of items using our "FanTop" platform. In addition, we moved forward steadily with initiatives to implement the Digital Content Asset (DCA) model that the Group has been advocating, such as collaborating with TOHAN CORPORATION to begin providing a service that utilizes NFTs to award digital benefits to those who purchase books at bookstores and other consumers.

With the market for content undergoing both quantitative and qualitative structural change as a result of the ongoing shift to digital caused by the COVID-19 pandemic, there has been an increase in opportunities to create a variety of intellectual property (IP), including user-generated content (UGC). In recognition of this situation, the MEDIA DO Group took steps to create IP and maximize value by concluding an agreement to acquire from DeNA Co., Ltd. the stock of Everystar Co., Ltd., which operates a novel-sharing site, as announced in September 2021 (the acquisition of the stock was completed on December 14, 2021). We will continue to execute various measures aimed at expanding the business going forward, including making investments in new subsidiaries that we have acquired through M&A.

Furthermore, as reported in our Summary of Consolidated Financial Results for 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 nine months ended November 30, 2021, net sales amounted to ¥78,767 million, up 27.0% year on year; operating profit totaled ¥2,250 million, up 4.6%; ordinary profit was ¥2,230 million, up 1.5%; and profit attributable to owners of parent came to ¥1,096 million, down 13.3%.

(2) Segment information

eBook Distribution

In the eBook distribution business, MEDIA DO is developing its operations based on two policies: "stimulate the growth of eBook markets," which entails supporting the expansion of the eBook market, and "invent future eBook markets," which will involve utilizing blockchain and other technologies to create new markets and to propose new ways of enjoying digital content.

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).

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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.

The Group has been accelerating and deepening collaborative efforts to create a new publishing culture and build a distribution ecosystem by entering into a capital/operational alliance with TOHAN. By introducing new plans and broadening the lineup of products used in the previously mentioned service for awarding digital benefits using NFT, we will also make a contribution to the paper book and bookstore business. We also began beta testing of 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. We will continue to work on initiatives to contribute to the digital transformation (DX) of the publishing industry.

In terms of “invent future eBook markets” the MEDIA DO Group aims to build an infrastructure to facilitate the further expansion of the eBook market, and will work to propose new ways of enjoying digital content by implementing the DCA model being advocated by the Group as a new distribution and asset model for digital content. The Group recently launched FanTop as an internally developed NFT platform, and has begun providing services. FanTop is a marketplace where fans of a variety of content and IP can collect and view digital collectibles, as well as sharing, transferring and trading them. This is an attempt to blend the collecting of fan items, for which the physical act has until now constituted the mainstream, with the digital world in order to multiply the enjoyment of the item many times over. In addition to providing 3D/AR/VR functions, we are pushing ahead with the development of an app offering secondary liquidity functions to enable users to trade items among themselves.

As a result, net sales in the eBook distribution segment came to ¥74,935 million, up 22.5% year on year, and segment income was ¥2,052 million, down 1.8%.

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, and have been working on initiatives aimed at increasing 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 seeking to increase the number of personnel. It will continue to work on responding to rising demand for the production of new digital content, such as vertical scrolling manga and motion manga.

In addition, the Firebrand Group (Quality Solutions, Inc., NetGalley LLC, and their subsidiaries) and NIHONBUNGEISHA Co., Ltd. are each working to achieve steady growth in their existing businesses, as well as using executing post-merger integration measures to enhance profits.

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 ¥3,830 million, up 354.2% year on year, and the segment loss amounted to ¥73 million, compared with ¥183 million in the previous equivalent period.

(3) Analysis of financial position

On November 30, 2021, total assets stood at ¥49,459 million, an increase of ¥6,271 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, the Firebrand Group and NIHONBUNGEISHA.

Total liabilities amounted to ¥33,213 million, up ¥2,195 million from the previous fiscal year-end. Although interest-bearing debt decreased as a result of the repayment of long-term borrowings, this was more than offset by an increase in accounts payable – trade stemming from higher costs of procurement caused by sales growth, and other factors.

