

Summary of Consolidated Financial Statement for the Fiscal Year Ended September 30, 2020 [IFRS]

October 29, 2020
Listed Market: TSE

SEPTENI HOLDINGS CO., LTD.

Stock Code: 4293 URL: <https://www.septeni-holdings.co.jp/en>

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Anticipated General Annual Shareholder Meeting Date: December 22, 2020

Anticipated Dividend Payment Date: November 30, 2020

Anticipated Financial Report Filing Date: December 22, 2020

Supplemental Earnings Presentation Materials: Available

Earnings Presentation Meeting: Held for institutional investors, analysts, media

(All figures of less than 1 million yen are rounded down to the nearest digit)

1. Consolidated Financial Results for the Fiscal Year Ended September 30, 2020 (From October 1, 2019 to September 30, 2020)

(1) Consolidated Earnings (% figures represent year-over-year change)

	Revenue		Operating Profit		Non-GAAP Operating Profit		Profit before tax		Profit for the period		Profit for the period attributable to owners of the parent	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
FY9/20	17,938	6.8	2,274	—	2,452	18.8	2,325	—	1,471	—	1,464	—
FY9/19	16,796	10.0	183	-81.3	2,065	104.2	-81	—	-542	—	-547	—

(Note) Non-GAAP operating profit refers to the profit indicator used to assess ordinary business conditions after adjustments are made to IFRS-based operating profit pertaining to temporary factors such as the impairment losses and gains or losses on the sales of fixed assets.

	Basic earnings per share		Diluted earnings per share		ROE		ROA		Revenue Operating Margin	
	Yen		Yen		%		%		%	
FY9/20	11.58		11.53		9.6		7.2		12.7	
FY9/19	-4.33		-4.33		-3.6		-0.3		1.1	

(2) Consolidated Financial Position

	Total Assets	Total Equity	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent to total assets	Equity attributable to owners of parent per share
	Million Yen	Million Yen	Million Yen	%	Yen
FY9/20	34,425	15,811	15,793	45.9	124.90
FY9/19	30,413	14,809	14,796	48.7	117.02

(3) Consolidated Cash Flow Information

	Cash flows from (used in) operating activities	Cash flows from (used in) investing activities	Cash flows from (used in) financing activities	Cash and cash equivalents at end of year
	Million Yen	Million Yen	Million Yen	Million Yen
FY9/20	2,340	-804	-1,941	14,081
FY9/19	1,258	-205	-1,411	14,488

2. Dividend Conditions

	Dividends					Total Value of Dividends (Total)	Dividend Payout Ratio (Consolidated)	Dividend on equity attributable to owners of the parent (Consolidated)
	End of 1Q	End of 2Q	End of 3Q	Term-end	Total			
	Yen	Yen	Yen	Yen	Yen	Million Yen	%	%
FY9/19	—	—	—	2.00	2.00	256	—	1.7
FY9/20	—	—	—	2.00	2.00	256	17.3	1.7
FY9/21 Estimate	—	—	—	—	—		—	

(Note) Estimates for dividends in the fiscal year ending September 30, 2021 have yet to be decided.

3. Consolidated Financial Results Forecast for the Fiscal Year Ending September 30, 2021 (From October 1, 2020 to September 30, 2021)

(% figures represent year-over-year change)

	Revenue		Non-GAAP Operating profit		Profit for the period attributable to owners of the parent		Basic earnings per share
	Million Yen	%	Million Yen	%	Million Yen	%	Yen
Full Year	20,000	11.5	2,850	16.2	1,785	21.9	14.12

*Annotation

(1) Important changes in subsidiaries, including changes in the scope of consolidation: None

(2) Changes in accounting methods, procedures, presentation methods

Changes in accounting policies required by IFRSs: Applicable

Other changes in accounting methods: None

Changes in accounting estimates: None

(3) Shares issued (common stock)

Shares issued as of term-end (incl. Treasury stock):

FY9/20	138,916,500	FY9/19	138,906,500
FY9/20	12,463,440	FY9/19	12,463,440
FY9/20	126,450,738	FY9/19	126,430,081

Treasury stock as of term-end:

Average number of shares outstanding:

(Note) The Company implements the stock incentive plan for the Directors and the Executive Officers of the Group. The number of treasury stock as of term-end includes 1,739,200 shares of its stock held by the BIP Trust, as well as 10,724,240 shares of treasury stock held by the Company. The Company's stock held by the BIP Trust is also included in the number of treasury stock to calculate the average number of shares outstanding.

