

Financial Results for the Fiscal Year Ending December 31, 2021
[Japanese Standards] (Consolidated)

Feb 14, 2022

Listed company name: CARTA HOLDINGS, Inc. Listed stock exchange: TSE first section
 Stock Code No.: 3688 URL: <https://cartaholdings.co.jp/en/ir/>
 Representative: Title Chairman Name: Shinsuke Usami
 Contact: Title Director and CFO Name: Hidenori Nagaoka TEL +81-3-4577-1453

Scheduled date of Annual General Meeting of Shareholders: Mar 26, 2022
 Scheduled starting date of dividend payments: Mar 14, 2022
 Scheduled date to file Securities Report: Mar 28, 2022
 Availability of supplementary information: Yes
 Holding investors' meeting: Yes
 (For security analysts and institutional investors)

(Rounded down to million yen)

1. Consolidated Financial Results for fiscal year ended December 31, 2021
(January 1, 2021 – December 31, 2021)

(1) Consolidated results of operations (cumulative total)

(The percentage indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income	
	¥million	%	¥million	%	¥million	%	¥million	%
Year ended December 31, 2021	25,821	14.8	4,973	43.6	5,614	68.3	3,104	74.3
Year ended December 31, 2020	22,487	—	3,463	—	3,355	—	1,781	—

(Note) Comprehensive Income: Year ended December 31, 2021: ¥4,113 million 152.8%
 Year ended December 31, 2020: ¥1,627 million —%

	Net income per share	Diluted net income per share	EBITDA		Return on equity	Ordinary income to total assets	Operating income to net sales
	¥	¥	¥million	%	%	%	%
Year ended December 31, 2021	122.68	121.32	6,703	48.1	12.0	10.7	19.3
Year ended December 31, 2020	70.57	70.21	4,527	—	7.5	6.7	15.4

(Reference) Equity in net losses of affiliated companies: Year ended December 31, 2021: ¥(27) million
 Year ended December 31, 2020: ¥(44) million

(Note) The fiscal year ended December 31, 2019 was a transitional period for the change in accounting period and was an irregular accounting period that covered 15 months (October 1, 2018 to December 31, 2019). Consequently, the periods to be compared differ, and as such, the year-on-year change rate for the fiscal year ended December 31, 2020 is not stated.

* EBITDA noted above (earnings before interest, tax, depreciation, and amortization) is calculated by adding interest expenses, depreciation, amortization, amortization of goodwill, loss on retirement of non-current assets, and impairment loss to the Company's profit before income taxes. The definition of EBITDA has been changed to include loss on retirement of non-current assets and impairment loss from FY2021 in order to improve the effectiveness of the indicator. Based on the previous definition, EBITDA for the fiscal year ended December 31, 2020, would be ¥4,131 million.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	¥million	¥million	%	Yen
December 31, 2021	55,376	27,757	49.6	1,070.34
December 31, 2020	49,259	24,553	49.5	967.47

(Reference) Owned capital: December 31, 2021 ¥27,444 million
 December 31, 2020 ¥24,376 million

(3) Consolidated cash flows

	Net cash flows from (used in) operating activities	Net cash flows from (used in) investing activities	Net cash flows from (used in) financing activities	Cash and cash equivalents at the end of the year
	¥million	¥million	¥million	¥million
Year ended December 31, 2021	7,102	(765)	(1,215)	21,031
Year ended December 31, 2020	2,013	66	(892)	15,600

2. Dividend status

	Annual dividends					Total amount of dividends(total) ¥million	Payout ratio (consolidated) %	Dividend-to-net asset ratio (consolidated) %
	1Qend	2Qend	3Qend	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen			
FY 2020	—	8.00	—	40.00	48.00	1,209	68.0	5.1
FY 2021	—	25.00	—	26.00	51.00	1,299	41.6	5.0
FY 2022 (Forecast)	—	27.00	—	27.00	54.00		28.9	

3. Forecast of Consolidated Financial Results for FY 2021 (January 1, 2022 — December 31, 2022)

	Net sales		Operating income		Ordinary income		Net income		Net income per share	EBITDA	
	¥million	%	¥million	%	¥million	%	¥million	%	Yen	¥million	%
Full year	28,300	9.6	5,500	10.6	5,900	5.1	4,100	32.1	159.90	7,600	13.4

(Note) The forecast of consolidated financial results for the six months ending June 30, 2022 is omitted, as the Company manages its operations on a yearly basis. For details, see “1. Overview of Operating Results, etc. (4) Future Outlook” on page 6 of the attached documents.

Notes

(1) Changes in significant subsidiaries during the period

: Yes

(Change of specified subsidiaries that lead to a change in the scope of consolidation)

New: 1 company (Name) CARTA COMMUNICATIONS Inc. Excluded from consolidation: — company (Name) —

(Note) For details, please see “3. Consolidated Financial Statements (5) Notes to Condensed Consolidated Financial Statements (Changes in Significant Subsidiaries during the Period)” on page 16 of the attached documents.

