

# BRIEF STATEMENT OF CONSOLIDATED FINANCIAL RESULTS FOR THE 2nd QUARTER OF THE FISCAL YEAR ENDING MARCH 2021

This is an English translation of summarized consolidated financial results prepared for the convenience of non-resident shareholders. Should there be any inconsistency between the translation and the official Japanese text, the latter shall prevail.

November 13, 2020

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(URL <http://www.faith.co.jp/>)

Date of Submission of Securities Report: Nov. 13, 2020 Starting Date of the Dividend Payment: Dec. 10, 2020  
Preparation of Supplementary Materials for Quarterly Financial Results: Applicable  
Information Meeting for Quarterly Financial Results to be Held: None

Amounts are rounded down to the nearest JPY 1 million.

## 1. Results for the 2nd Quarter of the Fiscal Year Ending March 2021 (From April 1, 2020 to September 30, 2020)

### (1) Consolidated Operating Results

(Percentages indicate changes compared with the same quarter of the previous fiscal year.)

Q2 of the year ending	Net Sales		Operating Income		Ordinary Income		Net Income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 2021	10,000	△1.8	552	65.0	667	74.1	315	—
March 2020	10,184	△3.9	334	52.9	383	97.3	△373	—

(Note) Comprehensive income: 2nd quarter of the fiscal year ending March 2021: ¥1,362 million (—%); 2nd quarter of fiscal year ending March 2020: △¥219 million (—%)

	Net Income per Share	Diluted Net Income per Share
Q2 of the year ending	Yen	Yen
March 2021	25.00	—
March 2020	△28.16	—

### (2) Consolidated Financial Position

	Total Assets	Net Assets	Ratio of Equity Capital
Q2 of the year ending	Millions of yen	Millions of yen	%
March 2021	26,225	17,736	67.6
Year ending March 2020	24,746	16,439	66.4

(Reference) Equity capital: 2nd quarter of fiscal year ending March 2021: ¥17,736 million; fiscal year ending March 2020: ¥16,439 million

## 2. Dividends

(Record dates)	Dividends per Share				
	1 <sup>st</sup> Quarter	Interim	3 <sup>rd</sup> Quarter	Year-end	Total
Year ending March 2020	Yen	Yen	Yen	Yen	Yen
Year ending March 2021	—	5.00	—	5.00	10.00
Year ending March 2021 (Forecast)	—	5.00	—	5.00	10.00

(Note) These figures have not been modified since the time of the most recently announced dividend forecast.

## 3. Forecast for the Consolidated Results for the Year Ending March 2021 (from April 1, 2020 to March 31, 2021)

(Percentages indicate changes compared with the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to the Shareholders of the Parent Company		Net Income per Share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	20,000	△0.5	430	11.7	520	10.2	60	—	4.75

(Note) These figures have not been modified since the time of the most recently announced business result forecast.

\* Notes

- (1) Changes in significant subsidiaries (accompanying changes in scope of consolidation): None  
Newly added subsidiaries: 0 companies (subsidiary's name: )  
Removed subsidiaries: 0 companies (subsidiary's name: )
- (2) Adoption of simplified accounting practices or specific procedures in preparation of the quarterly consolidated financial reports: Applicable  
\* For details, please refer to "2. Consolidated Financial Statements and Important Explanatory Notes, (4) Notes Concerning the Consolidated Financial Statements (Adoption of Simplified Methods in the Preparation of the Quarterly Financial Statements)" on page 12 of the accompanying material.
- (3) Changes in accounting policy, changes in accounting estimates, and restatements  
(i) Changes accompanying revisions of accounting standards, etc.: None  
(ii) Changes other than the above: None  
(iii) Changes in accounting estimates: None  
(iv) Restatements: None
- (4) Outstanding shares (common shares)  
(i) Outstanding shares at the end of the term (including treasury shares):  
The 2nd quarter of the fiscal year ending March 2021: 13,831,091 shares  
The fiscal year ending March 2020: 13,831,091 shares  
(ii) Treasury shares at the end of the term:  
The 2nd quarter of the fiscal year ending March 2021: 1,202,410 shares  
The fiscal year ending March 2020: 1,201,840 shares  
(iii) Average number of shares during the interim accounting period:  
The 2nd quarter of the fiscal year ending March 2021: 12,628,981 shares  
The 2nd quarter of the fiscal year ending March 2020: 13,249,524 shares

