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

October 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, CSO and CFO Hiroshi Kanda (Tel: +81-3-6212-5111)
 Scheduled date of filing quarterly securities report: October 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 Six Months Ended August 31, 2022 (March 1, 2022 to August 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	%
Six months ended August 31, 2022	54,226	(1.8)	1,335	(20.9)	1,287	(23.5)	628	(24.8)
Six months ended August 31, 2021	55,233	32.3	1,688	10.3	1,683	6.3	836	(8.1)

(Note) Comprehensive income: Six months ended August 31, 2022: ¥1,347 million (114.1%)

Six months ended August 31, 2021: ¥629 million (-33.5%)

	Earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended August 31, 2022	40.50	40.50
Six months ended August 31, 2021	53.12	53.07

(2) Consolidated financial position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
As of August 31, 2022	56,179	16,716	29.6
As of February 28, 2022	52,509	16,912	32.0

(Reference) Shareholders' equity: As of August 31, 2022 ¥16,633 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
FY2020	—	0.00	—	21.00	21.00
FY2022	—	0.00	—	—	—
FY2022 (Forecast)	—	—	—	0.00	0.00

(Note) Revisions to the most recently announced dividend forecast: No

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

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

The MEDIA DO Group’s management environment in the six months ended August 31, 2022 saw a continuing trend toward normalization of economic activities centered on personal consumption amid the easing of various countermeasures and restrictions for preventing the spread of COVID-19. However, it remains difficult to predict exactly when the pandemic itself will end. In addition, the management environment remains uncertain, as seen in globally surging energy and materials prices due to the protraction of the situation in Ukraine and other factors. Moreover, the management environment is being affected by medium- to long-term changes in consumer sentiment, such as fluctuations in financial markets, and the depreciation of the yen due to monetary policy in other countries. The eBook market continued to grow amid consumers’ rising awareness and the steady progress in the shift from paper books. Sales and profits for the six months ended August 31, 2022 both declined year on year owing to the recoil from the temporary increase in sales from large sales promotion campaigns implemented by certain eBook retailers in the same period of the previous fiscal year. In the six months ended August 31, 2022, net sales amounted to ¥54,226 million, down 1.8% year on year; operating profit totaled ¥1,335 million, down 20.9%; ordinary profit was ¥1,287 million, down 23.5%; and profit attributable to owners of parent came to ¥628 million, down 24.8%.

Furthermore, the Group 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, and fan marketing business, 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 six months ended August 31, 2022 were as follows. Furthermore, year-on-year comparisons below contain figures compared with the new restated reporting 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 16,000 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. On the other hand, in the six months ended August 31, 2022, similar to the first quarter, there were changes in consumer behavior, such as increased opportunities for physical experiences including going out and in-person services.

Under this operating environment, the Group continued working 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 addition, as for “Manga Saison,” which was revamped through a capital and business alliance with Credit Saison Co., Ltd. from July 2022, the Company is working to expand services and implement bold measures to tap into new customer bases through collaboration with other companies, shifting from direct operation. The Company will continue to implement various measures to optimize its business portfolio.

As a result, net sales in the eBook distribution segment came to ¥50,731 million, down 3.6% year on year, and segment income was ¥2,754 million, up 7.0%.

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Strategic Investment Businesses

The strategic investment businesses continued to focus on measures aimed 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. In the six months ended August 31, 2022, 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. This measure has not only resulted in an average premium of approximately 30% or more on titles with digital NFT benefits (special edition titles) compared to conventional ones, but also increased the actual sales rate by approximately 30% or more on average. By further promoting this initiative, the Company will seek to increase membership in its NFT platform “FanTop” and develop the publishing industry as a whole while involving various industry players.

Meanwhile, in terms of vertical scroll comics, the Company is working to enhance its product creation capabilities and upgrade existing functions by capitalizing on its established position in the publishing industry, utilizing the functions of Group companies, and promoting partnerships with leading production studios inside and outside Japan anticipating demand for production likely to increase in the future. In June 2022, as the first step, the Company commenced a business alliance with StoryScoop Inc., a production studio in South Korea. 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 Businesses segment totaled ¥3,492 million, up 33.3% year on year, and the segment loss amounted to ¥762 million, compared with ¥380 million in the previous equivalent period.

(3) Analysis of financial position

As of August 31, 2022, total assets stood at ¥56,179 million, an increase of ¥3,670 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 ¥2,366 million and an increase in intangible assets, such as goodwill and software of ¥1,073 million.