(2) Changes in accounting policies, changes in accounting estimates, corrections and restatements and retrospective restatements

- 1) Changes in accounting policy resulting from revisions to accounting standards : None
- 2) Changes in accounting policy other than above : None
- 3) Changes in accounting estimates : None
- 4) Retrospective restatements : None

(3) Number of shares issued (common stock)

1) Number of shares issued and outstanding (including treasury stock)

As of December 31, 2021	25,643,132	As of December 31, 2020	25,496,852
-------------------------	------------	-------------------------	------------

2) Number of treasury stock issued and outstanding

As of December 31, 2021	2,234	As of December 31, 2020	301,018
-------------------------	-------	-------------------------	---------

3) Average number of shares during the period

Year ended December 31, 2021	25,301,804	Year ended December 31, 2020	25,238,995
------------------------------	------------	------------------------------	------------

(Reference) Summary of Non-Consolidated Financial Results
 Non-Consolidated Financial Results for fiscal year ended December 31, 2021
 (January 1, 2021 – December 31, 2021)

(1) Non-consolidated results of operations

(The percentage indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income	
	¥million	%	¥million	%	¥million	%	¥million	%
Year ended December 31, 2021	3,167	2.4	2,032	(22.2)	2,075	(21.4)	2,134	(18.9)
Year ended December 31, 2020	3,094	—	2,611	—	2,641	—	2,630	—

	Net income per share	Diluted net income per share
	¥	¥
Year ended December 31, 2021	84.37	83.43
Year ended December 31, 2020	104.23	103.69

(Note) Since the fiscal year ended December 31, 2019 was an irregular accounting period of 15 months due to the change in accounting period, the year-on-year change rate for the year ended December 31, 2020 is omitted.

(2) Non-consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	¥million	¥million	%	Yen
December 31, 2021	25,859	14,935	57.3	577.71
December 31, 2020	19,931	13,711	68.8	543.90

(Reference) Owned capital: December 31, 2021 ¥14,813 million
 December 31, 2020 ¥13,704 million

※ Notice regarding audit procedures

This financial result is excluded from audit procedures.

※ Explanations related to appropriate use of the performance forecast and other special instructions

(Note on forward-looking statements)

Earnings forecasts and other forward-looking statements in this report are based on information currently available and certain assumptions judged to be reasonable. Therefore, these statements do not constitute a guarantee of achievement. Actual results may differ materially for various reasons.

Please refer to “1. Overview of Operating Results, etc. (4) Future Outlook” on page 6 of the attached documents.

(Supplementary materials)

Supplementary materials on financial results are on our website (in English and Japanese).

Attachment

Contents

1. Overview of Operating Results, etc.

- (1) Overview of Operating Results for the Fiscal Year under Review
- (2) Overview of Financial Position for the Fiscal Year under Review
- (3) Overview of Cash Flows for the Fiscal Year under Review
- (4) Future Outlook
- (5) Basic Policy on Profit Distribution and Dividends for the Current and Next Fiscal Years

2. Basic Stance on the Choice of Accounting Standards

3. Consolidated Financial Statements

- (1) Consolidated Balance Sheets
- (2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
 - (Consolidated Statements of Income)
 - (Consolidated Statements of Comprehensive Income)
- (3) Consolidated Statements of Changes in Equity
- (4) Consolidated Statements of Cash Flows
- (5) Notes to Condensed Consolidated Financial Statements
 - (Going Concern Assumption)
 - (Changes in Significant Subsidiaries during the Period)
 - (Change in the Presentation Method)
 - (Consolidated Statements of Income)
 - (Segment Information, etc.)
 - (Per Share Information)
 - (Significant Subsequent Events)

1. Overview of Operating Results, etc.

(1) Overview of Operating Results for the Fiscal Year under Review

With regard to the online advertising market where the Group operates its mainstay business, according to research by Dentsu Inc., in 2020, despite sluggish consumption and a decrease in advertising placements due to the spread of the novel coronavirus (COVID-19), internet advertising spending recovered faster than other media and reached ¥2,229.0 billion, or an increase of 5.9% year on year.

Performance-based advertising costs amounted to ¥1,455.8 billion, or an increase of 9.7% year on year, due to increased contact opportunities with SNS, EC, and video distribution services as a result of nest-egg demand, and increased demand for operational advertising mainly from large-scale platformers. In addition, costs for digital advertising from the four traditional types of mass media amounted to ¥80.3 billion, or an increase of 12.3% year on year, as the use of operational advertising made further progress.

Under these circumstances, the Group worked to develop its business in the following three segments and has been promoting vertical integration throughout the Group to achieve sustainable growth: 1) the “Partner Sales Business” which sells advertising space and provides solutions mainly through media communication; 2) the “Ad Platform Business” which operates ad distribution platforms; and 3) the “Consumer Business” which operates its owned media and services in the EC, game, and HR fields.

As a result, the Group posted net sales of ¥25,821 million, or an increase of 14.8% year on year, operating income of ¥4,973 million, or an increase of 43.6% year on year, ordinary income of ¥5,614 million, or an increase of 68.3% year on year, and profit attributable to owners of parent of ¥3,104 million, or an increase of 74.3% year on year, in the period under review.