(Note) The number of shares of treasury stock at the end of the period includes the Company's shares contributed as trust assets in the performance-based stock compensation plan (2nd quarter of fiscal year ending March 2021: 262,500 shares, fiscal year ending March 2020: 262,500 shares).

Moreover, such shares are also included in the treasury shares that are deducted in calculating the average number of shares during the period (the 2nd quarter of the fiscal year ending March 2021: 262,500 shares, the 2nd quarter of the fiscal year ending March 2020: 43,750 shares).

\* This financial results report is exempt from quarterly review procedures.

\* Statement regarding the proper use of financial forecasts and other special remarks

(Notice regarding statements concerning the future)

Statements concerning the future, such as performance forecasts, etc., described in the present material are based on information currently available to the Company and on certain assumptions judged as reasonable by the Company. The Company's actual performance may differ substantially from these forecasts as a result of various factors beyond the Company's control. For details of cautions, etc., employed in making performance forecasts and the assumptions underlying performance forecasts, please refer to "1. Qualitative Information Concerning the Settlement of Accounts for the 2nd Quarter, (3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc." on page 5 of the accompanying material.

(To obtain supplemental documents relating to financial results)

Supplemental materials related to the Company's quarterly and other financial results are posted on the company website.

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## 1. Qualitative Information Concerning the Settlement of Accounts for the 2nd Quarter

### (1) Explanation Concerning the Operating Results

In the Japanese information and communications field in 2019, the Internet penetration rate remained high at 89.8%, and the percentage of households owning one or more smartphones reached 83.4%, exceeding the percentage of households that own personal computers <sup>(\*)1</sup>. In addition, while the movement away from television has continued since the year 2000, mainly centered on younger people, advertising expenses for the Internet in Japan increased by 19.7% in 2019 from the previous year to ¥2,104.8 billion, exceeding advertising expenses for television of ¥1,861.2 billion for the first time <sup>(\*)2</sup>. Moreover, due to the impact of the spread of the novel coronavirus (COVID-19) pandemic, services that allow people to stay online while communicating at home are becoming widespread, and new lifestyle choices such as teleworking and “contactless” consumer behavior are beginning to permeate society. Under these circumstances, it is expected that the shift to services in accordance with the era of digitalization will further accelerate as the Internet usage rate rises, smartphones become even more widespread, and G5 communication services develop.

\*1. Source: Ministry of Internal Affairs and Communications, *2019 Telecommunications Usage Trend Survey Results*

\*2. Source: Dentsu Inc., *2019 Advertising Expenditures in Japan*

In the entertainment market in 2019, sales in the global music market centered on streaming services grew by 8.2% year-on-year to approximately ¥2,198.4 billion (US\$20.2 billion), marking its fifth consecutive year of sales growth <sup>(\*)3</sup>. Meanwhile in Japan, the production value of music software including music videos decreased by 5% year-on-year to ¥229.1 billion, and sales of packaged products continued to decline, but sales of fee-based music distribution increased by 10% to ¥70.6 billion <sup>(\*)4</sup>. In the paid music distribution sales category, in the first quarter of 2020, streaming sales increased by 28% year-on-year to account for 75% of total paid music distribution sales <sup>(\*)5</sup>. On the other hand, large-scale events and live concerts have been postponed and canceled due to the spread of COVID-19, and it is estimated that the size of the live entertainment market in 2020 will shrink to less than 30% of the previous year's level <sup>(\*)6</sup>. However, many artists are experimenting with new ways of enjoying live entertainment and their efforts are beginning to permeate the market, such as “non-audience live distribution” concerts in which they perform “live” without an audience at the venue and the sights and sounds of the performance are distributed in real time to audiences via the Internet. It is estimated that the size of the digital live performance market will reach ¥14 billion in 2020, and it is projected to grow rapidly to ¥31.4 billion in 2021, which is about 2.2 times the previous year's scale <sup>(\*)7</sup>.