(Reference) Non-Consolidated Earnings Overview

1. Non-Consolidated Financial Results for the Fiscal Year Ended September 2020 (From October 1, 2019 to September 30, 2020)

(1) Non-Consolidated Earnings

(% figures represent year-over-year change)

	Net Sales		Operating Income		Ordinary Income		Net Income	
	Million Yen	%	Million Yen	%	Million Yen	%	Million Yen	%
FY9/20	2,766	-8.6	919	-22.6	904	-31.2	-60	—
FY9/19	3,026	-31.9	1,187	-51.9	1,314	-49.3	673	-67.5

	EPS	Fully Diluted EPS
	Yen	Yen
FY9/20	-0.48	—
FY9/19	5.32	5.30

(2) Non-Consolidated Financial Position

	Total Assets	Net Assets	Net Asset Ratio	Book Value per Share
	Million Yen	Million Yen	%	Yen
FY9/20	14,996	11,068	73.8	87.53
FY9/19	15,618	11,374	72.8	89.96

(Reference) Capital: ¥11,068 million in FY9/20, ¥11,374 million in FY9/19

*The summary of consolidated financial results for the fiscal year is not subject to the auditing by the Certified Public Accountants or the audit corporation.

*Disclaimer regarding appropriate use of forecasts and related points of note

(1) Regarding Consolidated Financial Results Forecast

Any description regarding the future in this material, such as financial results forecast and future outlook, is based on the available information and certain conditions which the Company believes to be reasonable at this time, and actual financial results may be substantially different from the forecast due to various factors.

For the conditions which the forecast is based on, please refer to "1. Overview of Earnings Performance, etc.

(1) Earnings Performance Analysis."

(2) Appendix

The Company held a financial results briefing as below. The materials are available on the website. The audio archive of briefing is also available on the website.

October 29, 2020 (Thu.) - FY9/20 Financial Results Briefing for Institutional Investors, Analysts and the Press

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1. Overview of Earnings Performance, etc.

(1) Earnings Performance Analysis
(Earnings for the current term)

In the operation environment in 2020, the economic activity has been stagnant due to the global pandemic of COVID-19, and the demand for advertisement decreased under the state of emergency announced in April, as it restrained people from going out and depressed consumer activities. In mid-May, as the state of emergency was lifted and the economic activity slowly recovered, the advertising demand which was declining since late March hit the bottom in May and has continued to recover until September.

In 2019, the individual smartphone ownership rate in Japan grew up to 67.6% and exceeded more than 80% among young people in their 10's to 30's, showing that the quantitative expansion is progressing particularly among millennials and generation Z. In addition, the purpose of using smartphones diversifies as the rate of use of social media rises, and a change can be also seen on the side of quality (Source: "The result of survey of communication use trend in 2019" of the Ministry of Internal Affairs and Communications.) In the time that smartphones are becoming the main device when people use the Internet, in the service and application market, the content business such as videos, music and e-books is expanding. The way to utilize social media is not only to communicate with others but also to purchase stuff, and because the influence is the way stronger than before, the demand for supporting marketing rises to utilize each medium character, data and AI.

In such environment, in the main Digital Marketing Business, revenue and operating profit increased driven by expanding projects as consumption is shifting to online since COVID-19 and by promoting the alliance with Dentsu group. In the Media Platform Business, the increase in revenue was not enough to cover the expenses as the businesses expand, and the deficit increased.

For the expansion into new business segment, the Group made an equity participation in each company in a sport domain, a sharing-asset domain and an entertainment domain and started the business alliance.

