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Summary of Consolidated Financial Results for the Three Months Ended May 31, 2022 (Based on Japanese GAAP)

July 14, 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, CSO and CFO Hiroshi Kanda (Tel: +81-3-6212-5111)
 Scheduled date of filing quarterly securities report: July 14, 2022
 Scheduled starting 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 Three Months Ended May 31, 2022 (March 1, 2022 to May 31, 2022)

(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	%
Three months ended May 31, 2022	26,269	(7.5)	619	(26.0)	612	(27.7)	312	(49.3)
Three months ended May 31, 2021	28,408	40.0	836	14.3	846	15.4	617	37.0

(Note) Comprehensive income: Three months ended May 31, 2022: ¥597 million (32.5%)
 Three months ended May 31, 2021: ¥450 million (17.5%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Three months ended May 31, 2022	20.01	20.01
Three months ended May 31, 2021	39.50	39.47

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of May 31, 2022	53,209	15,915	29.7
As of February 28, 2022	52,509	16,912	32.0

(Reference) Shareholders' equity: As of May 31, 2022 ¥15,811 million As of February 28, 2022 ¥16,815 million

2. Dividends

	Dividends per share (Yen)				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
FY2021	—	0.00	—	21.00	21.00
FY2022	—				
FY2022 (Forecast)		0.00	—	0.00	0.00

(Note) FY2022 dividends (forecast) have yet to be determined.

3. Consolidated Earnings Forecasts for Fiscal Year Ending February 28, 2023 (March 1, 2022 to February 28, 2023)

(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	(4.5)	2,000	(28.9)	1,870	(32.8)	850	(46.1)	53.56

(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 it to strive to distribute written works to its utmost ability, 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 items serve as our guiding principle as we develop our business based on our mission of “unleashing a virtuous cycle of literary creation” in which the 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 MEDIA DO Group’s management environment in the three months ended May 31, 2022 saw a nationwide lifting of measures to stop the spread of the COVID-19 pandemic. Following this, the fiscal year got off to a strong start amid progress toward the normalization of economic activities.

The eBook market continued to grow on the back of consumers’ rising awareness and the steady progress in the shift from paper books. Meanwhile, in the previous three months ended May 31, 2021, major sales promotion campaigns implemented by certain eBook retailer temporarily boosted sales, but due to the recoil from this, sales and profits both declined year on year.

In the three months ended May 31, 2022, net sales amounted to ¥26,269 million, down 7.5% year on year; operating profit totaled ¥619 million, down 26.0%; ordinary profit was ¥612 million, down 27.7%; and profit attributable to owners of parent came to ¥312 million, down 49.3%.

Furthermore, the Company changed its two previous reporting segments of “eBook distribution business” and “other businesses” to “eBook distribution business” and “strategic investment businesses.”

The eBook distribution business comprises the eBook wholesale business and eBook platform business aimed at further growing the eBook market. The strategic investment businesses comprise the imprint business, publishing solutions business, global business, fan marketing business and the Company’s subsidiaries engaging these businesses, with the objective to create a second revenue axis on par with the eBook wholesale business. In the strategic investment businesses, the Group utilizes its position as a competitive advantage built up through the eBook wholesale business to promote digital transformation (DX) along with operational upgrades and streamlining in the publishing industry as well as develop and provide new solutions and products.

The operating results of each segment during the three months ended May 31, 2022 were as follows.

Year-on-year comparisons below contain figures compared with the new restated segment classification.

(2) Segment information

eBook Distribution Business

In the eBook distribution business, the Group continued to provide distribution and eBook transmission solutions to eBook retailers 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 February 28, 2022).

The market continues to grow and eBook retailers continue to implement sales promotion campaigns. In terms of pirate sites, two major sites were shut down in March 2022 and visitors to all pirate sites in general have fallen by half compared to the peak. The industrywide response to date has been partially attributed to this result, and going forward, we will continue to implement countermeasures while working closely with industry groups, governments and other related parties. On the other hand, in the three months ended May 31, 2022, there was an extended national holiday without pandemic restrictions for the first time in three years, which in some cases led to changes in consumer behavior, such as increased opportunities for physical experiences including going out and in-person services.