\*3. Source: IFPI, *Global Music Report 2020 - THE INDUSTRY IN 2019*

\*4. Source: Recording Industry Association of Japan (RIAJ), *The Recording Industry in Japan 2020*

\*5. Source: Recording Industry Association of Japan (RIAJ), April-June 2020 music distribution sales quarterly figures

\*6. Source: PIA Research Institute, *Japanese Live Entertainment Market Size Preliminary Report* (published June 30, 2020)

\*7. Source: CyberZ Co., Ltd., *Domestic Digital Live Entertainment Market Trend Survey*

Founded in 1992, Faith was the first company in the world to commercialize ringtones, and has steadily grown centered on the music distribution business and in step with the popularization of mobile phones. However, the spread of smartphones in today's music market has been accompanied by the diversification of media such as streaming, user upload content (UUC) that allows general users to easily transmit information to society, and social media, with the result that all kinds of activities in the music industry are now changing, including content distribution methods, consumption styles and content production methods.

In the current environment, the Faith Group is continuing to utilize the results of the efforts it has been pouring into digital content distribution ever since its establishment, and is forging ahead with its Multi-Content and Multi-Device Strategy of creating environments in which people can enjoy a wide diversity of contents whenever and wherever they choose. We are also strengthening the development of new services in response to the changing market environment, which includes platforms that collect and organize the information flooding the Internet and then providing this to users after increasing its added value.

In June 2020, Faith launched a new service called Thumva, which is an innovative live performance distribution platform with a variety of additional features. An Internet-based viewing service that provides a new kind of live experience, Thumva makes possible group viewing and commenting, includes a gifting function for artists, and allows the audience to share in the uplifting and united feeling of taking part in a live performance without actually being at the venue. A considerable number of artists have already

performed “live” on Thumva without a live audience, and we are planning to continue live broadcasting with a variety of lineups in future. Around 120 performances have been distributed in the five months since the service started, and the number of registered members exceeds 100,000 (as of October 2020).

At Tokyo's largest music lounge, the Faith-operated PLUSTOKYO, after taking necessary measures in accordance with the Tokyo Metropolitan Infectious Disease Spread Prevention Guidelines, the facility is gradually resuming operations on the main 12th floor following the reopening of the rooftop floor. In addition, CROKET MIMIC TOKYO, an entertainment facility that provides world-class performances centered on impersonation, has started live distribution of the original content produced using Thumva, and in the future, we will continue to demonstrate synergistic effects among the Faith Group’s businesses.

Regarding the Faith Group’s business performance for the second quarter of the consolidated fiscal year ending March 2021, sales in the Content Business continued to decrease in accordance with the decline in sales of existing distribution services, which account for a major share of overall sales, and with the suspension of store operations in order to prevent COVID-19 infections. In this situation, sales decreased by 1.8% year-on-year to ¥10,000 million. As for profitability, in keeping with the improvement in the profit margin of the Label Business, operating income increased by 65.0% year-on-year to ¥552 million and ordinary income increased by 74.1% year-on-year to ¥667 million. Meanwhile, net income attributable to shareholders of the parent company totaled ¥315 million (compared to a net loss attributable to shareholders of the parent company of ¥373 million for the same period of the previous year).

Information on each business segment is as follows.