Financial results for each segment were as follows. Sales of each segment include intersegment sales and transfers.

In addition, from the fiscal year under review, some business that was previously included in the “Ad Platform” segment has been reclassified into the “Partner Sales” segment due to organizational restructuring. Therefore, the following year-on-year comparisons are based on figures for the same period of the previous fiscal year that have been reclassified to reflect the new reporting segment classification.

1) Partner Sales Business

The Partner Sales Business sells advertising space and provides solutions mainly through media communication. The Group has been working to acquire new profit sources through initiatives in operational advertising and sales promotion/EC-related services, as well as expanding sales of our own products and solutions, while securing profits from existing businesses through the promotion of better operational efficiency.

As a result, the Partner Sales Business recorded net sales of ¥11,596 million, or an increase of 29.9% year on year, and segment income of ¥2,816 million, or an increase of 98.5% year on year, in the period under review.

2) Ad Platform Business

The Ad Platform Business operates “Zucks”, “PORTO”, “TELECY”, and others as operational advertising platforms, as well as “fluct” as media support services. We worked to improve and expand the functions of each platform and service, and also captured demand from corporate clients, which led to solid performance.

As a result, the Ad Platform Business recorded net sales of ¥7,549 million, or an increase of 6.8% year on year, and segment income of ¥1,844 million, or an increase of 16.0% year on year, in the period under review.

3) Consumer Business

In the Consumer Business, in addition to the operation of its owned media that utilizes points, primarily “EC Navi” and “PeX”, the Group is aggressively investing in the EC and HR fields as growth areas in order to create businesses that will be the next pillar in the medium- to long-term.

As a result, the Consumer Business recorded net sales of ¥6,695 million, or an increase of 3.1% year on year, and segment income of ¥312 million, or a decrease of 31.3% year on year, in the period under review.

(2) Overview of Financial Position for the Fiscal Year under Review

(Assets)

Consolidated assets as of the end of the period under review totaled ¥55,376 million, an increase of ¥6,117 million from the end of the previous fiscal year. This was mainly attributable to an increase in cash and deposits.

(Liabilities)

Consolidated liabilities as of the end of the period under review amounted to ¥27,619 million, an increase of ¥2,914 million from the end of the previous fiscal year. This was mainly attributable to increases in income taxes payable, accounts payable – trade and other non-current liabilities.

(Net Assets)

Consolidated net assets as of the end of the period under review stood at ¥27,757 million, an increase of ¥3,203 million from the end of the previous fiscal year. This was primarily owing to increases in retained earnings and valuation difference on available-for-sale securities.

(3) Overview of Cash Flows for the Fiscal Year under Review

Cash and cash equivalents at the end of the fiscal year under review (hereinafter “funds”) totaled ¥21,031 million, an increase of ¥5,430 million from the end of the previous fiscal year. The following is the status and factors of each cash flow during the fiscal year under review.

(Net cash flows from operating activities)

Net cash flows provided by operating activities amounted to ¥7,102 million (¥2,013 million was provided in the previous fiscal year). The main positive factors included the recording of profit.

(Net cash flows from investing activities)

Net cash flows used in investing activities amounted to ¥765 million (¥66 million was provided in the previous fiscal year). The main negative factors included a decrease in funds resulting from purchase of property, plant and equipment and purchase of intangible assets.

(Net cash flows from financing activities)

Net cash flows used in financing activities amounted to ¥1,215 million (¥892 million was used in the previous fiscal year). The main negative factors included a decrease in funds resulting from payment of cash dividends.

(4) Future Outlook

As management targets for the fiscal year ending December 31, 2022, the Company aims to achieve EBITDA (profit indicator) of ¥6,000 million, ROE (capital efficiency indicator) of 12%, and DOE (shareholder return indicator) (Note) of 5%, as declared in the four-year medium-term business plan “CARTA 2022” announced on February 14, 2019. In order to achieve these goals, the Company is focusing on: 1) strengthening profitability by promoting business synergies, 2) establishing competitive advantages and seeking new profit-making opportunities by pursuing collaboration with Dentsu group, and 3) improving productivity by strengthening management foundations. Also, the Company’s growth strategies are: 1) growth of existing business, 2) growth driven by M&A and investment, and 3) expansion into new fields. The financial results for all three years of the medium-term business plan up to the fiscal year under review exceeded the initial plan, making solid progress.

In the next fiscal year, the final year of the medium-term business plan, the Company will continuously promote the priority initiatives and growth strategies described above, as well as make efforts to advance holding company management to ensure the further effective utilization of the abundant management resources held by the Group. Based on the progress made in the first three years of the medium-term business plan, consolidated financial results for the next fiscal year are forecast to considerably exceed the initial plan at every profit level, i.e., consolidated net sales of ¥28,300 million, up 9.6% year on year, operating income of ¥5,500 million, up 10.6% year on year, ordinary income of ¥5,900 million, up 5.1% year on year, profit attributable to owners of parent of ¥4,100 million, up 32.1% year on year and EBITDA of ¥7,600 million, up 13.4% year on year.