As a result, revenue increased to ¥17,938 million (up 6.8% year on year), Non-GAAP operating profit increased to ¥2,452 million (up 18.8% year on year), operating profit increased to ¥2,274 million (¥183 million last year), profit before tax increased to ¥2,325 million (-¥81 million last year), profit for the period increased to ¥1,471 million (-¥542 million last year), and profit attributable to owners of parent totaled ¥1,464 million (-¥547 million last year).

For non-consolidated earnings, due to decrease in dividend income etc., net sales decreased to ¥2,766 million (decreased 8.6% year on year), operating income decreased to ¥919 million (decreased 22.6% year on year), ordinary income decreased to ¥904 million (decreased 31.2% year on year) and net loss for the period is ¥60 million (¥673 million of net income for the period last year).

The Group discloses consolidated business results in terms of both its internal measures which the management relies upon in making decisions (hereinafter the "Non-GAAP financial measures") and those under IFRS. Non-GAAP operating profit is operating profit under IFRS after deducting unusual items to measure constant business results. The management believes that the disclosure of Non-GAAP financial measures facilitates comparison between the Group and peer companies in the same industry or comparison of its business results with those of prior fiscal years by stakeholders, and can provide useful information in understanding the underlying business results of the Group and its future outlook. Unusual items refer to one-off items, such as impairment loss and gain or loss on sales of non-current assets, that the Group believes shall be excluded for the purposes of preparing a future outlook based on certain rules. In addition, because it will be useful for users of financial statement, the Group voluntarily disclose "Net Sales", which is shown as the total amount for all transactions, although the disclosure is not in accordance with IFRS.

Reconciliation from operating profit to Non-GAAP operating profit and Net Sales are as below:

(units: ¥mn)

	Fiscal year ended September 30, 2019	Fiscal year ended September 30, 2020	Change of amount	Rate of change
Operating profit	183	2,274	2,091	—
Adjustment (Impairment loss)	1,804	53	-1,751	
Adjustment (Others)	78	125	47	
Non-GAAP operating profit	2,065	2,452	387	18.8%
Net Sales	76,501	76,489	-12	-0.0%

Operating results by reportable segment are as follows. From the current term, the segment names are changed from Internet Marketing Business to Digital Marketing Business and from Media Content Business to Media Platform Business. This is the only changes to names and there is no impact on the segment information. The information regarding the previous year is also explained in the names after the change.

(i) Digital Marketing Business

The Digital Marketing Business consists of business segments that provide comprehensive digital transformation support to clients, mainly in the digital marketing domain.

In this year, the number of clients in collaboration with Dentsu group steadily increased, and projects of clients in the area such as game, manga, video streaming and e-commerce expanded as meeting the demand of online consumption.

As a result, revenue is ¥15,807 million (up 4.8% year on year) and Non-GAAP operating profit is ¥5,248 million (up 9.9% year on year).

(ii) Media Platform Business

The Media Platform Business consists of Manga Content Business “GANMA!”, Recruitment Platform Business “ViViViT”, Social Contribution Business “gooddo”, Medical Platform Business “Pharmarket”, Childcare Platform Business “Babyful” etc.

In this year, the advertising revenue of “GANMA!” decreased largely affected by the expansion of COVID-19. On the other hand, the accumulated application downloads totaled 14.6 million at the end of September in 2020, and the revenue from subscription steadily increased. The other businesses than GANMA! developed and increased the revenue, but COVID-19 restrained the progress, and deficit increased as the other expenses increased.

As a result, revenue is ¥2,487 million (up 24.0% year on year) and Non-GAAP operating loss is ¥956 million (¥901 million last year).

(2) Financial Conditions Analysis

Total assets at the end of the fiscal year under review increased by ¥4,012 million compared to the end of the previous fiscal year and reached ¥34,425 million. This is mainly due to the operating receivables increased by ¥2,715 million.

Total liabilities at the end of the fiscal year increased by ¥3,010 million compared to the end of the previous fiscal year and reached ¥18,613 million. This is mainly due to the operating debt increased by ¥2,254 million.

Total net assets at the end of the fiscal year increased by ¥1,002 million compared to the end of the previous fiscal year and reached ¥15,811 million. This is mainly due to the payment of dividend is ¥253 million and the profit for the period totaled ¥1,471 million.