### ***Content Business***

In the Content Business, while sales in the existing distribution business continue to decline, the Faith Group is actively promoting business development in Asian countries and other markets where high growth rates are expected. In addition, we are interlinking and platforming various services in an effort to develop new products and services and grasp diversified revenue opportunities, and we will continue to invest in growth areas in future.

We are actively developing FaRao PRO not only as a service providing business BGM but also for sales activities focused on expanding the functions necessary for store management, such as solutions and announcement functions that make store-branding proposals. In addition to conventional products using tablet devices, we have also released an app-version service that offers users reduced initial costs and we are working to strengthen retail store sales through collaboration with the Point Service Business. Moreover, based on our Japanese service, we have started FaRao PRO services in Indonesia, and for the future we are aiming to create and activate new BGM markets both in Japan and overseas.

In Fans’, our platform of services for artists based on the D2C <sup>(\*)8</sup> business model, which is expected to expand in future, we are enhancing the functions essential to artists’ musical activities such as official website construction, music and video distribution, sales of artist goods, and fan club operation. We are working to further expand the functions of Fans’ such as introducing a system that contributes to the creation of communities by spreading information transmitted by creators through strengthened cooperation with SNS. We are also aiming to acquire new users and expand the membership base of Fans’ as a service that allows more artists to disseminate their works and information freely, and we will endeavor to improve the quality of the service by pursuing enhanced convenience.

<sup>(\*)8</sup>. Abbreviation of “Direct to Consumer”

—a business model for delivering services and products planned and manufactured by Faith directly to users

Regarding the performance of this segment, due to a decrease in carrier official website service sales and to the suspension of store operations in line with the spread of COVID-19 infections, the Content Business recorded net sales of ¥1,465 million (a decrease of 21.0% year-on-year), and an operating loss of ¥284 million (compared with an operating loss of ¥315 million for the same period of the previous fiscal year).

### ***Point Service Business***

In the Point Service Business, in addition to providing point issue services to retail stores, we offer total support for point issue data acquisition, analysis and sales promotion utilization as a series of cycles from planning to operation, and we provide outsourcing services that maximize retail sales promotion efficiency.

Regarding the performance of this segment, the issue of points at existing member stores increased substantially, with the result that net sales increased by 22.3% year-on-year to ¥1,753 million and operating income increased by 132.1% year-on-year to ¥174 million.

### ***Label Business***

Amid the difficult environment facing the music and video-related industry in line with the continuing shrinkage of the music market, the Label Business is proceeding with its strategy of strengthening new future-oriented businesses in order to overcome the present situation in which it remains dependent on sales of package products for which the market remains sluggish. In order to continue to play a major role in the music industry in future and expand its revenue, in addition to pursuing the creation of hit products, artist management, and investment in the live performance business, we consider it necessary to introduce new services that anticipate the ever-changing market environment.

Regarding the performance of this segment, sales decreased by 1.6% year-on-year to ¥6,782 million due to delays in releases of titles and to a decrease in the activities of affiliated artists in the course of the effort to prevent the spread of COVID-19 infections. However, operating income increased by 15.4% year-on-year to ¥660 million thanks to strong sales of animation titles and to an increase in sales of high-margin titles released in previous years.

\*Product and service names appearing in this document are trademarks or registered trademarks of Faith, Inc. either in Japan or in other countries.

## (2) Explanation Concerning the Financial Position

### (Analysis of Financial Position)

As of the end of the second quarter of the current consolidated fiscal year ending March 2021 (September 30, 2020), total assets increased by ¥1,478 million compared to the end of the previous consolidated fiscal year to ¥26,225 million. This result was mainly due to an increase in investment securities.

Total liabilities increased by ¥181 million compared to the end of the previous consolidated fiscal year to ¥8,489 million. This result was mainly due to a decrease of ¥350 million in accounts and notes payable, an increase of ¥199 million in asset retirement obligations (current liabilities), an increase of ¥451 million in deferred tax liabilities, and a decrease of ¥67 million in other fixed liabilities.