The performance forecast above is based on information available at the time this document was announced, and therefore, actual operating results may differ from the forecasts owing to

a variety of factors.

(Note) DOE (dividend on equity): Total annual dividends / Shareholders' equity

(5) Basic Policy on Profit Distribution and Dividends for the Current and Next Fiscal Years

1) Basic Policy on Profit Distribution

The Company considers the return of profits to shareholders to be a pivotal spoke in the management of the business, and endeavors for the sustainable increase in shareholder value through growth of the business and improvements to capital efficiency. In addition, we offer dividends on a continuous basis and adopt a flexible approach to share buybacks. These and other initiatives form a central pillar in our approach to driving benefits back to shareholders. The Company decides dividend amounts with a target DOE of 5%, while aiming for stable and continuous increases in dividends in the long-term. Furthermore, the Company intends to implement share buybacks based on maintaining a ratio of tradeable shares of 35%, which is one of the listing criteria of the "Prime Market", a new market classification at the Tokyo Stock Exchange.

2) Dividends of Surplus for the Current Fiscal Year

The Company specifies in its Articles of Incorporation that it may distribute surplus, etc. based on a resolution by the Board of Directors, in order to flexibly implement its capital policy, pursuant to the provisions of Article 459, Paragraph 1 of the Companies Act. As for the distribution of surplus for the fiscal year under review, the Company plans to pay a dividend of ¥51 per share (including an interim dividend of ¥25 per share).

3) Dividends of Surplus for the Next Fiscal Year

As for the dividend of surplus for the next fiscal year, according to the basic policy on profit distribution as in 1) above, the Company plans to pay an interim dividend and year-end dividend of ¥27 per share, respectively, which brings the annual dividend to ¥54 per share, an increase from the fiscal year under review.

2. Basic Stance on the Choice of Accounting Standards

The Group adopts Japanese accounting standards. The Group will make a decision on the adoption of International Financial Reporting Standards (IFRS) after considering the situation in Japan and overseas.

3. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Assets		
Current assets		
Cash and deposits	15,600	21,031
Accounts receivable - trade	17,697	18,349
Securities	95	175
Merchandise	29	50
Supplies	535	288
Other	3,097	2,675
Allowance for doubtful accounts	(51)	(56)
Total current assets	37,004	42,513
Non-current assets		
Property, plant and equipment		
Buildings	1,667	1,680
Accumulated depreciation	(590)	(624)
Buildings, net	1,076	1,056
Tools, furniture and fixtures	484	485
Accumulated depreciation	(298)	(269)
Tools, furniture and fixtures, net	185	216
Lease assets	22	30
Accumulated depreciation	(8)	(13)
Lease assets, net	13	16
Other	0	1
Total property, plant and equipment	1,276	1,290
Intangible assets		
Goodwill	2,317	1,836
Other	3,144	2,853
Total intangible assets	5,462	4,689
Investments and other assets		
Investment securities	3,959	5,235
Deferred tax assets	155	229
Other	1,402	1,423
Allowance for doubtful accounts	(0)	(6)
Total investments and other assets	5,516	6,883
Total non-current assets	12,255	12,863
Total assets	49,259	55,376

(Millions of yen)

	As of December 31, 2020	As of December 31, 2021
Liabilities		
Current liabilities		
Accounts payable - trade	16,655	16,899
Asset retirement obligations	70	162
Provision for bonuses	1,193	1,237
Provision for directors' bonuses	24	9
Provision for point card certificates	515	466
Deposits received	2,963	3,444
Incom taxes payable	—	1,356
Short-term loans payable	19	—
Current portion of long-term loans payable	118	117
Other	1,725	2,587
Total current liabilities	23,287	26,280
Non-current liabilities		
Long-term loans payable	180	63
Asset retirement obligations	397	238
Deferred tax liabilities	596	725
Other	243	312
Total non-current liabilities	1,417	1,339
Total liabilities	24,705	27,619
Net assets		
Shareholders' equity		
Capital stock	1,111	1,410
Capital surplus	12,031	12,337
Retained earnings	11,046	12,255
Treasury shares	(264)	(0)
Total shareholders' equity	23,924	26,002
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	463	1,428
Foreign currency translation adjustment	(10)	13
Total accumulated other comprehensive income	452	1,441
Share acquisition rights	7	122
Non-controlling interests	170	190
Total net assets	24,553	27,757
Total liabilities and net assets	49,259	55,376