Under this operating environment, the Group worked on various activities to streamline distribution, such as improving operating efficiency and building a next-generation core system, aimed at achieving the targets laid out in the new medium-term management plan unveiled in April 2022. In terms of recent developments, the Company revamped its directly owned and operated eBook retailer Comic Navi by entering into a capital and business alliance with Credit Saison Co., Ltd. This alliance will facilitate the shift from direct operations to the execution of bold measures to tap into new customer segments through collaboration with other companies and optimization of business portfolio.

As a result, net sales in the eBook distribution segment came to ¥24,727 million, down 11.5% year on year, and segment income was ¥1,355 million, down 2.1%.

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Strategic Investment Businesses

The strategic investment businesses focused on measures aimed particularly at the deepening of cooperation with TOHAN CORPORATION and the provision of vertical scroll comics.

In the collaborative business with TOHAN, the Company aims to contribute to the transformation of publishing industry by implementing DX across the boundaries of paper/digital and physical/digital.

A steady increase was seen in titles with digital NFT benefits launched in October 2021 following the granting to magazines and there is greater diversity in titles and media, such as manga series in comic magazines and plush toys. This measure has resulted in an average premium of 20% on titles with digital NFT benefits compared to conventional ones and the actual sales rate is trending favorably. This is also contributing to increased membership of the Company's NFT platform "FanTop."

Meanwhile, in terms of vertical scroll comics, using the Group's position capable of providing various functions in the product value chain and Group companies as a foundation, the Group will look to promote partnerships with prominent production studios inside and outside Japan anticipating demand for production likely to increase in the future in an effort to increase production capabilities and upgrade existing functions.

Going forward, the Group will continue with initiatives to create a second revenue axis by proactively investing in earnings improvements and business growth.

As a result, net sales in the Strategic Investment segment totaled ¥1,540 million, up 224.6% year on year, and segment loss amounted to ¥411 million, compared with ¥301 million in the previous equivalent period.

(3) Analysis of financial position

As of May 31, 2022, total assets stood at ¥53,209 million, an increase of ¥700 million from the previous fiscal year-end. This increase was mainly due to an increase in notes and accounts receivable–trade and contract assets of ¥553 million and an increase in intangible assets, such as goodwill and software of ¥954 million despite posting of a decrease in cash and deposits of ¥1,337 million owing to the purchase of shares of subsidiaries.

Total liabilities amounted to ¥37,293 million, up ¥1,697 million from the previous fiscal year-end. This was mainly attributable to an increase in long-term borrowings including the current portion of ¥1,289 million and an increase in notes and accounts payable–trade of ¥731 million, offsetting a decrease in income taxes payable of ¥527 million due to the payment of taxes.

Total net assets stood at ¥15,915 million, an decrease of ¥997 million from the previous fiscal year-end. This was mainly due to a decrease in capital surplus of ¥1,231 million owing to the cancellation of treasury shares, while posting an increase in accumulated other comprehensive income including foreign currency translation adjustment of ¥290 million.

(4) Forecast for the fiscal year ending February 28, 2023

Performance was strong in the three months ended May 31, 2022. Under the medium-term management plan, the MEDIA DO Group will work on "operational transformation and streamlining" and "business model transformation" as a supporter of DX in the content industry, and the Group will work to expand the market and establish a second revenue axis while resolving the issues faced by the content industry. Additionally, the Group will seek to achieve its full-year targets through the steady implementation of various measures, such as content production using new technologies while heightening the value of content as well as facilitation of use of content beyond the boundaries of paper and digital. At the moment, there has been no change to the consolidated earnings forecast for the fiscal year ending February 28, 2023, released on April 14, 2022.