(3) Cash Flow Status in the Fiscal Year under Review

As of September 30, 2020, cash and cash equivalents decreased by ¥408 million and amounted ¥14,081 million. The following is a description of the situation and factors of each category of cash flow in the fiscal year under review.

(i) Cash flow from (used in) operating activities

Cash flow from operating activities stood at ¥2,340 million (cash-in of ¥1,258 million in the previous fiscal year), primarily because the profit before tax totaled ¥2,325 million.

(ii) Cash flow from (used in) investing activities

Cash flows used in investing activities stood at ¥804 million (cash-out of ¥205 million in the previous fiscal year), primarily because the purchase of securities costed ¥962 million.

(iii) Cash flow from (used in) financing activities

Cash flow used in financing activities stood at ¥1,941 million (cash-out of ¥1,411 million in the previous fiscal year). This is largely a reflection of outflows due to ¥850 million of the proceeds from long-term borrowings, ¥837 million of the repayment of lease obligations and ¥253 million of dividends payment.

(4) Future Outlook

(i) Policy

The Group has updated its mid-term policy which was planned in the fiscal year 2020 to deal with the change of environment since COVID-19. It is expected that people's sense of value and consumption activity will drastically change, and consumption is shifting to be online. Under such environmental changes, as "domain expansion" is set to be the mid-term theme, the construction of system to adjust to the acceleration of digital transformation (DX) is regarded as the issue to solve, and the Group aims for the continuous growth in the mid-long term and raising its corporate value.

*The mid-term policy is reviewed every year in the rolling method.

In the Digital Marketing Business, the development of e-commerce advertising domain will be enhanced. Moreover, in order to the expansion of system in the Group's data & solutions domain, the Intermediate Holding Company will be established and the collection of management resource and promoting business of DX support by strengthening cooperation will be accelerated.

In the Media Platform Business, by collecting the management resource to the high-growth domain, it will be focusing on charges from users and enhance the business development of D2C domain.

In the expansion into new business segments, it will absorb the demand for DX focusing on selected industries.

(ii) Earnings Estimates for the next year

For the fiscal year ending September 30, 2021, both revenue and operating profit are expected to increase year on year as each business segment develop.

Earnings estimates for the fiscal year ending September 30, 2021 (from October 1, 2020 to September 30, 2021)

Revenue	20,000 million yen
Non-GAAP operating profit	2,850 million yen
Profit attributable to owners of parent	1,785 million yen

The estimates above are based on the information available at the time of publication of this summary and involve uncertain factors. Actual results may differ from them for various reasons.

(5) Basic Policy Regarding the Distribution of Profits, and Dividends in the Current and Next Terms

The Company recognizes that returning profits to our shareholders is a key management issue and will flexibly implement the policy outlined below regarding the appropriate distribution of profits.

With regard to the distribution of retained earnings, we will consider our consolidated earnings performance in each fiscal year, the need to fortify our financial position, and the Group business strategies, etc., and distribute profits to maintain a dividend payout ratio of around 15% based on profit attributable to owners of parent. Furthermore, we have established a minimum full-year dividend target level of ¥2.0 per share and seek to strike a balance between stable dividends and an appropriate level of profit distribution to allow us to grow our earnings. In addition, we will endeavor to utilize our retained earnings for investments in training personnel, optimizing and reinvigorating our existing businesses, and capturing new business areas that have the potential for high growth and profitability.

Based on these policies, we expect to pay a ¥2.0 dividend per share during the current fiscal year as a year-end dividend.

Furthermore, with regard to dividends in the next term, we expect to pay dividends in accordance with the policy mentioned above and will announce the specific value for our dividend estimate as soon as we announce earnings estimates for the full year.

2. Basic Stance on the Choice of Accounting Standards

The Group promotes the development of global operations and adopted IFRS from the fiscal year ended September 30, 2016 to improve the quality of business administration through the unification of accounting procedures within the Group and to improve the convenience of stakeholders, including shareholders and investors in Japan and overseas, by increasing the international comparability of financial information in capital markets.

