BRIEF STATEMENT OF CONSOLIDATED FINANCIAL RESULTS FOR THE 1st QUARTER OF THE FISCAL YEAR ENDING MARCH 2022

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.

August 13, 2021

Faith, Inc. (Stock code 4295, Listed on TSE 1st section)
(URL http://www.faith.co.jp/)
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Date of Submission of Securities Report: August 13, 2021
Starting Date of the Dividend Payment: -
Preparation of Supplementary Materials for Quarterly Financial Results: None
Information Meeting for Quarterly Financial Results to be Held: None

Amounts are rounded down to the nearest JPY 1 million.

1. Results for the 1st Quarter of the Fiscal Year Ending March 2022 (From April 1, 2021 to June 30, 2021)

(1) Consolidated Operating Results (cumulative totals)

(Percentages indicate changes compared with the 1st quarter of the previous fiscal year.)

	Net Sales		Operating Income		Ordinary Income		Net Income	
Q1 of the year ending	*Millions of yen*	%	*Millions of yen*	%	*Millions of yen*	%	*Millions of yen*	%
March 2022	3,404	△36.2	△5	—	85	△86.2	△1	—
March 2021	5,332	16.7	545	—	624	—	374	—

(Note) Comprehensive income: 1st quarter of the fiscal year ending March 2022: ¥240 million (△76.5%); 1st quarter of the fiscal year ending March 2021: ¥1,023 million (—%)

	Net Income per Share	Diluted Net Income per Share
Q1 of the year ending	*Yen*	*Yen*
March 2022	△0.14	—
March 2021	29.63	—

(Note) The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other related standards have been applied from beginning of the first quarter of the current consolidated fiscal year. For details, please refer to "2. Consolidated Financial Statements and Important Explanatory Notes, (3) Notes Concerning the Consolidated Financial Statements (Changes in Accounting Policy)" on page 10 of the accompanying material.

(2) Consolidated Financial Position

	Total Assets	Net Assets	Ratio of Equity Capital
	Millions of yen	*Millions of yen*	%
Q1 of the year ending March 2022	26,168	17,960	68.6
Year ending March 2021	26,702	17,627	66.0

(Note) The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other related standards have been applied from the beginning of the first quarter of the current consolidated fiscal year, and the figures stated for the first quarter of the fiscal year ending March 31, 2022 represent the figures after the application of these standards.

2. Dividends

	Dividends per Share				
(Record dates)	1st Quarter	Interim	3rd Quarter	Year-end	Total
	yen	*yen*	*yen*	*yen*	*yen*
Year ending March 2021	—	5.00	—	5.00	10.00
Year ending March 2022	—				
Year ending March 2022 (Forecast)		5.00	—	5.00	10.00

(Note) Forecasts for dividends have not been modified since the time of the most recently announced business forecast.

3. Forecast for the Consolidated Results for the Year Ending March 2022
（from April 1，2021 to March 31，2022）

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

	Net Sales		Operating Income		Ordinary Income		Net Income		Net Income per Share
	Millions of yen	%	*Millions of yen*	%	*Millions of yen*	%	*Millions of yen*	%	*Yen*
First half (cumulative)	8,500	△15.0	200	△63.8	198	△70.3	40	△87.3	3.16
Full year	18,000	△10.0	550	△28.0	500	△39.2	100	―	7.91

(Note) Forecasts for dividends have been modified since the time of the most recently announced business 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

(Note) For details, please refer to “2. Consolidated Financial Statements and Important Explanatory Notes, (3) Notes Concerning the Consolidated Financial Statements (Adoption of Simplified Methods in the Preparation of the Quarterly Financial Statements)” on page 10 of the accompanying material.

(3) Changes in accounting policy, changes in accounting estimates, and restatements
- (i) Changes accompanying revisions of accounting standards, etc.: Applicable
- (ii) Changes other than the above: None
- (iii) Changes in accounting estimates: None
- (iv) Restatements: None

(Note) For details, please refer to “2. Consolidated Financial Statements and Important Explanatory Notes, (3) Notes Concerning the Consolidated Financial Statements (Changes in Accounting Policy)” on page 10 of the accompanying material.