Total liabilities amounted to ¥39,462 million, up ¥3,866 million from the previous fiscal year-end. This was mainly attributable to an increase in notes and accounts payable—trade of ¥2,391 million and an increase in long-term borrowings including the current portion of ¥960 million.

Total net assets stood at ¥16,716 million, a decrease of ¥196 million from the previous fiscal year-end. This was mainly due to a decrease in capital surplus of ¥1,206 million owing to the cancellation of treasury shares, while posting an increase in accumulated other comprehensive income including foreign currency translation adjustment of ¥746 million.

(4) Cash flows

Cash and cash equivalents as of August 31, 2022 (“cash”) were ¥11,377 million.

The status of cash flows during the six months ended August 31, 2022, and the main contributory factors, were as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥1,995 million (down 31.1% year on year).

The main cash inflows were profit before income taxes of ¥1,105 million, depreciation of ¥329 million, amortization of goodwill of ¥417 million, an increase in trade payables of ¥2,382 million, and a decrease in consumption taxes refund receivable of ¥447 million. Main cash outflows included an increase in trade receivables of ¥2,302 million, and income taxes paid of ¥670 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥1,901 million, compared to net cash used of ¥5,905 million in the same period of the previous fiscal year.

The main factors were purchase of property, plant and equipment of ¥526 million, purchase of investment securities of ¥257 million, and purchase of shares of subsidiaries resulting in change in scope of consolidation of ¥902 million.

(Cash flows from financing activities)

Net cash used in investing activities was ¥290 million, compared to net cash provided of ¥2,462 million in the same period of the previous fiscal year.

The main cash inflows were proceeds from long-term borrowings of ¥1,580 million. Main cash outflows included repayments of long-term borrowings of ¥619 million, purchase of shares of subsidiaries not resulting in changes in the scope of consolidation of ¥431 million, dividends paid of ¥333 million, and purchase of treasury shares of ¥999 million.

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

Performance was strong in the six months ended August 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 August 31, 2022
Assets		
Current assets		
Cash and deposits	11,399	11,377
Notes and accounts receivable - trade	23,290	—
Notes and accounts receivable - trade, and contract assets	—	25,656
Other	1,759	1,304
Special account for claims on returned goods unsold	(86)	—
Allowance for doubtful accounts	(1)	(0)
Total current assets	36,361	38,338
Non-current assets		
Property, plant and equipment	344	562
Intangible assets		
Goodwill	7,176	7,912
Software	854	978
Software in progress	119	171
Other	811	972
Total intangible assets	8,961	10,035
Investments and other assets		
Investment securities	6,681	7,282
Deferred tax assets	363	282
Guarantee deposits	503	526
Other	32	57
Allowance for doubtful accounts	(739)	(905)
Total investments and other assets	6,841	7,243
Total non-current assets	16,147	17,840
Total assets	52,509	56,179

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	As of February 28, 2022	As of August 31, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	26,539	28,931
Short-term borrowings	100	355
Current portion of long-term borrowings	1,027	1,311
Income taxes payable	761	557
Provision for bonuses	50	52
Provision for point card certificates	60	—
Provision for sales returns	213	—
Other	1,686	2,359
Total current liabilities	30,439	33,568
Non-current liabilities		
Long-term borrowings	4,443	5,120
Deferred tax liabilities	72	81
Retirement benefit liability	569	599
Other	70	94
Total non-current liabilities	5,156	5,894
Total liabilities	35,596	39,462
Net assets		
Shareholders' equity		
Share capital	5,909	5,934
Capital surplus	7,285	6,078
Retained earnings	3,254	3,505
Treasury shares	(1)	—
Total shareholders' equity	16,447	15,518
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	191	421
Foreign currency translation adjustment	176	693
Total accumulated other comprehensive income	367	1,114
Share acquisition rights	0	0
Non-controlling interests	97	82
Total net assets	16,912	16,716
Total liabilities and net assets	52,509	56,179

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(2) Consolidated statements of income and comprehensive income

(Millions of yen)