3. Consolidated Financial Statements and Key Notes

(1) Consolidated Statement of Financial Position

(Thousand yen)

	Previous Term (Ended September 30, 2019)	Current Term (Ended September 30, 2020)
Assets		
Current assets		
Cash and cash equivalents	14,488,431	14,080,864
Operating receivables	10,032,303	12,747,068
Inventories	19,870	45,372
Other financial assets	102,853	14,520
Other current assets	489,319	485,044
Total current assets	25,132,776	27,372,868
Non-current assets		
Property, plant and equipment	382,685	319,851
Right-of-use assets	—	1,007,726
Intangible assets	112,545	83,577
Investments accounted for using equity method	887,521	963,570
Other financial assets	2,990,742	3,546,126
Other non-current assets	12,725	9,528
Deferred tax assets	893,582	1,121,465
Total non-current assets	5,279,800	7,051,843
Total assets	30,412,576	34,424,711

(Thousand yen)

	Previous Term (Ended September 30, 2019)	Current Term (Ended September 30, 2020)
Liabilities and Equity		
Liabilities		
Current liabilities		
Operating payables	8,799,475	11,053,053
Other financial liabilities	1,536,893	2,375,975
Current income taxes payable	229,836	477,315
Other current liabilities	1,162,809	1,407,583
Total current liabilities	11,729,013	15,313,926
Non-current liabilities		
Other financial liabilities	3,765,250	3,121,500
Provisions	109,359	177,928
Total non-current liabilities	3,874,609	3,299,428
Total liabilities	15,603,622	18,613,354
Equity		
Equity attributable to owners of parent		
Share capital	2,125,314	2,125,384
Share premium	3,664,788	3,664,788
Treasury shares	-1,691,842	-1,691,842
Retained earnings	10,750,768	11,971,086
Other components of equity	-52,914	-276,037
Total equity attributable to owners of parent	14,796,114	15,793,379
Non-controlling interests	12,840	17,978
Total equity	14,808,954	15,811,357
Total liabilities and equity	30,412,576	34,424,711

(2) Consolidated Statement of Profit or Loss

(Thousand yen)

	Previous Term (Ended September 30, 2019)	Current Term (Ended September 30, 2020)
Revenue	16,795,505	17,937,745
Cost of sales	2,832,790	3,341,576
Gross profit	13,962,715	14,596,169
Selling, general and administrative expense	11,923,796	12,155,667
Other income	41,337	13,063
Other expense	1,897,123	179,169
Operating profit	183,133	2,274,396
Finance income	154,334	17,851
Finance costs	80,494	80,385
Share of profit from investments accounted for using equity method	-338,283	113,258
Profit before tax	-81,310	2,325,120
Income tax expense	460,213	854,462
Profit	-541,523	1,470,658
Profit attributable to:		
Owners of parent	-546,929	1,464,342
Non-controlling interests	5,406	6,316
Total	-541,523	1,470,658
Earnings per share		
Basic earnings per share (Yen)	-4.33	11.58
Diluted earnings per share (Yen)	-4.33	11.53

(3) Consolidated Statement of Comprehensive Income

(Thousand yen)

	Previous Term (Ended September 30, 2019)	Current Term (Ended September 30, 2020)
Profit	-541,523	1,470,658
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net changes in financial assets measured at fair value through other comprehensive income	59,516	-209,500
Items that may be reclassified to profit or loss		
Exchange differences on translating foreign operations	-131,634	-2,743
Cash flow hedges	-2,900	11,016
Share of other comprehensive income of associates accounted for using equity method	-1,717	—
Total other comprehensive income, net of tax	-76,735	-201,227
Total comprehensive income	-618,258	1,269,431
Comprehensive income attributable to:		
Owners of parent	-623,664	1,263,115
Non-controlling interests	5,406	6,316
Comprehensive income	-618,258	1,269,431

(4) Consolidated Statement of Changes in Equity

(Thousand yen)