(4) Outstanding shares (common shares)
- (i) Outstanding shares at the end of the fiscal years (including treasury shares):
  The 1st quarter of the fiscal year ending March 2022: 13,831,091 shares
  The fiscal year ending March 2021: 13,831,091 shares
- (ii) Treasury shares at the end of the fiscal years:
  The 1st quarter of the fiscal year ending March 2022: 1,198,287 shares
  The fiscal year ending March 2021: 1,197,855 shares
- (iii) Average number of shares at the interim accounting period
  The 1st quarter of the fiscal year ending March 2022: 12,632,953 shares
  The 1st quarter of the fiscal year ending March 2021: 12,629,112 shares

(Note) The number of shares of treasury stock at the end of the fiscal year includes those shares (257,200 shares in Q1 of the fiscal year ending March 2022, 257,200 shares in the fiscal year ending March 2021) contributed as trust assets of the performance-linked stock compensation plan. In addition, these shares are included in the shares of treasury stock deducted in calculating the average number of shares during the accounting period (257,200 shares in Q1 of the fiscal year ending March 2022, 262,500 shares in Q1 of the fiscal year ending March 2021).

* 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 1st Quarter, (3) Explanation Concerning Future Forecast Information on the Consolidated Financial Results, etc.” on page 5 of the accompanying material.

Accompanying Material — Contents

1. Qualitative Information Concerning the Settlement of Accounts for the 1st Quarter

(1) Explanation Concerning the Operating Results

In the Japanese information and communications field in 2020, the Internet penetration rate remained high at 83.4%, while the percentage of households owning one or more smartphones increased to 86.8%, far exceeding the 70.1% of households owning one or more personal computers (*1). 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 5.9% in 2020 from the previous year to ¥2,229 billion, exceeding advertising expenses for television of ¥1,655.9 billion for the second consecutive year (*2). This trend is also evident worldwide, with global spending on digital advertising expected to reach approximately ¥34 trillion ($311 billion) in 2021, an increase of 15.6% from the previous year (*3).

*1. Source: Ministry of Internal Affairs and Communications, *2020 Telecommunications Usage Trend Survey Results*
*2. Source: Dentsu Inc., *2020 Advertising Expenditures in Japan*
*3. Source: Dentsu Inc., *Global Ad Spend Forecasts (2020-2022)*

In the entertainment market in 2020, sales in the global music market centered on streaming services grew by 7.4% year over year to approximately ¥2,332.8 billion (US$21.6 billion), marking its sixth consecutive year of sales growth (*4). Meanwhile in Japan, the production value of music software including music videos decreased by 15% year over year to ¥194.4 billion, and sales of packaged products continued to decline, but sales of fee-based music distribution increased by 11% to ¥78.3 billion. In the paid music distribution sales category, subscription audio streaming increased by 27% year over year to ¥58.9 billion, accounting for 75% of total paid music distribution sales (*5). Conversely, large-scale events and live concerts have been postponed and canceled due to the spread of COVID-19, and the size of the live entertainment market in 2020 decreased by 82.4% compared to the previous year to ¥110.6 billion (*6). Meanwhile, new ways of enjoying live entertainment are taking root, such as “non-audience live streaming” in which live performances are transmitted over the Internet with no audience at the venue, and “hybrid performances”, in which a limited number of audience members are allowed into the venue and the performance is also distributed. With live performances in front of various audience sizes being distributed, the scale of the digital live performance market reached ¥14 billion in 2020, and it is projected to expand rapidly to about ¥100 billion by 2024 (*7).

*4. Source: IFPI, *Global Music Report 2021*
*5. Source: Recording Industry Association of Japan (RIAJ), *The Recording Industry in Japan 2020*
*6. Source: PIA Research Institute, *Japanese Live Entertainment Market Size Preliminary Report* (published May 13, 2021)
*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 spread 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 changing, including content distribution methods, consumption styles and content production methods.

In this 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 provide 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. As an Internet-based viewing service that provides a new kind of live experience, Thumya makes possible group viewing and commenting, includes a gifting function for artists, and allows the audience to share in the uplifting and unifying 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. Since the launch of the service, about 240 performances have been distributed and the number of registered members has grown to over 150,000 (as of June 2021).

Utilizing the resources of Thumva, we launched Thumva BIZ in July 2021 as a new online service for stores that allows customers who wish to inquire or consult via the Web to begin business negotiations with just one click. Companies in a variety of industries have already adopted Thumya BIZ, which represents our proposal for an online store style that meets the requirements of the digital transformation era.