Total net assets stood at ¥16,245 million on November 30, 2021, an increase of ¥4,076 million from the previous fiscal year-end, due to higher retained earnings from the recording of ¥1,096 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) Forecast for the fiscal year ending February 28, 2022

Performance was strong in the nine months ended November 30, 2021. 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 publishing and digital content markets 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 November 30, 2021
Assets		
Current assets		
Cash and deposits	12,703	11,889
Notes and accounts receivable - trade	19,921	21,267
Other	1,278	1,607
special account for claoms on returned goods unsold	—	(73)
Allowance for doubtful accounts	(0)	(1)
Total current assets	33,902	34,689
Non-current assets		
Property, plant and equipment	303	401
Intangible assets		
Goodwill	5,713	6,474
Software	357	410
Software in progress	199	489
Other	59	821
Total intangible assets	6,329	8,196
Investments and other assets		
Investment securities	2,761	6,264
Deferred tax assets	96	99
Guarantee deposits	375	474
Other	33	34
Allowance for doubtful accounts	(615)	(700)
Total investments and other assets	2,651	6,172
Total non-current assets	9,285	14,769
Total assets	43,187	49,459

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(Millions of yen)

	As of February 28, 2021	As of November 30, 2021
Liabilities		
Current liabilities		
Notes and accounts payable - trade	22,507	24,400
Short-term borrowings	–	50
Current portion of long-term borrowings	1,181	1,070
Income taxes payable	686	431
Provision for bonuses	14	81
Provision for point card certificates	84	62
Provision for sales returns	4	210
Other	945	1,393
Total current liabilities	25,425	27,701
Non-current liabilities		
Long-term borrowings	5,471	4,695
Deferred tax liabilities	2	82
Provision for loss on business of subsidiaries and associates	40	40
Retirement benefit liability	–	571
Other	79	122
Total non-current liabilities	5,593	5,512
Total liabilities	31,018	33,213
Net assets		
Shareholders' equity		
Share capital	4,415	5,908
Capital surplus	5,489	7,197
Retained earnings	2,000	2,774
Treasury shares	(1)	(1)
Total shareholders' equity	11,903	15,879
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	198	221
Foreign currency translation adjustment	3	131
Total accumulated other comprehensive income	201	353
Share acquisition rights	11	0
Non-controlling interests	53	13
Total net assets	12,169	16,245
Total liabilities and net assets	43,187	49,459

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(2) Consolidated statements of income and comprehensive income

(Millions of yen)

Consolidated statements of income	Nine months ended November 30, 2020	Nine months ended November 30, 2021
Net sales	62,007	78,767
Cost of sales	56,137	71,438
Gross profit	5,869	7,328
Selling, general and administrative expenses	3,717	5,078
Operating profit	2,151	2,250
Non-operating income		
Interest and dividend income	4	7
Subsidy income	—	3
Subsidy income	10	34
Share of profit of entities accounted for using equity method	30	—
Gain on investments in investment partnerships	7	7
Reversal of allowance for doubtful accounts	24	60
Other	14	7
Total non-operating income	93	119
Non-operating expenses		
Interest expenses	27	24
Share issuance costs	8	15
Share of loss of entities accounted for using equity method	—	41
Donations	—	50
Other	10	8
Total non-operating expenses	46	139
Ordinary profit	2,198	2,230
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	76	138
Provision for loss on business of subsidiaries and associates	44	—
Total extraordinary losses	148	554
Profit before income taxes	2,050	1,887
Income taxes	785	857
Profit	1,265	1,030
Profit (loss) attributable to non-controlling interests	0	(66)
Profit attributable to owners of parent	1,264	1,096

(Millions of yen)

Consolidated statements of Comprehensive income	Nine months ended November 30, 2020	Nine months ended November 30, 2021
Profit	1,265	1,030
Other comprehensive income		
Valuation difference on available-for-sale securities	(170)	(232)
Foreign currency translation adjustment	(0)	125
Total other comprehensive income	(170)	(106)
Comprehensive income	1,094	923
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,094	989
Comprehensive income attributable to non-controlling interests	0	(66)