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Summary of Consolidated Financial Results for the Nine Months Ended November 30, 2022 (Based on Japanese GAAP)

January 16, 2023

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 Nine Months Ended November 30, 2022 (March 1, 2022 to November 30, 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	%
Nine months ended November 30, 2022	78,040	(0.9)	1,835	(18.4)	1,760	(21.1)	441	(59.7)
Nine months ended November 30, 2021	78,767	27.0	2,250	4.6	2,230	1.5	1,096	(13.3)

(Note) Comprehensive income: Nine months ended November 30, 2022: ¥1,287 million (39.4%)

Nine months ended November 30, 2021: ¥923 million (-15.6%)

	Earnings per share		Diluted earnings per share	
	Yen		Yen	
Nine months ended November 30, 2022	28.53		28.53	
Nine months ended November 30, 2021	69.46		69.40	

(2) Consolidated financial position

	Total assets		Net assets		Equity ratio	
	Millions of yen		Millions of yen		%	
As of November 30, 2022	51,345		16,608		32.2	
As of February 28, 2022	52,509		16,912		32.0	

(Reference) Shareholders' equity: As of November 30, 2022 ¥16,548 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	101,000	(3.6)	2,250	(20.0)	2,100	(24.5)	900	(42.9)	58.19

(Note) Revisions to forecast of financial results in this quarter: Yes

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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 nine months ended November 30, 2022 was boosted by signs of a recovery in personal consumption amid progress being made in the normalization of economic activities despite the ongoing effects of the COVID-19 pandemic. Nevertheless, uncertainty remains, as seen in globally surging energy and materials prices due to the protraction of the situation in Ukraine and other factors, not to mention the fact that the COVID-19 pandemic has yet to be fully contained. Additionally, 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 entrenchment of the shift from paper books. Sales and profits for the nine months ended November 30, 2022 both declined year on year owing to the ongoing impacts from 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.

Furthermore, in the nine months ended November 30, 2022, the Company recorded an impairment of goodwill related to its consolidated subsidiary Nagisa, Inc. and impairment losses for software associated with the social video viewing app called GREET*, which was subsequently unwound in December 2022.

As a result, In the nine months ended November 30, 2022, net sales amounted to ¥78,040 million, down 0.9% year on year; operating profit totaled ¥1,835 million, down 18.4%; ordinary profit was ¥1,760 million, down 21.1%; and profit attributable to owners of parent came to ¥441 million, down 59.7%.

* To seize the trend of increasing demand for video streaming services, the Company focused on the enjoyment of simultaneous viewing of videos among users, and developed and provided this service and launched this service in December 2021 as a social video viewing app that allows users to watch official videos of all genres such as music videos, live videos, short films, and lifestyle programs with anyone in online screenings.

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 nine months ended November 30, 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).

Under this operating environment, the Group continued working on various activities to streamline distribution, by pursuing operational

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excellence through improvement of operating efficiency and building of 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 further expand services and improve usability, such as linking loyalty points with “Eikyufumetsu points (points that never expire)” starting on October 31, 2022, as a bold measure to tap into new customer bases through collaboration with other companies, shifting from direct operation.

Consequently, net sales in the eBook distribution segment came to ¥72,632 million, down 2.6% year on year, and segment income was ¥3,993 million, up 9.1%.

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. As for publications with digital NFT benefits launched in October 2021, the Company is not only making steady progress with increasing the number of titles and diversifying media, but also has established a track record where the selling prices and sell through ratio of publications with digital NFT benefits are both higher than paper books at over 30% each. 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 upgrade its existing functions, such as enhancing its original product creation capabilities, along with procurement and distribution of overseas works, 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 December 2022, the Company made an investment in Contents Lab, Blue Co., Ltd., a production studio located 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 ¥5,405 million, up 28.0% year on year, and the segment loss amounted to ¥1,129 million, compared with ¥578 million in the previous equivalent period.

(3) Analysis of financial position

As of November 30, 2022, total assets stood at ¥51,345 million, a decrease of ¥1,163 million from the previous fiscal year-end. This decrease was mainly due to a decrease in notes and accounts receivable—trade and contract assets of ¥1,514 million and a decrease in cash and deposits of ¥1,019 million while recording increases in investment securities of ¥553 million and intangible assets, such as goodwill and software of ¥495 million.

Total liabilities amounted to ¥34,736 million, down ¥859 million from the previous fiscal year-end. This was attributable to an increase in long-term borrowings including the current portion of ¥631 million and a decrease in notes and accounts payable—trade of ¥1,412 million.

Total net assets stood at ¥16,608 million, a decrease of ¥304 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 ¥897 million.