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

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Net sales	22,487	25,821
Cost of sales	2,852	2,620
Gross profit	19,635	23,200
Selling, general and administrative expenses	※ ¹ 16,172	※ ¹ 18,227
Operating profit	3,463	4,973
Non-operating income		
Interest and dividend income	38	69
Gain on investments in partnership	11	184
Foreign exchange gains	—	310
Miscellaneous gains	31	115
Other	68	10
Total non-operating income	149	691
Non-operating expenses		
Interest expenses	1	1
Share of loss of entities accounted for using equity method	44	27
Loss on investments in partnership	86	20
Foreign exchange losses	137	—
Other	7	—
Total non-operating expenses	277	49
Ordinary profit	3,335	5,614
Extraordinary income		
Gain on sales of investment securities	170	258
Gain on sales of shares of subsidiaries and associates	46	—
Other	14	1
Total extraordinary income	231	259
Extraordinary losses		
Loss on retirement of non-current assets	155	78
Loss on sales of investment securities	77	56
Loss on valuation of investment securities	30	277
Loss on change in equity	—	11
Impairment loss	※ ² 240	※ ² 297
Other	8	1
Total extraordinary losses	511	723
Profit before income taxes	3,055	5,151
Income taxes - current	1,321	2,381
Income taxes - deferred	(131)	(354)
Total income taxes	1,190	2,027
Profit	1,865	3,124
Loss attributable to non-controlling interests	83	19
Profit attributable to owners of parent	1,781	3,104

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Profit	1,865	3,124
Other comprehensive income		
Valuation difference on available-for-sale securities	(327)	1,045
Foreign currency translation adjustment	0	3
Share of other comprehensive income of entities accounted for using equity method	89	(59)
Total other comprehensive income	(237)	989
Comprehensive income	1,627	4,113
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,543	4,093
Comprehensive income attributable to non-controlling interests	83	19

(3) Consolidated Statements of Changes in Equity

Year ended December 31, 2020

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,096	12,016	9,642	(0)	22,754
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	7	7			14
Issuance of new shares	7	7			15
Dividends of surplus			(404)		(404)
Profit attributable to owners of parent			1,781		1,781
Purchase of treasury shares				(264)	(264)
Change of scope of consolidation			26		26
Net changes of items other than shareholders' equity					
Total changes of items during period	15	15	1,403	(264)	1,169
Balance at end of current period	1,111	12,031	11,046	(264)	23,924

	Accumulated other comprehensive income			Stock acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of current period	704	(15)	689	7	268	23,720
Changes of items during period						
Issuance of new shares - exercise of share acquisition rights						14
Issuance of new shares						15
Dividends of surplus						(404)
Profit attributable to owners of parent						1,781
Purchase of treasury shares						(264)
Change of scope of consolidation						26
Net changes of items other than shareholders' equity	(241)	4	(237)	(0)	(98)	(335)
Total changes of items during period	(241)	4	(237)	(0)	(98)	833
Balance at end of current period	463	(10)	452	7	170	24,553

Year ended December 31, 2021

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	1,111	12,031	11,046	(264)	23,924
Changes of items during period					
Issuance of new shares - exercise of share acquisition rights	298	298			597
Dividends of surplus			(1,640)		(1,640)
Profit attributable to owners of parent			3,104		3,104
Purchase of treasury shares				(0)	(0)
Disposal of treasury shares		7		10	17
Retirement of treasury shares			(254)	254	—
Net changes of items other than shareholders' equity					
Total changes of items during period	298	305	1,209	264	2,078
Balance at end of current period	1,410	12,337	12,255	(0)	26,002

	Accumulated other comprehensive income			Stock acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income			
Balance at beginning of current period	463	(10)	452	7	170	24,553
Changes of items during period						
Issuance of new shares - exercise of share acquisition rights						597
Dividends of surplus						(1,640)
Profit attributable to owners of parent						3,104
Purchase of treasury shares						(0)
Disposal of treasury shares						17
Retirement of treasury shares						—
Net changes of items other than shareholders' equity	965	24	989	114	20	1,124
Total changes of items during period	965	24	989	114	20	3,203
Balance at end of current period	1,428	13	1,441	122	190	27,757

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Cash flows from operating activities		
Profit before income taxes	3,055	5,151
Depreciation	766	861
Impairment loss	240	297
Amortization of goodwill	307	312
Increase (decrease) in allowance for doubtful accounts	(34)	10
Interest and dividend income	(38)	(69)
Share of loss (profit) of entities accounted for using equity method	44	27
Decrease (increase) in notes and accounts receivable - trade	667	(650)
Decrease (increase) in inventories	(128)	225
Increase (decrease) in notes and accounts payable - trade	(1,388)	243
Stock compensation expenses	—	127
Increase (decrease) in provision for bonuses	(152)	43
Increase (decrease) in provision for directors' bonuses	(3)	(15)
Increase (decrease) in provision for point card certificates	9	(49)
Loss on retirement of non-current assets	155	78
Loss (gain) on change in equity	—	11
Increase (decrease) in accounts payable – other	697	(345)
Other, net	(225)	1,473
Subtotal	3,880	7,532
Interest and dividend income received	38	69
Interest expenses paid	(2)	(1)
Income taxes (paid) refund	(1,902)	(497)
Net cash provided by (used in) operating activities	2,013	7,102
Cash flows from investing activities		
Purchase of property, plant and equipment	(97)	(436)
Purchase of intangible assets	(219)	(330)
Purchase of investment securities	(516)	(488)
Proceeds from sales of investment securities	569	360
Purchase of loans receivable	(255)	(237)
Proceeds from loans receivable	112	249
Purchase of assist retirement obligations	—	(63)
Payments for lease and guarantee deposits	(1)	—
Proceeds from lease and guarantee deposits	18	205
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	358	—
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	16	—
Other, net	80	(23)
Net cash provided by (used in) investing activities	66	(765)