Net assets increased by ¥1,297 million compared to the end of the previous consolidated fiscal year to ¥17,736 million. This was mainly due to the recording of a quarterly net income attributable to the shareholders of the parent company and to an increase in the valuation difference on other securities.

As a result of the above, the equity ratio increased by 1.2 percentage points to 67.6%.

### (Cash Flow Situation)

The balance of cash and cash equivalents at the end of the second quarter of the current consolidated fiscal year was ¥13,333 million, an increase of ¥748 million from the end of the previous consolidated fiscal year. Details of cash flow for the consolidated cumulative second quarter and its contributory factors are as follows:

### (Cash Flow from Operating Activities)

Cash flow from operating activities amounted to an inflow of ¥934 million (compared with an inflow of ¥1,093 million for the same period of the previous fiscal year), due mainly to the recording of ¥635 million in respect of a gain in net income before income taxes and other adjustments, ¥109 million in respect of depreciation expenses, ¥172 million in respect of an increase in the reserve for bonuses, ¥569 million in respect of a decrease in trade receivables, ¥190 million in respect of a decrease in inventory assets, ¥372 million in respect of a decrease in trade payables, and ¥271 million in respect of payment of income taxes, etc.

(Cash Flow from Investing Activities)

Cash flow from investing activities amounted to an inflow of ¥27 million (compared with an outflow of ¥404 million for the same period of the previous fiscal year), due mainly to the recording of ¥18 million in respect of expenditure for the acquisition of tangible fixed assets, ¥35 million in respect of expenditure for the acquisition of software, and ¥76 million in respect of income from the distribution of profits from investment partnerships, etc.

(Cash Flow from Financing Activities)

Cash flow from financing activities amounted to an outflow of ¥211 million (compared with an inflow of ¥519 million for the same period of the previous fiscal year), due mainly to expenditure in respect of repayment of long-term borrowing.

(3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc.

Performance forecasts are made based on information currently available to the Company, but there is a possibility that the actual performance figures will differ significantly from the forecast figures due to a variety of factors. In addition, the current performance forecast for the full financial year is unchanged from the forecast issued on November 11, 2020.

## 2. Consolidated Financial Statements and Important Explanatory Notes

### (1) Consolidated Balance Sheet

	(Unit: thousands of yen)	
	FY 2019	2nd Quarter of FY 2020
	(As of March 31, 2020)	(As of Sept. 30, 2020)
(Assets)		
Current assets		
Cash and deposits	12,635,849	13,383,858
Accounts and notes receivable	2,199,541	1,550,211
Marketable securities	230,879	231,715
Commercial products	446,811	307,780
Products in progress	578,771	548,965
Primary materials and inventory goods	75,973	54,209
Corporation tax refund receivable, etc.	68,295	0
Other current assets	482,059	643,984
Allowance for doubtful accounts	△18,532	△19,018
Total current assets	16,699,651	16,701,708
Fixed assets		
Tangible fixed assets	2,646,472	2,816,679
Intangible fixed assets		
Goodwill	1,520,453	1,458,074
Other fixed assets	455,507	437,908
Total intangible fixed assets	1,975,960	1,895,983
Investment and other assets		
Investment securities	2,145,096	3,603,774
Deferred tax assets	765,419	726,551
Other intangible fixed assets	1,037,457	1,029,327
Allowance for doubtful accounts	△523,083	△548,267
Total investments and other assets	3,424,888	4,811,386
Total fixed assets	8,047,321	9,524,048
Total assets	24,746,972	26,225,756
(Liabilities)		
Current liabilities		
Accounts and notes payable	1,039,823	689,561
Short-term loans payable	609,900	568,700
Accrued expenses payable	2,725,341	2,743,128
Income taxes payable	341,858	303,829
Reserve for bonuses	347,424	263,861
Reserve for point card certificates	364	376
Reserve for sales returns	90,279	46,033
Asset retirement obligations	—	199,875
Other current liabilities	1,531,411	1,785,922
Total current liabilities	6,686,405	6,601,288
Fixed liabilities		
Long-term loans payable	440,350	334,200
Net defined retirement benefits	652,153	633,451
Reserve for stock benefits for directors	16,401	23,240
Asset retirement obligations	39,183	39,183
Deferred tax liabilities	333,275	785,085
Other fixed liabilities	140,191	72,856
Total fixed liabilities	1,621,554	1,888,017
Total liabilities	8,307,960	8,489,306