	Equity attributable to owners of parent						Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity	Total		
Balance at October 1, 2018	2,120,484	3,663,023	-1,691,819	11,493,305	87,244	15,672,237	57,797	15,730,034
Profit	—	—	—	-546,929	—	-546,929	5,406	-541,523
Other comprehensive income	—	—	—	—	-76,735	-76,735	—	-76,735
Total comprehensive income	—	—	—	-546,929	-76,735	-623,664	5,406	-618,258
Issue of new shares	4,830	1,765	—	—	-6,245	350	—	350
Dividends of surplus	—	—	—	-252,786	—	-252,786	—	-252,786
Purchase and disposal of treasury shares	—	—	-23	—	—	-23	—	-23
Changes in ownership interests in subsidiaries that result in loss of control	—	—	—	—	—	—	-50,363	-50,363
Other	—	—	—	57,178	-57,178	—	—	—
Total amount of transactions with owners	4,830	1,765	-23	-195,608	-63,423	-252,459	-50,363	-302,822
Balance at September 30, 2019	<u>2,125,314</u>	<u>3,664,788</u>	<u>-1,691,842</u>	<u>10,750,768</u>	<u>-52,914</u>	<u>14,796,114</u>	<u>12,840</u>	<u>14,808,954</u>

(Thousand yen)

	Equity attributable to owners of parent						Non-controlling interests	Total equity
	Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity	Total		
Balance at October 1, 2019	2,125,314	3,664,788	-1,691,842	10,750,768	-52,914	14,796,114	12,840	14,808,954
Cumulative effects of changes in accounting policies	—	—	—	-13,035	—	-13,035	—	-13,035
Restated balance as of October 1, 2019	<u>2,125,314</u>	<u>3,664,788</u>	<u>-1,691,842</u>	<u>10,737,733</u>	<u>-52,914</u>	<u>14,783,079</u>	<u>12,840</u>	<u>14,795,919</u>
Profit	—	—	—	1,464,342	—	1,464,342	6,316	1,470,658
Other comprehensive income	—	—	—	—	-201,227	-201,227	—	-201,227
Total comprehensive income	—	—	—	1,464,342	-201,227	1,263,115	6,316	1,269,431
Issue of new shares	70	—	—	—	—	70	—	70
Dividends of surplus	—	—	—	-252,886	—	-252,886	—	-252,886
Purchase and disposal of treasury shares	—	—	—	—	—	—	—	—
Changes in ownership interests in subsidiaries that result in loss of control	—	—	—	—	—	—	—	—
Other	—	—	—	21,897	-21,896	1	-1,178	-1,177
Total amount of transactions with owners	70	—	—	-230,989	-21,896	-252,815	-1,178	-253,993
Balance at September 30, 2020	<u>2,125,384</u>	<u>3,664,788</u>	<u>-1,691,842</u>	<u>11,971,086</u>	<u>-276,037</u>	<u>15,793,379</u>	<u>17,978</u>	<u>15,811,357</u>

(5) Consolidated Cash Flow Statement

(Thousand yen)

	Previous Term (Ended September 30, 2019)	Current Term (Ended September 30, 2020)
Cash flows from (used in) operating activities		
Profit before tax	-81,310	2,325,120
Adjustments:		
Depreciation and amortization expense	209,766	983,299
Impairment loss	1,803,979	53,078
Interest income and dividend income	-4,145	-3,557
Interest expenses	36,085	36,040
Share of (profit) loss of entities accounted for using equity method	338,283	-113,258
Other	-153,846	63,648
Increase or decrease in working capital		
Decrease (increase) in operating receivables	112,412	-2,714,765
Decrease (increase) in inventories	-9,798	-25,502
Increase (decrease) in operating payables	-301,505	2,253,578
Other	-227,780	133,152
Subtotal	1,722,141	2,990,833
Interest and dividend income received	54,717	40,766
Interest expenses paid	-36,377	-36,335
Income taxes refund	458,081	116,529
Income taxes paid	-940,611	-771,315
Cash flows from (used in) operating activities	1,257,951	2,340,478
Cash flows from (used in) investing activities		
Proceeds from sales of securities	654,145	51,649
Purchase of securities	-729,568	-961,975
Purchase of property, plant and equipment	-64,850	-60,470
Purchase of intangible assets	-21,817	-13,078
Other	-42,919	179,607
Cash flows from (used in) investing activities	-205,009	-804,267
Cash flows from (used in) financing activities		
Net increase (decrease) in short-term borrowings	-308,435	—
Proceeds from long-term borrowings	-850,008	-850,008
Repayments of lease obligations	—	-837,035
Cash dividends paid	-252,786	-252,886
Purchase of treasury shares	-23	—
Other	350	-1,108
Cash flows from (used in) financing activities	-1,410,902	-1,941,037
Effect of exchange rate change on cash and cash equivalents	-75,881	-2,741
Increase (decrease) in cash and cash equivalents	-433,841	-407,567
Cash and cash equivalents at beginning of period	14,922,272	14,488,431
Cash and cash equivalents at end of period	14,488,431	14,080,864