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Consolidated Financial Statements

(1) Consolidated balance sheets

(Millions of yen)

	As of February 28, 2022	As of May 31, 2022
Assets		
Current assets		
Cash and deposits	11,399	10,062
Notes and accounts receivable - trade	23,290	—
Notes and accounts receivable - trade, and contract assets	—	23,843
Other	1,759	2,019
special account for claims on returned goods unsold	(86)	—
Allowance for doubtful accounts	(1)	(0)
Total current assets	36,361	35,925
Non-current assets		
Property, plant and equipment	344	449
Intangible assets		
Goodwill	7,176	7,953
Software	854	916
Software in progress	119	174
Other	811	871
Total intangible assets	8,961	9,916
Investments and other assets		
Investment securities	6,681	6,886
Deferred tax assets	363	329
Guarantee deposits	503	520
Other	32	32
Allowance for doubtful accounts	(739)	(851)
Total investments and other assets	6,841	6,917
Total non-current assets	16,147	17,283
Total assets	52,509	53,209

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	As of February 28, 2022	As of May 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	26,539	27,271
Short-term borrowings	100	107
Current portion of long-term borrowings	1,027	1,312
Income taxes payable	761	234
Provision for bonuses	50	88
Provision for point card certificates	60	—
Provision for sales returns	213	—
Other	1,686	2,085
Total current liabilities	30,439	31,099
Non-current liabilities		
Long-term borrowings	4,443	5,447
Deferred tax liabilities	72	75
Retirement benefit liability	569	586
Other	70	85
Total non-current liabilities	5,156	6,194
Total liabilities	35,596	37,293
Net assets		
Shareholders' equity		
Share capital	5,909	5,909
Capital surplus	7,285	6,053
Retained earnings	3,254	3,189
Treasury shares	(1)	—
Total shareholders' equity	16,447	15,152
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	191	298
Foreign currency translation adjustment	176	360
Total accumulated other comprehensive income	367	658
Share acquisition rights	0	0
Non-controlling interests	97	104
Total net assets	16,912	15,915
Total liabilities and net assets	52,509	53,209

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(2) Consolidated statements of income and comprehensive income

(Millions of yen)

Consolidated statements of income	Three months ended May 31, 2021	Three months ended May 31, 2022
Net sales	28,408	26,269
Cost of sales	26,303	23,643
Gross profit	2,105	2,626
Selling, general and administrative expenses	1,268	2,007
Operating profit	836	619
Non-operating income		
Interest and dividend income	3	1
Foreign exchange gains	—	8
Subsidy income	32	21
Gain on investments in investment partnerships	—	6
Reversal of allowance for doubtful accounts	21	—
Other	2	1
Total non-operating income	60	38
Non-operating expenses		
Interest expenses	8	7
Share issuance costs	15	—
Commission expenses	—	20
Loss on investments in investment partnerships	7	—
Share of loss of entities accounted for using equity method	18	17
Other	0	—
Total non-operating expenses	50	45
Ordinary profit	846	612
Extraordinary income		
Gain on sale of non-current assets	2	0
Gain on change in equity	117	68
Total extraordinary income	119	68
Extraordinary losses		
Loss on retirement of non-current assets	3	24
Provision of allowance for doubtful accounts	52	111
Other	—	26
Total extraordinary losses	55	162
Profit before income taxes	910	518
Income taxes	325	212
Profit	585	306
Loss attributable to non-controlling interests	(32)	(6)
Profit attributable to owners of parent	617	312

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Consolidated statements of Comprehensive income	Three months ended May 31, 2021	Three months ended May 31, 2022
Profit	585	306
Other comprehensive income		
Valuation difference on available-for-sale securities	(245)	106
Foreign currency translation adjustment	110	184
Total other comprehensive income	(134)	290
Comprehensive income	450	597
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	482	603
Comprehensive income attributable to non-controlling interests	(32)	(6)