	(Unit: thousands of yen)	
	FY 2019	2nd Quarter of FY 2020
	(As of March 31, 2020)	(As of Sept. 30, 2020)
(Net assets)		
Shareholder's equity		
Common stock	3,218,000	3,218,000
Capital surplus	2,840,095	2,840,084
Retained earnings	10,854,165	11,105,468
Treasury stock	△1,124,344	△1,124,793
Total shareholder's equity	<u>15,787,916</u>	<u>16,038,760</u>
Other accumulated comprehensive income		
Valuation difference on available-for-sale securities	737,236	1,765,396
Foreign currency translation adjustments	△21,026	△21,949
Cumulative adjustment for retirement benefit obligations	△65,114	△45,756
Total other accumulated comprehensive income	<u>651,096</u>	<u>1,697,690</u>
Non-controlling interests	—	—
Total net assets	<u>16,439,012</u>	<u>17,736,450</u>
Total liabilities and net assets	<u>24,746,972</u>	<u>26,225,756</u>

(2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income  
(Consolidated Statement of Income)

	(Unit: thousands of yen)	
	2nd Quarter of FY 2019 (April 1-Sept.30, 2019)	2nd Quarter of FY 2020 (April 1-Sept. 30, 2020)
Net sales	10,184,452	10,000,737
Cost of sales	6,313,497	6,286,940
Gross profit	3,870,954	3,713,796
Selling, general and administrative expenses	3,536,220	3,161,335
Operating income	334,734	552,461
Non-operating income		
Interest income	149	148
Dividend income	3,005	3,053
Interest on securities	73	8
Gain on equity method investment	24,140	38,031
Gain on investment partnership management	41,014	78,010
Gain on valuation of investment securities	3,177	1,114
Grant income	—	31,664
Miscellaneous receipts	6,938	22,872
Total non-operating income	78,499	174,903
Non-operating expenses		
Interest paid	2,979	3,094
Loss on investment partnership management	9,556	50,282
Loss on valuation of investment securities	432	—
Loss on foreign exchange	9,866	289
Miscellaneous expenses	7,011	6,059
Total non-operating expenses	29,845	59,726
Ordinary income	383,388	667,638
Extraordinary losses		
Loss on disposal of fixed assets	102	672
Loss on sale of investment securities	—	4,931
Loss on valuation of investment securities	549,999	26,757
Total extraordinary losses	550,102	32,360
Net income or net loss before income taxes ( $\Delta$ = net loss)	$\Delta$ 166,713	635,277
Corporate, local, and business taxes	211,488	280,980
Income taxes - deferred	$\Delta$ 5,088	38,534
Current quarter net income or net loss ( $\Delta$ = net loss)	$\Delta$ 373,114	315,762
Current quarter net income attributable to non-controlling interests	—	—
Current quarter net income or net loss attributable to shareholders of the parent company ( $\Delta$ = net loss)	$\Delta$ 373,114	315,762

(Consolidated Statement of Comprehensive Income)