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

The Group's consolidated results in the nine months ended November 30, 2022 indicated strong net sales because of the growth of the eBook market and the fact that impacts associated with changes in the sales channels of major business partner was less than initially expected. At the same time, events also occurred affecting business results, such as recording an impairment of goodwill related to consolidated subsidiary Nagisa, Inc. and impairment losses of software associated with the unwinding of GREET* services. Given these changes, and from the perspective of proactively disclosing information for investors that is useful to making an informed investment decision, the Company has revised the full-year earnings forecast figures first released on April 14, 2022. For details, see the press release “Notice regarding extraordinary loss and upward revisions to full-year earnings forecast” released today.

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Consolidated Financial Statements

(1) Consolidated balance sheets

(Millions of yen)

	As of February 28, 2022	As of November 30, 2022
Assets		
Current assets		
Cash and deposits	11,399	10,380
Notes and accounts receivable - trade	23,290	—
Notes and accounts receivable - trade, and contract assets	—	21,776
Other	1,759	1,866
special account for claoms on returned goods unsold	(86)	—
Allowance for doubtful accounts	(1)	(0)
Total current assets	36,361	34,022
Non-current assets		
Property, plant and equipment	344	679
Intangible assets		
Goodwill	7,176	7,480
Software	854	846
Software in progress	119	104
Other	811	1,026
Total intangible assets	8,961	9,457
Investments and other assets		
Investment securities	6,681	7,234
Deferred tax assets	363	287
Guarantee deposits	503	509
Other	32	65
Allowance for doubtful accounts	(739)	(909)
Total investments and other assets	6,841	7,186
Total non-current assets	16,147	17,322
Total assets	52,509	51,345

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(Millions of yen)

	As of February 28, 2022	As of November 30, 2022
Liabilities		
Current liabilities		
Notes and accounts payable - trade	26,539	25,127
Short-term borrowings	100	354
Current portion of long-term borrowings	1,027	1,310
Income taxes payable	761	93
Provision for bonuses	50	91
Provision for point card certificates	60	—
Provision for sales returns	213	—
Other	1,686	2,149
Total current liabilities	30,439	29,126
Non-current liabilities		
Long-term borrowings	4,443	4,792
Deferred tax liabilities	72	83
Retirement benefit liability	569	615
Other	70	117
Total non-current liabilities	5,156	5,610
Total liabilities	35,596	34,736
Net assets		
Shareholders' equity		
Share capital	5,909	5,934
Capital surplus	7,285	6,078
Retained earnings	3,254	3,318
Treasury shares	(1)	(48)
Total shareholders' equity	16,447	15,282
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	191	403
Foreign currency translation adjustment	176	861
Total accumulated other comprehensive income	367	1,265
Share acquisition rights	0	0
Non-controlling interests	97	59
Total net assets	16,912	16,608
Total liabilities and net assets	52,509	51,345

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(2) Consolidated statements of income and comprehensive income

(Millions of yen)

Consolidated statements of income	Nine months ended November 30, 2021	Nine months ended November 30, 2022
Net sales	78,767	78,040
Cost of sales	71,438	69,801
Gross profit	7,328	8,239
Selling, general and administrative expenses	5,078	6,403
Operating profit	2,250	1,835
Non-operating income		
Interest and dividend income	7	24
Foreign exchange gains	—	27
Subsidy income	3	—
Subsidy income	34	20
Gain on investments in investment partnerships	7	3
Reversal of allowance for doubtful accounts	60	—
Other	7	4
Total non-operating income	119	80
Non-operating expenses		
Interest expenses	24	24
Share issuance costs	15	—
Commission expenses	—	20
Share of loss of entities accounted for using equity method	41	71
Donations	50	40
Other	8	—
Total non-operating expenses	139	155
Ordinary profit	2,230	1,760
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	140
Impairment losses	394	459
Provision of allowance for doubtful accounts	138	169
Other	—	22
Total extraordinary losses	554	792
Profit before income taxes	1,887	1,035
Income taxes	857	645
Profit	1,030	390
Loss attributable to non-controlling interests	(66)	(51)
Profit attributable to owners of parent	1,096	441

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Consolidated statements of comprehensive income	Nine months ended November 30, 2021	Nine months ended November 30, 2022
Profit	1,030	390
Other comprehensive income		
Valuation difference on available-for-sale securities	(232)	211
Foreign currency translation adjustment	125	685
Share of other comprehensive income of entities accounted for using equity method	—	(0)
Total other comprehensive income	(106)	897
Comprehensive income	923	1,287
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	989	1,339
Comprehensive income attributable to non-controlling interests	(66)	(51)