(Millions of yen)

	Fiscal year ended December 31, 2020	Fiscal year ended December 31, 2021
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	(19)
Repayments of long-term loans payable	(197)	(118)
Purchase of treasury shares	(265)	(0)
Cash dividends paid	(404)	(1,639)
Repayments of lease obligations payable	(46)	(34)
Proceeds from exercise of share options	14	596
Other	6	—
Net cash provided by (used in) financing activities	(892)	(1,215)
Effect of exchange rate change on cash and cash equivalents	(134)	308
Net increase (decrease) in cash and cash equivalents	1,054	5,430
Cash and cash equivalents at beginning of period	14,546	15,600
Cash and cash equivalents at end of period	15,600	21,031

**(5) Notes to Condensed Consolidated Financial Statements
(Going Concern Assumption)**

None

(Changes in Significant Subsidiaries during the Period)

In the fiscal year under review, CARTA COMMUNICATIONS Inc. was included in the scope of consolidation as a newly established company through a corporate split by the Company's consolidated subsidiary Cyber Communications Inc.

(Change in the Presentation Method)

(Consolidated Statements of Income)

"Business commission fee", "Rent income", and "Insurance dividend", which were presented separately under non-operating income in the previous consolidated fiscal year, have been included in "Other" under non-operating income in the current consolidated fiscal year as the amount has become insignificant. The previous fiscal year's consolidated financial statements have been reclassified to reflect this change in the presentation method. As a result, ¥33 million recorded in "Business commission fee", ¥16 million recorded in "Rent income", and ¥17 million recorded in "Insurance dividend" under non-operating income in the previous consolidated fiscal year have been included in "Other".

"Miscellaneous gains" included in "Other" under non-operating income in the previous consolidated fiscal year exceeded 10% of the total of non-operating income and hence has been presented separately from the current consolidated fiscal year. The previous fiscal year's consolidated financial statements have been reclassified to reflect this change in the presentation method. As a result, ¥31 million recorded in "Other" under non-operating income have been reclassified into ¥31 million of "Miscellaneous gains".

"Interest expenses" included in "Other" under non-operating expenses in the previous consolidated fiscal year have been presented separately from the current consolidated fiscal year for clarity of presentation. As a result, ¥9 million recorded in "Other" under non-operating expenses have been reclassified into ¥1 million of "Interest expenses" and ¥7 million of "Other".

"Loss on valuation of investment securities" included in "Other" under extraordinary losses in the previous consolidated fiscal year has exceeded 10% of the total of extraordinary losses and hence has been presented separately from the current consolidated fiscal year. The previous fiscal year's consolidated financial statements have been reclassified to reflect this change in the presentation method. As a result, ¥38 million recorded in "Other" under extraordinary losses in the previous consolidated fiscal year have been reclassified into ¥30 million of "Loss on valuation of investment securities" and ¥8 million of "Other".

(Consolidated Statements of Income)

*1 Major items and their amounts included in selling, general and administrative expenses are as follows:

	Fiscal year ended December 31, 2020 (January 1, 2020 to December 31, 2020)	Fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)
Salaries	5,284	5,770
Bonuses	1,391	1,858
System usage fees	1,790	1,981

*2 Impairment losses

Fiscal year ended December 31, 2020 (January 1, 2020 to December 31, 2020)

The Group recorded impairment losses on the following asset groups.

(Millions of yen)			
Location	Usage	Type	Impairment loss
Chuo-ku, Tokyo	Assets for common use	Buildings	193
Chuo-ku, Tokyo	Assets for common use	Equipment	21
Shibuya-ku, Tokyo	Business assets	Software	26

The Group, in the recognition of impairment losses, basically groups its assets according to the classifications in management accounting, by which income and expenditure are monitored on an ongoing basis.

During the fiscal year under review, the Company reviewed the office strategy of the head office of Cyber Communications Inc. (Chuo-ku, Tokyo), a consolidated subsidiary of the Company, in order to create an office space design based on new workstyles in conjunction with the promotion of remote work stemming from the spread of COVID-19. Accordingly, a decision was made to cancel the lease on a portion of the office floor and to renovate the remaining floor space. As a result, the carrying amount of the asset group with no prospects for future use was reduced to the recoverable amount. The recoverable amount used in the calculation of impairment losses of this asset group was measured at its net realizable value. However, since disposal of interior furnishings was expected for obligation of restitution to the original state at the cancellation of the lease, it was valued at zero.

Additionally, in the Consumer Business, the earnings plan of certain services had fallen behind the initial schedule and the business plan was reviewed. As a result, the undiscounted future cash flows of the business asset group fell below the carrying amount of the non-current assets, and the carrying amount was reduced to the recoverable amount. The recoverable amount used in the calculation of impairment losses of this asset group was measured at its value in use. Nevertheless, the appraised value based on future cash flows turned out to be a negative value, and the recoverable amounts are valued at zero.

Fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

The Group recorded impairment losses on the following asset groups.

(Millions of yen)			
Location	Usage	Type	Impairment loss
Chuo-ku, Tokyo	Assets for common use	Buildings	109
Shibuya-ku, Tokyo	Business assets (Consumer Business)	Goodwill	74
Shibuya-ku, Tokyo	Business assets (Partner Sales Business)	Goodwill	113

The Group, in the recognition of impairment losses, basically groups its assets according to the classifications in management accounting, by which income and expenditure are monitored on an ongoing basis.

During the fiscal year under review, the Company continued, as part of the plan it had launched in the previous fiscal year, to cancel the lease on a portion of the office floor and renovate the remaining floor space at the head office of Cyber Communications Inc. (Chuo-ku, Tokyo), a consolidated subsidiary of the Company, in order to create an office space design based on new workstyles in conjunction with the promotion of remote work stemming from the spread of COVID-19. As a result, the carrying amount of the asset group with no prospects for future use was reduced to the recoverable amount. The recoverable amount used in the calculation of impairment losses of this asset group was measured at its net realizable value. However, since disposal of interior furnishings was expected for obligation of restitution to the original state at the cancellation of the lease, it was valued at zero.

In the Consumer Business, as a result of reviewing the progress of rakanu Co., Ltd., a consolidated subsidiary, against its business plan and future business prospects, the undiscounted future cash flows of the business asset group fell below the carrying amount of the non-current assets, and the carrying amount was reduced to the recoverable amount. The reduced amount was recorded as impairment loss under extraordinary losses.

The recoverable amount was measured at its value in use (at the discount rate of 26.3%).

In the Partner Sales Business, as a result of reviewing the progress of KAIKETSU, Inc., a consolidated subsidiary, against its business plan and future business prospects, the undiscounted future cash flows of the business asset group fell below the carrying amount of the non-current assets, and the carrying amount was reduced to the recoverable amount. The reduced amount was recorded as impairment loss under extraordinary losses.

The recoverable amount was measured at its value in use (at the discount rate of 23.4%).

(Segment Information, etc.)

a. Segment Information

1. Overview of reportable segments

The Group's reportable segments are the units for which separate financial information are available and which the Board of Directors regularly reviews to determine the allocation of management resources and evaluate business performance.

The Group's companies or business divisions are established for each service and develop comprehensive strategies for the services provided by each company or business division in carrying out business activities.

The Group thus consists of segments classified by services based on companies or business divisions, and has three reportable segments: "Partner Sales Business", "Ad Platform Business", and "Consumer Business".

The descriptions of services that belong to each segment are as follows:

Reportable segment	Description of services in each segment
Partner Sales Business	Sells advertising space and provides solutions mainly through media communication
Ad Platform Business	Operates "Zucks", "PORTO", "TELECY", and others as operational advertising platforms Operates "fluct" and others as media support services
Consumer Business	Operates sales promotion media centered on "EC Navi" and "PeX", and others

From the fiscal year under review, some business that was previously included in the "Ad Platform" segment has been reclassified into the "Partner Sales" segment due to organizational restructuring.

Therefore, segment information for the fiscal year ended December 31, 2020 has been prepared based on the classification method after the change.

2. Method of calculating sales, income or loss, assets, and other items for each reportable segment

The accounting method based on the accounting policy used in the preparation of the consolidated financial statements has been applied to the reportable business segments.

Reportable segment income is based on operating income. Intersegment sales or transfer are based on current market values.

3. Information on sales, income or loss, assets, and other items by reportable segment
Fiscal year ended December 31, 2020 (January 1, 2020 to December 31, 2020)

(Millions of yen)

	Reportable Segments				Adjustment	Consolidation
	Partner Sales Business	Ad Platform Business	Consumer Business	Total		
Sales						
Outside Sales	8,930	7,062	6,494	22,487	—	22,487
Intersegment Sales or Transfer	0	7	—	8	(8)	—
Total	8,930	7,070	6,494	22,496	(8)	22,487
Segment Income	1,419	1,589	454	3,463	—	3,463
Other Items						
Depreciation	165	443	156	766	—	766
Amortization of goodwill	20	174	112	307	—	307

(Note) Segment assets are not disclosed, as the Company does not allocate assets to reportable segments.

Fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

(Millions of yen)

	Reportable Segments				Adjustment	Consolidation
	Partner Sales Business	Ad Platform Business	Consumer Business	Total		
Sales						
Outside Sales	11,596	7,529	6,695	25,821	—	25,821
Intersegment Sales or Transfer	—	20	—	20	(20)	—
Total	11,596	7,549	6,695	25,841	(20)	25,821
Segment Income	2,816	1,844	312	4,973	—	4,973
Other Items						
Depreciation	263	463	134	861	—	861
Amortization of goodwill	40	174	96	312	—	312

(Note) Segment assets are not disclosed, as the Company does not allocate assets to reportable segments.

b. Related Information

Fiscal year ended December 31, 2020 (January 1, 2020 to December 31, 2020)

1. Information by products and services

It is omitted as the same information is disclosed in Segment Information.