Due to the spread of COVID-19, Tokyo's largest music lounge PLUSTOKYO, which is operated by Faith, has continued to operate in compliance with the government's state of emergency declaration and priority measures to prevent the spread of the infection, and is taking necessary measures in accordance with the Tokyo Metropolitan Government's Tokyo Disease Control Measures Guidelines for Businesses. As a new initiative, we are collaborating with artists to offer menus and exhibition projects for a limited period (July-August). We will continue to place the highest priority on preventing the spread of infection and ensuring safety, and we will continue to operate carefully in accordance with administrative policies and action plans.

The Faith Group introduced a full-scale teleworking system from October 1, 2020. In addition, we have consolidated our main office functions, which were previously dispersed throughout the company, into the Minami Aoyama Office, which has been completely renovated. In the future, we will promote business activities aimed at improving the Group's management efficiency and profitability, and we will realize diverse and efficient new ways of working based on the concept of "activity-based working" (*8) while paying attention to changes in behavioral patterns and the establishment of new values.

*8. A way of working that allows individuals to choose their workspace and style according to their work.

Regarding the Faith Group's business performance for the first quarter of the consolidated fiscal year ending March 2022, sales of goods in the Points Service Business and sales in the Label Business both experienced year-over-year declines. As a result, the Group reported net sales of ¥3,404 million (a decrease of 36.2% compared with the same period of the previous fiscal year), an operating loss of ¥5 million (compared with operating income of ¥545 million for the same period of the previous year), ordinary income of ¥85 million (a decrease of 86.2% compared with the same period of the previous fiscal year), and a net loss attributable to the shareholders of the parent company of ¥1 million (compared to a net income attributable to the shareholders of the parent company of ¥374 million for the same period of the previous year).

The Faith Group has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other related standards from the beginning of the current first quarter. In accordance with this change, compared with the previous accounting method, net sales for the current first quarter decreased by ¥788 million, the operating loss decreased by ¥18 million, and ordinary income and net income before income taxes and minority interests each increased by ¥18 million. For details, please refer to "2. Consolidated Financial Statements and Important Explanatory Notes, (3) Notes Concerning the Consolidated Financial Statements (Changes in Accounting Policy)" on page 10.

Information on each business segment is as follows.

Content Business

In the Content Business, as sales in the existing distribution business are continuing to decline, the Faith Group will continue to invest in new growth fields in addition to developing new products by interlinking various services and creating platforms to capture diversifying profit opportunities.

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 reduced initial costs and we are working to strengthen retail store sales through collaboration with the Point Service Business. Moreover, in the future, we will continue working to create and revitalize the new BGM market.

In Fans', our platform of services for artists based on the D2C (*9) business model, which is expected to expand further 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 also working to further expand the functions of Fans', as with the introduction in June 2019 of a system that contributes to the creation of communities by spreading information sent out by creators through strengthened SNS cooperation. We are 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 strive to improve the service quality by pursuing enhanced convenience.

*9. 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 for the first quarter of the current fiscal year, due to a decrease in carrier official website service sales and the shortened store hours as a countermeasure against the spread of COVID-19, the Content Business recorded net sales of ¥576 million (a decrease of 22.4% year over year), and an operating loss of ¥136 million (a decrease of 6.0% year over year).

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other relevant standards have been applied from the beginning of the first quarter of the current fiscal year. In accordance with this change, compared with the previous accounting method, net sales in this segment decreased by ¥120 million. However, the application of the accounting standard had no impact on the operating loss.

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, due to a decrease in sales of goods and issuance of points at existing member stores, net sales decreased by 85.8% year over year to ¥149 million and operating income decreased by 58.9% year over year to ¥48 million.

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other relevant standards have been applied from the beginning of the first quarter of the current fiscal year. In accordance with this change, compared with the previous accounting method, net sales in this segment decreased by ¥478 million. However, the application of the accounting standard had no impact on operating income.

Label Business
In the Label Business, under the severe environment facing the music and video-related industry in line with changes the music market, we are strengthening new businesses with an eye on the future in order to overcome the present situation in which this segment remains dependent on sales of package products. If we are to continue to play a major role in the music industry and increase our profitability in future, in addition to focusing on creating hits, management, and investing in the live performance business, we believe it will be necessary to introduce services that anticipate the ever-changing market environment.

Due mainly to lower sales of animation and game titles by Nippon Columbia Co., Ltd., net sales in this segment decreased by 24.3% year over year to ¥2,678 million, and operating income decreased by 87.5% year over year to ¥81 million.

The Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other relevant standards have been applied from the beginning of the first quarter of the current fiscal year. In accordance with this change, compared with the previous accounting method, net sales in this segment decreased by ¥189 million and operating income increased by ¥18 million.

*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

Total assets as of the end of the first quarter of the consolidated fiscal year ending March 2022 (June 30, 2021) decreased by ¥533 million compared to the end of the previous consolidated fiscal year to ¥26,168 million. This result was mainly attributable to a decrease of ¥717 million in cash and deposits, an increase of ¥125 million in accounts and notes receivable, an increase of ¥326 million in investment securities, a decrease of ¥59 million in deferred tax assets, and a decrease of ¥164 million in investments and other assets.

Total liabilities decreased by ¥866 million compared to the end of the previous consolidated fiscal year to ¥8,208 million. This result was mainly due to a decrease of ¥59 million in accounts and notes payable, a decrease of ¥139 million in accounts payable-other, a decrease of ¥326 in income taxes payable, a decrease of ¥210 million in the reserve for bonuses, and a decrease of ¥146 million yen in asset retirement obligations.

Net assets increased by ¥332 million compared to the end of the previous consolidated fiscal year to ¥17,960 million. This was mainly due to the recording of a quarterly loss attributable to the shareholders of the parent company and to an increase in the valuation difference on marketable securities.

In addition, the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other relevant standards have been applied from the beginning of the first quarter of the current fiscal year. In accordance with this change, the balance of retained earnings at the beginning of the period increased by ¥157 million.

For details, please refer to “2. Consolidated Financial Statements and Important Explanatory Notes, (3) Notes Concerning the Consolidated Financial Statements (Changes in Accounting Policy)” on page 10.

As a result of the above, the equity ratio increased by 2.6 percentage points to 68.8%.

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

There is no change in the forecast of consolidated financial results for the current fiscal year from the forecast announced on May 13, 2021. Although performance forecasts are based on information available to the Company at the time of preparation, they include factors that are highly uncertain, such as the impact of COVID-19, and there is a possibility that the actual performance figures will differ significantly from the forecast figures due to a variety of factors.

2. Consolidated Financial Statements and Important Explanatory Notes

(1) Consolidated Balance Sheet

(Unit: thousands of yen)

	FY 2020 (As of March 31, 2021)	1st Quarter of FY 2021 (As of June 30, 2021)
(Assets)		
Current assets		
Cash and deposits	12,997,014	12,279,567
Accounts and notes receivable	2,018,712	2,144,639
Marketable securities	229,796	229,956
Commercial products	366,536	308,794
Products in progress	491,109	490,899
Primary materials and inventory goods	58,592	83,143
Contract assets	—	240
Corporation tax refund receivable, etc.	71,062	70,922
Other current assets	519,948	516,507
Allowance for doubtful accounts	△18,669	△19,028
Total current assets	16,734,103	16,105,642
Fixed assets		
Tangible fixed assets	2,946,103	2,965,469
Intangible fixed assets		
Goodwill	1,395,695	1,364,506
Other intangible fixed assets	357,776	372,155
Total intangible fixed assets	1,753,472	1,736,662
Investment and other assets		
Investment securities	3,898,711	4,225,624
Deferred tax assets	846,890	786,937
Other investment and other assets	1,108,603	944,077
Allowance for doubtful accounts	△585,342	△595,783
Total investment and other assets	5,268,863	5,360,857
Total fixed assets	9,968,439	10,062,989
Total assets	26,702,542	26,168,631
(Liabilities)		
Current liabilities		
Accounts and notes payable	964,025	904,844
Short-term loans payable	340,000	340,000
Current portion of long-term debt	258,700	257,900
Accounts payable-other	741,426	602,348
Accrued expenses payable	2,796,448	2,854,088
Income taxes payable	371,157	44,554
Reserve for bonuses	352,424	141,693
Reserve for sales returns	55,441	—
Contract liabilities	—	56,475
Asset retirement obligations	146,892	—
Other current liabilities	1,140,736	1,046,130
Total current liabilities	7,167,251	6,248,035
Fixed liabilities		
Long-term loans payable	379,850	315,975
Net defined retirement benefits	576,922	589,651
Reserve for stock benefits for directors	33,129	34,770
Asset retirement obligations	39,233	39,233
Deferred tax liabilities	874,056	976,908
Other fixed liabilities	4,453	3,619
Total fixed liabilities	1,907,645	1,960,157
Total liabilities	9,074,896	8,208,193