(6) Notes on Consolidated Financial Statement
(Notes on the premise of a going concern)
No applicable items.

(Changes in the Company Policy)

The Group has adopted IFRS 16 “Leases” from the consolidated year ended September 30, 2020. As following the transitional measures of IFRS 16, the Group has adopted the standard retroactively and recognizes the cumulative effect of the initial adoption of the new standard as of October 1, 2019. Therefore, Our Group has not restated the comparative information.

IFRS 16 establishes the principles for lessees and lessors to recognize, measure, present and disclose lease contracts. Under IFRS 16, lessees use a single accounting model without separating finance leases from operating leases as required under the previous standard, IAS 17 “Leases” (hereinafter referred to as IAS 17). At the initiation date of the lease, a lessee will recognize an obligation to pay the lease payments (lease liability) and right-of-use assets representing the right to use the underlying asset during the corresponding lease term. Subsequently, the lessee recognizes interest expense arising from lease liabilities and depreciation expense arising from right-of-use assets separately. The right-of-use assets are depreciated on a straight-line basis over the lease term.

The Group recognizes lease liabilities under IFRS 16 on operating leases that were previously classified in accordance with IAS 17. The remaining lease payments are measured at present value using the lessee's incremental rate of return as of October 1, 2019.

The Group has adopted the following expedient in applying IFRS 16 to leases that were previously classified as operating leases under IAS 17.

- Applying a single discount rate to portfolios of leases with similar characteristics.
- Applying a waiver that does not recognize right-of-use assets and lease liabilities to leases having a remaining lease term of 12 months or less.
- Excluding initial direct costs from the measurement of right-of-use assets as of the effective date.
- Determining after the fact when calculating the lease term of a contract that includes an option to extend or terminate.

Upon the adoption of IFRS 16, the Group additionally recognized right-of-use assets of ¥1,725,653,000 and lease liabilities of ¥1,708,507,000, and also a decrease of ¥13,035,000 in retained earnings at the beginning of the period (after tax effect accounting) as of October 1, 2019. Right-of-use assets are presented as “Right-of-use assets” and lease liabilities are included in “Other financial liabilities (liabilities)” and “Other financial liabilities (non-current liabilities)”.

(Information on Reportable Segments)

1. Overview of reportable segments

The Group has a holding company structure where the Company is a holding company and its subsidiaries (or their groups) are business units. Activities directly related to revenue generation are conducted solely by business units, which consist of the Company’s subsidiaries (or their groups).

The Group’s reportable segments are based on business segments for which separate financial information is available and that the highest decision-maker examines on a regular basis to determine the distribution of management resources and evaluate the results. In consideration of similarities among the economic characteristics of each business segment and their quantitative importance and for the purpose of enabling the users of the financial statements to appropriately evaluate the Group’s businesses and the economic circumstances for the businesses and their effects on the businesses, the Group discloses information on two reportable segments: the Digital Marketing Business and the Media Platform Business,

i. Digital Marketing Business

The Digital Marketing Business consists of business segments that provide comprehensive digital transformation support to clients, mainly in the digital marketing domain such as the sales and operation of advertisement, as well as providing solutions utilizing data and AI and marketing support in integration of online and offline through the alliance with Dentsu group.

ii. Media Platform Business

The Media Platform Business consists of Manga Content Business “GANMA!”, Recruitment Platform Business “ViViViT”, Social Contribution Business “gooddo”, Medical Platform Business “Pharmarket”, Childcare Platform Business “Babyful” etc. This segment includes business units that have commenced

operation in recent years and have not made a profit due to prior investment for revenue generation. The highest decision-maker makes decisions on the distribution of management resources to those business units and evaluates their results, assuming risks and economic value that allow the Group to recover the investment costs through future revenue generation.