	(Unit: thousands of yen)	
	2nd Quarter of FY 2019	2nd Quarter of FY 2020
	(April 1-Sept. 30, 2019)	(April 1-Sept. 30, 2020)
Current quarter net income or net loss ( $\Delta$ = net loss)	$\Delta$ 373,114	315,762
Other comprehensive income		
Valuation difference on other available-for-sale securities	149,711	1,028,159
Foreign currency translation adjustments	$\Delta$ 10,420	$\Delta$ 923
Retirement benefit adjustments	14,737	19,358
Total other comprehensive income	<u>154,028</u>	<u>1,046,594</u>
Comprehensive income	<u><math>\Delta</math>219,085</u>	<u>1,362,356</u>
(Details)		
Comprehensive income attributable to shareholders of the parent company	$\Delta$ 219,085	1,362,356
Comprehensive income attributable to non-controlling interests	—	—

## (3) Consolidated Statement of Cash Flows

	(Unit: thousands of yen)	
	2nd Quarter of FY 2019 (April 1-Sept. 30, 2019)	2nd Quarter of FY 2020 (April 1-Sept. 30, 2020)
Cash flow from operating activities		
Gain or loss before income taxes and other adjustments ( $\Delta$ = loss)	$\Delta$ 166,713	635,277
Depreciation expenses	156,036	109,936
Amortization of goodwill	52,949	62,378
Increase/decrease in allowance for doubtful accounts ( $\Delta$ = decrease)	24,957	25,670
Increase/decrease in reserve for bonuses ( $\Delta$ = decrease)	3,351	172,270
Increase/decrease in reserve for point card certificates ( $\Delta$ = decrease)	345	11
Increase/decrease in liabilities for retirement benefits ( $\Delta$ = decrease)	7,378	$\Delta$ 18,701
Increase/decrease in reserve for stock benefits for directors ( $\Delta$ = decrease)	—	6,839
Interest and dividend income	$\Delta$ 3,154	$\Delta$ 3,201
Gain or loss on valuation of securities ( $\Delta$ = gain)	$\Delta$ 2,745	$\Delta$ 1,114
Interest on securities	$\Delta$ 73	$\Delta$ 8
Interest paid	2,979	3,094
Grant income	—	$\Delta$ 31,664
Gain or loss on foreign exchange ( $\Delta$ = gain)	1,104	46
Gain or loss on equity method investment ( $\Delta$ = gain)	$\Delta$ 24,140	$\Delta$ 38,031
Gain or loss on investment partnership management ( $\Delta$ = gain)	$\Delta$ 31,458	$\Delta$ 27,727
Gain or loss on sale of investment securities ( $\Delta$ = gain)	—	4,931
Gain or loss on valuation of investment securities ( $\Delta$ = gain)	549,999	26,757
Gain or loss on disposal of fixed assets ( $\Delta$ = gain)	12	672
Increase/decrease in trade receivables ( $\Delta$ = increase)	588,080	569,359
Increase/decrease in inventory assets ( $\Delta$ = increase)	$\Delta$ 120,201	190,600
Increase/decrease in trade payables ( $\Delta$ = decrease)	3,881	$\Delta$ 372,834
Others	$\Delta$ 92,541	$\Delta$ 181,154
Sub-total	950,048	1,133,406
Grants received	—	5,204
Interest and dividends received	3,228	2,652
Interest paid	$\Delta$ 2,575	$\Delta$ 3,094
Income tax refunded	210,963	68,295
Income tax paid	$\Delta$ 68,094	$\Delta$ 271,813
Cash flow from operating activities	1,093,570	934,650