(Unit: thousands of yen)

	FY 2020 (As of March 31, 2021)	1st Quarter of FY 2021 (As of June 30, 2021)
(Net assets)		
Shareholder's equity		
Common stock	3,218,000	3,218,000
Capital surplus	2,840,667	2,840,667
Retained earnings	10,698,825	10,789,640
Treasury stock	△1,121,619	△1,121,975
Total shareholder's equity	15,635,873	15,726,332
Other accumulated comprehensive income		
Valuation difference on other available-for-sale securities	1,987,860	2,221,703
Foreign currency translation adjustments	△30,807	△8,884
Cumulative adjustment for retirement benefit obligations	34,719	21,286
Total other accumulated comprehensive income	1,991,773	2,234,105
Non-controlling interests	—	—
Total net assets	17,627,646	17,960,438
Total liabilities and net assets	26,702,542	26,168,631

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

(Unit: thousands of yen)

	1st Quarter of FY 2020 (April 1-June 30, 2020)	1st Quarter of FY 2021 (April 1-June 30, 2021)
Net sales	5,332,543	3,404,496
Cost of sales	3,244,374	2,008,734
Gross profit	2,088,169	1,395,761
Selling, general and administrative expenses	1,542,743	1,401,108
Operating income or operating loss (△ = loss)	545,425	△5,346
Non-operating income		
Interest income	5,263	0
Dividend income	3,053	2,090
Interest on securities	5	2
Gain on investment partnership management	72,787	82,872
Gain on equity method investment	27,970	12,736
Gain on valuation of investment securities	230	200
Subsidy income	—	24,051
Miscellaneous receipts	14,488	9,224
Total non-operating income	123,799	131,179
Non-operating expenses		
Interest paid	1,755	1,247
Loss on investment partnership management	34,252	38,018
Loss on foreign exchange	312	2
Miscellaneous expenses	8,169	662
Total non-operating expenses	44,490	39,930
Ordinary income	624,735	85,901
Extraordinary losses		
Loss on valuation of investment securities	—	7,791
Loss on liquidation of subsidiaries	—	21,597
Total extraordinary losses	—	29,388
Current quarter net income before taxes	624,735	56,513
Corporate, local, and business taxes	176,491	33,362
Income taxes - deferred	74,001	25,005
Current quarter net income or net loss (△ = net loss)	374,242	△1,854
Current quarter net income or net loss attributable to shareholders of the parent company (△ = net loss)	374,242	△1,854

(Consolidated Statement of Comprehensive Income)

(Unit: thousands of yen)

	1st Quarter of FY 2020 (April 1-June 30, 2020)	1st Quarter of FY 2021 (April 1-June 30, 2021)
Current quarter net income or net loss (△ = net loss)	374,242	△1,854
Other comprehensive income		
Valuation difference on other available-for-sale securities	648,098	233,843
Foreign currency translation adjustments	△8,648	21,922
Cumulative adjustment for retirement benefit obligations	9,679	△13,433
Total other comprehensive income	649,128	242,332
Current quarter comprehensive income	1,023,371	240,478
(Details)		
Comprehensive income attributable to shareholders of the parent company	1,023,371	240,478
Comprehensive income attributable to non-controlling interests	—	—

(3) 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 multiplying the amount of net income before income taxes by the estimated effective tax rate, which is reasonably estimated by applying tax effect accounting to estimated income before income taxes for the current consolidated fiscal year including the first quarter under review.

(Changes in Accounting Policy)

(Application of Accounting Standard for Revenue Recognition)

The Company has applied the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020, hereinafter the "Accounting Standard for Revenue Recognition") and other related standards from the beginning of the first quarter of the current fiscal year. Based on this standard, revenue the Company expects to receive in exchange for the provision of goods and services is recognized when the control of the goods and services is transferred to customers.

As a result of this change, in the Point Service Business, in which revenue was previously recognized when points were issued to customers and cost of sales was recognized when the points were used, since these transactions correspond to repurchase agreements with a right of return, the Company now recognizes revenue on a net basis. In addition, regarding the distribution of royalties to copyright holders, mainly in the Label Business, the total amount of consideration received from music users, etc. was previously recognized as revenue, but since the Company conducts these transactions as an agent, the Company now recognizes revenue as the net amount received from music users, etc., minus the amount paid to copyright holders. Moreover, in the past, revenue from music licensing fees for karaoke music in the Label Business was recognized on a one-time basis, but as a result of examining the identification and satisfaction of performance obligations, the Company now recognizes revenue over a certain period of time. Furthermore, for sales with a right of return in the Label Business, the total amount of consideration was previously recognized as revenue at the time of sale, and an adjustment allowance for sales returns was recorded based on records of previous sales returns, but the Company now recognizes revenue as the total amount of consideration excluding the amount of consideration for merchandise that is expected to be returned.