2. The change of reportable segments names

From the current term, the segment names are changed from Internet Marketing Business to Digital Marketing Business and from Media Content Business to Media Platform Business. This is the only changes to names and there is no impact on the segment information. The information regarding the previous term is also explained in the names after the change.

3. Measurement of reportable segments' profits and losses

Segment profit is non-GAAP operating income, which is the sum of operating income in compliance with IFRS and temporary factors, including impairment losses and gains (losses) on sales of property, plant and equipment.

The Group voluntarily discloses the total amount of all transactions as net sales. The disclosure of net sales is not disclosure in accordance with IFRS. The management believes, however, that net sales are useful information for users of the financial statements, and voluntarily discloses net sales in its consolidated net profit-and-loss statement and segment information as reference information.

The prices of inter-segment transactions are determined based on the prices of transactions with external customers.

4. Information on reportable segments' profits and losses

Previous consolidated fiscal year (from October 1, 2018 to September 30, 2019)

(Thousand yen)

	Digital Marketing	Media Platform	Total	Adjustment*	Consolidated
Segment revenue	15,079,279	2,005,057	17,084,336	-288,831	16,795,505
Segment profit (loss)*	4,774,723	-900,883	3,873,840	-1,808,941	2,064,899
Segment sales	75,310,789	2,005,057	77,315,846	-815,047	76,500,799

(Notes) 1. The segment profit is non-GAAP operating profit.

2. Adjustment includes the elimination of profit and loss transactions between reportable segments and expenses for the operation of the holding company not attributable to reportable segments.

Fiscal Year Ended September 30, 2020 (from October 1, 2019 to September 30, 2020)

(Thousand yen)

	Digital Marketing	Media Platform	Total	Adjustment	Consolidated
Segment revenue	15,806,795	2,486,885	18,293,680	-355,935	17,937,745
Segment profit (loss) *	5,248,301	-995,759	4,292,542	-1,840,129	2,452,413
Segment sales	74,727,812	2,486,885	77,214,697	-725,952	76,488,745

(Notes) 1. The segment profit is non-GAAP operating profit.

2. Adjustment includes the elimination of profit and loss transactions between reportable segments and expenses for the operation of the holding company not attributable to reportable segments.

Reconciliation of segment profit (loss) and profit before tax

(Thousand yen)

	Previous Term (Ended September 30, 2019)	Current Term (Ended September 30, 2020)
Segment profit (non-GAAP operating income)	2,064,899	2,452,413
Impairment loss	-1,803,979	-53,078
Other profit (loss) (net)	-77,787	-124,939
Financial profit (loss) (net)	73,840	-62,534
Share of profit of entities accounted for using equity method	-338,283	113,258
Profit before tax	-81,310	2,325,120

(Information on Value per Share)

The basis of the calculation of earnings per share is shown in the table below.

	Previous Term (Ended September 30,2019)	Current Term (Ended September 30, 2020)
Profit attributable to owners of parent (thousand yen)	-546,929	1,464,342
Average number of ordinary shares outstanding during the fiscal year (thousand shares)	126,430	126,451
Number of potential shares with dilutive effects		
Number of warrants (thousand shares)	—	507
Average number of shares outstanding in consideration of the number of potential shares with dilutive effects (thousand shares)	126,430	126,958
Basic earnings per share (yen)	-4.33	11.58
Diluted earnings per share (yen)	-4.33	11.53

(Notes) In the previous term, 530,000 warrants of shares have been excluded from the number of shares used in the calculation of diluted earnings per share because their inclusion would be anti-dilutive.