Consolidated statements of income	Six months ended August 31, 2021	Six months ended August 31, 2022
Net sales	55,233	54,226
Cost of sales	50,294	48,713
Gross profit	4,939	5,512
Selling, general and administrative expenses	3,251	4,177
Operating profit	1,688	1,335
Non-operating income		
Interest and dividend income	8	22
Foreign exchange gains	—	16
Subsidy income	32	20
Gain on investments in investment partnerships	—	3
Reversal of allowance for doubtful accounts	49	—
Other	7	7
Total non-operating income	97	70
Non-operating expenses		
Interest expenses	16	16
Share issuance costs	15	—
Commission expenses	—	20
Loss on investments in investment partnerships	8	—
Share of loss of entities accounted for using equity method	6	41
Donations	50	40
Other	4	—
Total non-operating expenses	102	117
Ordinary profit	1,683	1,287
Extraordinary income		
Gain on sale of non-current assets	2	0
Gain on change in equity	208	68
Total extraordinary income	211	68
Extraordinary losses		
Loss on retirement of non-current assets	20	62
Impairment losses	394	—
Provision of allowance for doubtful accounts	83	165
Other	—	22
Total extraordinary losses	498	251
Profit before income taxes	1,395	1,105
Income taxes	607	504
Profit	788	600
Loss attributable to non-controlling interests	(48)	(28)
Profit attributable to owners of parent	836	628

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Consolidated statements of comprehensive income	Six months ended August 31, 2021	Six months ended August 31, 2022
Profit	788	600
Other comprehensive income		
Valuation difference on available-for-sale securities	(267)	229
Foreign currency translation adjustment	108	517
Total other comprehensive income	(158)	746
Comprehensive income	629	1,347
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	677	1,375
Comprehensive income attributable to non-controlling interests	(48)	(28)

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(3) Consolidated statements of cash flows

(Millions of yen)

	Six months ended August 31, 2021	Six months ended August 31, 2022
Cash flows from operating activities		
Profit before income taxes	1,395	1,105
Depreciation	206	329
Impairment losses	394	—
Amortization of goodwill	328	417
Increase (decrease) in allowance for doubtful accounts	34	164
Increase (decrease) in provision for bonuses	4	1
Increase (decrease) in provision for point card certificates	(17)	(60)
Increase (decrease) in retirement benefit liability	17	12
Interest and dividend income	(8)	(22)
Subsidy income	(32)	(20)
Interest expenses	16	16
Loss (gain) on investments in investment partnerships	8	(3)
Share of loss (profit) of entities accounted for using equity method	6	41
Loss (gain) on change in equity	(208)	(68)
Decrease (increase) in trade receivables	(2,524)	(2,302)
Increase (decrease) in advances received	34	145
Decrease (increase) in inventories	(12)	(19)
Decrease (increase) in prepaid expenses	69	45
Increase (decrease) in trade payables	3,798	2,382
Increase (decrease) in accounts payable - other	(107)	(37)
Increase (decrease) in deposits received	(108)	38
Increase (decrease) in accrued consumption taxes	(66)	(23)
Decrease (increase) in consumption taxes refund receivable	382	447
Other, net	(120)	44
Subtotal	3,492	2,634
Interest and dividends received	8	26
Subsidies received	32	20
Interest paid	(16)	(16)
Income taxes paid	(622)	(670)
Net cash provided by (used in) operating activities	2,894	1,995

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	Six months ended August 31, 2021	Six months ended August 31, 2022
Cash flows from investing activities		
Purchase of property, plant and equipment	(17)	(179)
Purchase of intangible assets	(293)	(526)
Purchase of investment securities	(2,970)	(257)
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,627)	(902)
Payments of guarantee deposits	(4)	(47)
Proceeds from refund of guarantee deposits	5	26
Other, net	1	(15)
Net cash provided by (used in) investing activities	(5,905)	(1,901)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	—	248
Proceeds from long-term borrowings	—	1,580
Repayments of long-term borrowings	(592)	(619)
Proceeds from issuance of shares	2,987	—
Expenditure for acquisition of own stock acquisition rights	(10)	—
Proceeds from issuance of shares with restriction of transfer	—	49
Proceeds from share issuance to non-controlling shareholders	400	215
Purchase of shares of subsidiaries not resulting in change in scope of consolidation	—	(431)
Dividends paid	(322)	(333)
Purchase of treasury shares	(0)	(999)
Net cash provided by (used in) financing activities	2,462	(290)
Effect of exchange rate change on cash and cash equivalents	111	174
Net increase (decrease) in cash and cash equivalents	(436)	(22)
Cash and cash equivalents at beginning of period	12,703	11,399
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	(318)	—
Cash and cash equivalents at end of period	11,948	11,377