With regard to the Accounting Standard for Revenue Recognition, in accordance with the transitional treatment stipulated in the provisions of article 84 of the Accounting Standard for Revenue Recognition, the cumulative effect of retrospectively applying the new accounting policy prior to the beginning of the first quarter of the current fiscal year was added to or deducted from retained earnings at the beginning of the first quarter of the current fiscal year, and the new accounting policy was applied from the beginning balance of the current fiscal year.

As a result, for the first quarter of the current consolidated cumulative period, net sales decreased by ¥788,841 thousand, cost of sales decreased by ¥726,494 thousand, selling, general and administrative expenses decreased by ¥80,885 thousand, the operating loss decreased by ¥18,538 thousand, and ordinary income and net income before income taxes each increased by ¥18,538 thousand. In addition, the balance of retained earnings at the beginning of the period increased by ¥157,121 thousand.

Due to the application of the Accounting Standard for Revenue Recognition, the provision for sales returns, which was presented under the current liabilities in the consolidated balance sheets in the previous fiscal year, is included in the other current liabilities from the first quarter of the current fiscal year. In accordance with the transitional treatment prescribed in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, no reclassification has been made to the previous fiscal year's consolidated financial statements to conform to the new presentation. Furthermore, in accordance with the transitional treatment prescribed in Paragraph 28-15 of the Accounting Standard for Quarterly Financial Reporting (ASBJ Statement No. 12, March 31, 2020), the Company has not presented the disaggregation of revenue from contracts with customers for the first quarter of the previous fiscal year.

(Application of Accounting Standard for Fair Value Measurement)
The Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019, hereinafter the "Accounting Standard for Fair Value Measurement") has been applied from the beginning of the first quarter of the current fiscal year, and in accordance with the transitional treatment stipulated in article 19 of the Accounting Standard for Fair Value Measurement and Article 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy stipulated by the Accounting Standard for Fair Value Measurements will be applied in the future. This change had no impact on the quarterly consolidated financial statements for the first quarter of the fiscal year under review.

(Segment Information)

Ⅰ 1st quarter of the previous consolidated fiscal year/FY 2020 (April 1, 2020 through June 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	743,045	1,052,263	3,537,234	5,332,543	—	5,332,543
Intersegment sales or transfer amount	60,524	50	775	61,350	△61,350	—
Total	803,569	1,052,313	3,538,009	5,393,893	△61,350	5,332,543
Segment income or loss (△)	△144,858	118,402	571,190	544,734	691	545,425

Notes: 1. The segment income or loss adjustment amount of ¥691 thousand is calculated by eliminating intersegment transactions.
2. Segment income 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 1st quarter of the current consolidated fiscal year/FY 2021 (April 1, 2021 through June 30, 2021)

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						
Revenue from contracts with customers	576,443	149,737	2,678,315	3,404,496	—	3,404,496
Sales to external customers	576,443	149,737	2,678,315	3,404,496	—	3,404,496
Intersegment sales or transfer amount	78,047	42	6,680	84,770	△84,770	—
Total	654,490	149,780	2,684,995	3,489,267	△84,770	3,404,496
Segment income or loss (△)	△136,154	48,723	81,578	△5,852	506	△5,346

Notes: 1. The segment income or loss adjustment amount of ¥506 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.

3. Matters related to changes in reportable segments, etc.

As described in the aforementioned “Changes in Accounting Policies” section, the Accounting Standard for Revenue Recognition and other related standards have been applied from the beginning of the first quarter of the current fiscal year, with the result that the accounting method for revenue recognition and the method for calculating the income or loss in each business segment have been modified.

As a result of this change, for the first quarter of the current fiscal year, compared with the previous method, in the Content Business net sales decreased by ¥120,585 thousand and in the Point Service Business net sales decreased by ¥478,641 thousand, but in both cases there was no impact on segment income or loss, while in the Label Business net sales decreased by ¥189,614 thousand and segment income increased by ¥18,538 thousand.