	(Unit: thousands of yen)	
	2nd Quarter of FY 2019 (April 1-Sept. 30, 2019)	2nd Quarter of FY 2020 (April 1-Sept. 30, 2020)
Cash flow from investing activities		
Expenditure for acquisition of tangible fixed assets	△ 59,509	△ 18,425
Expenditure for acquisition of software	△ 70,383	△ 35,982
Expenditure for acquisition of investment securities	△ 280,000	△ 25,000
Income from distribution of profits from investment partnerships	2,418	76,899
Income from collection of loans receivable	265	180
Income from collection of security deposits	37	4
Others	3,030	30,288
Net cash flow from investing activities	<u>△ 404,141</u>	<u>27,964</u>
Cash flow from financing activities		
Net increase/decrease in short-term loans payable (△ = decrease)	112,600	—
Expenditure for repayment of financing and lease obligations	△ 361	—
Expenditure for repayment of long-term borrowing	△ 108,999	△ 147,350
Income from long-term borrowing	624,900	—
Expenditure for acquisition of treasury stock	△ 231,611	△ 495
Income from disposal of treasury stock	189,000	35
Payment of dividends	△ 66,032	△ 64,142
Net cash flow from financing activities	<u>519,493</u>	<u>△ 211,951</u>
Effect of exchange rate on cash and cash equivalents	<u>△ 10,486</u>	<u>△ 2,654</u>
Net increase/decrease in cash and cash equivalents (△ = decrease)	1,198,436	748,008
Cash and cash equivalents at beginning of year	<u>12,100,452</u>	<u>12,585,834</u>
Cash and cash equivalents at end of the quarter	<u>※ 13,298,888</u>	<u>※ 13,333,843</u>

(4) Notes Concerning the Consolidated Financial Statements

(Note Concerning the Premise of a Going Concern)

Not applicable

(Note in the Case of Significant Changes in the Amount of Shareholders' Equity)

Not applicable

(Adoption of Simplified Methods in the Preparation of the Quarterly Financial Statements)

Tax expenses for the Company and a portion of its consolidated subsidiaries are calculated by making a reasonable estimate of the effective tax rate after applying tax effect accounting to the amount of quarterly net income before tax deduction for the current consolidated financial year including the second quarter, and then multiplying the amount of quarterly net income before tax deduction by the current estimated effective tax rate.

(Segment Information)

I 2nd quarter of the previous consolidated fiscal year/FY 2019 (April 1, 2019 through Sept. 30, 2019)

1. Information on sales and profit or loss by reportable segment

(Unit: thousands of yen)

	Content	Point Service	Label	Total	Adjustment amount (Note 1)	Amount recorded in Consolidated Financial Statements (Note 2)
Net sales						
Sales to external customers	1,855,128	1,433,580	6,895,743	10,184,452	—	10,184,452
Intersegment sales or transfer amount	57,419	97	3,940	61,457	△61,457	—
Total	1,912,547	1,433,678	6,899,683	10,245,910	△61,457	10,184,452
Segment income or loss (△)	△315,979	75,099	572,952	332,072	2,662	334,734

Notes: 1. The segment income or loss (△) adjustment amount of ¥2,662 thousand is calculated by eliminating intersegment transactions.

2. Segment income or loss amounts are adjusted with operating income in the quarterly consolidated profit and loss statement.

2. Information regarding impairment loss on fixed assets or goodwill by segment reported

This information is omitted since there is no critical impairment loss on fixed assets or significant change in amount of goodwill.

II 2nd quarter of the current consolidated fiscal year/FY 2020 (April 1, 2020 through Sept. 30, 2020)

1. Information on sales and profit or loss by reportable segment

(Unit: thousands of yen)

	Content	Point Service	Label	Total	Adjustment amount (Note 1)	Amount recorded in Consolidated Financial Statements (Note 2)
Net sales						
Sales to external customers	1,465,013	1,753,302	6,782,421	10,000,737	—	10,000,737
Intersegment sales or transfer amount	107,168	92	10,563	117,824	△117,824	—
Total	1,572,181	1,753,395	6,792,984	10,118,561	△117,824	10,000,737
Segment income or loss (△)	△284,807	174,339	660,907	550,439	2,022	552,461

Notes: 1. The segment income or loss (△) adjustment amount of ¥2,022 thousand is calculated by eliminating intersegment transactions.

2. Segment income or loss amounts are adjusted with operating income in the quarterly consolidated profit and loss statement.

2. Information regarding impairment loss on fixed assets or goodwill by segment reported

This information is omitted since there is no critical impairment loss on fixed assets or significant change in amount of goodwill.