2. Information by region

(1) Sales

Information is omitted as outside sales in Japan account for more than 90% of net sales stated on the consolidated statements of income.

(2) Property, plant and equipment

Information is omitted as property, plant and equipment located in Japan accounts for more than 90% of property, plant and equipment stated on the consolidated balance sheets.

3. Information by major customers

(Millions of yen)

Customer	Sales	Related segment
Dentsu Digital Inc.	2,820	Partner Sales Business

Fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

1. Information by products and services

It is omitted as the same information is disclosed in Segment Information.

2. Information by region

(1) Sales

Information is omitted as outside sales in Japan account for more than 90% of net sales stated on the consolidated statements of income.

(2) Property, plant and equipment

Information is omitted as property, plant and equipment located in Japan accounts for more than 90% of property, plant and equipment stated on the consolidated balance sheets.

3. Information by major customers

(Millions of yen)

Customer	Sales	Related segment
Dentsu Digital Inc.	3,078	Partner Sales Business

c. Information on impairment loss on non-current assets by reportable segment

Fiscal year ended December 31, 2020 (January 1, 2020 to December 31, 2020)

(Millions of yen)

	Reportable Segments				Corporate/ Elimination	Total
	Partner Sales Business	Ad Platform Business	Consumer Business	Total		
Impairment losses	—	—	26	26	214	240

* The Company reviewed the office strategy of the head office of Cyber Communications Inc. (Chuo-ku, Tokyo), a consolidated subsidiary of the Company, in order to create an office space design based on new workstyles in conjunction with the promotion of remote work stemming from the spread of COVID-19. Accordingly, a decision was made to cancel the lease on a portion of the office floor and to renovate the remaining floor space. As a result, an impairment loss of ¥214 million was recorded. This impairment loss has been included in the impairment losses under extraordinary losses in the consolidated statements of income. This impairment loss has not been allocated to reportable segments.

Fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

(Millions of yen)

	Reportable Segments				Corporate/ Elimination	Total
	Partner Sales Business	Ad Platform Business	Consumer Business	Total		
Impairment losses	113	—	74	188	109	297

* The Company reviewed the office strategy of the head office of Cyber Communications Inc. (Chuo-ku, Tokyo), a consolidated subsidiary of the Company, in order to create an office space design based on new workstyles in conjunction with the promotion of remote work stemming from the spread of COVID-19. Accordingly, a decision was made to cancel the lease on a portion of the office floor and to renovate the remaining floor space. As a result, an impairment loss of ¥109 million was recorded. This impairment loss has been included in the impairment losses under extraordinary losses in the consolidated statements of income. This impairment loss has not been allocated to reportable segments.

In the Partner Sales Business and Consumer Business, as a result of reviewing the progress and future prospects of some businesses, impairment losses of goodwill were recorded.

d. Information on amortization of goodwill and unamortized balance by reportable segment
Fiscal year ended December 31, 2020 (January 1, 2020 to December 31, 2020)

(Millions of yen)

	Reportable Segments				Corporate/ Elimination	Total
	Partner Sales Business	Ad Platform Business	Consumer Business	Total		
Amortization	20	174	112	307	—	307
Year-end balance	184	1,398	734	2,317	—	2,317

Fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

(Millions of yen)

	Reportable Segments				Corporate/ Elimination	Total
	Partner Sales Business	Ad Platform Business	Consumer Business	Total		
Amortization	40	174	96	312	—	312
Year-end balance	29	1,223	583	1,836	—	1,836

e. Information on profit from negative goodwill by reportable segment

Fiscal year ended December 31, 2020 (January 1, 2020 to December 31, 2020)

None

Fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)

None

(Per Share Information)

Fiscal year ended December 31, 2020 (January 1, 2020 to December 31, 2020)		Fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)	
	Yen		Yen
Net assets per share	967.47	Net assets per share	1,070.34
Net income per share	70.57	Net income per share	122.68
Diluted net income per share	70.21	Diluted net income per share	121.32

(Note) The basis for calculating net income per share and diluted net income per share is as follows:

	Fiscal year ended December 31, 2020 (January 1, 2020 to December 31, 2020)	Fiscal year ended December 31, 2021 (January 1, 2021 to December 31, 2021)
Net income per share		
Profit attributable to owners of parent (Millions of yen)	1,781	3,104
Amount not attributed to common shareholders (Millions of yen)	—	—
Profit attributable to owners of parent related to common stock (Millions of yen)	1,781	3,104
Average number of common shares during the period (Shares)	25,238,995	25,301,804
Diluted net income per share		
Adjustment on profit attributable to owners of parent (Millions of yen)	—	—
Increase in the number of common shares (Shares)	130,432	284,654
[of which, share acquisition rights (Shares)]	[130,432]	[284,654]
Summary of potential shares not included in the calculation of diluted net income per share due to no dilutive effect	1,800 units of the 7th issue of share acquisition rights (180,000 common shares) 2,172 units of the 8th issue of share acquisition rights (217,200 common shares) 3,940 units of the 9th issue of share acquisition rights (394,000 common shares)	—

