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Flash Report for the 2nd Quarter of the Fiscal Year Ending December 31, 2018 [Japan GAAP] (on a consolidated basis)

August 8, 2018

Company name: OPT Holding, Inc. Listed on: TSE

Securities code: 2389 URL: http://www.opt.ne jp/holding/

Representative: Noboru Hachimine, Founder, President and CEO

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Scheduled submission date of quarterly report: August 10, 2018 Scheduled start date of dividend payment: －

Supplementary materials for quarterly results: Prepared

Quarterly results briefing: Held (for securities analysts and institutional investors)

(Rounded down to the nearest million yen)

1. Consolidated Results for the 2nd Quarter of Fiscal 2018 (January 1, 2018–June 30, 2018)

(1) Consolidated business results (% represents year-on-year change)

	Revenue		Operating income		Ordinary income		Net income attributable to owners of parent	
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%
2QFY2018	43,755	9.4	1,089	(24.3)	842	(48.7)	1,179	44.8
2QFY2017	39,999	13.1	1,438	23.7	1,642	55.2	814	196.0

(Note):

Comprehensive income: 2QFY 2018: 8,517 million (878.6%) 2QFY 2017: 870 million (-%)

	Net income per share	Diluted net income per share	EBITDA ※1		EBIT ※2	
	Yen	Yen	Yen in millions	%	Yen in millions	%
2QFY2018	52.14	51.86	2,654	7.2	2,020	20.3
2QFY2017	34.81	34.62	2,476	58.0	1,679	106.8

(Notes)※1 EBITDA = EBIT + Other finance-related profits (losses) + Depreciation + Amortization of intangible assets + Amortization of long-term prepaid expenses + Non-cash gain and loss

※2 EBIT= Net income before taxes and other adjustment＋interest paid－interest received

(Reference) Consolidated business results of 2QFY2017 included result of Classified Inc. that was sold at the end of consolidated fiscal year.

For reference, consolidated business results of 2QFY2017 exclude the impact of Classified Inc. are as follows.

(% represents year-on-year change)

	Revenue		Operating Income		Ordinary Income		Net income attributable to owners of parent		EBITDA		EBIT	
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%
2QFY2018	43,755	19.4	1,089	(18.1)	842	(46.0)	1,179	48.4	2,654	12.7	2,020	28.7
2QFY2017	36,659	－	1,329	－	1,560	－	794	－	2,355	－	1,570	－

(2) Consolidated financial position

	Total assets	Net assets	Capital-to-asset ratio	AUM ※3
	Yen in millions	Yen in millions	%	Yen in millions
2QFY2018	55,459	26,089	41.6	21,139
2QFY2017	46,127	18,813	33.0	―

(Reference): Capital: 2QFY2018: 23,096 million FY2017: 15,218 million

(Notes) ※3 AUM: Sum of the book value of shares of subsidiary companies and affiliated companies and the FMV (※4) of operational investment securities and investment securities

※4 FMV (fair market value): Amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Calculation method for AUM: In terms of shares of subsidiary companies and affiliated companies, their book value is used. As for operational investment securities and investment securities, their FMV is calculated on an issue-by-issue basis in the following manner.

- Issues with a small investment amount: Acquisition cost.
- Issues of listed companies: Market value as of the end of June 2018.
- Issues with recent financing (equity financing): Valuation amount based on the value of the relevant financing.
- Other issues are calculated based on the comparable multiple valuation method, discounted cash flow (DCF) method or net asset method according to the condition of the business.

Please note that KPMG AZSA LLC has provided us with guidance and advice in calculating FMV for the investment business.

The "―" symbol is indicated as the AUM for the fiscal year ended December 31, 2017 was not calculated.

2. Dividends

	Annual dividend per share				
	End of 1Q	End of 2Q	End of 3Q	End of FY	Total
	Yen	Yen	Yen	Yen	Yen
FY 2017	–	0.00	–	12.00	12.00
FY 2018	–	0.00			
FY ending Dec. 31, 2018 (forecast)			–	–	–

(Notes) Revisions to most recently announced dividend forecast: None

Regarding dividend, the company aims to pay a dividend payout ratio of 20% to net income attributable to parent before amortization of goodwill from FY2017.

3. Consolidated business forecasts for fiscal 2018 (January 1, 2018–December 31, 2018)

(Percentages are year-on-year changes)

	Revenue		Operating income		Ordinary income		Net income attributable to owners of parent		Net income per share
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen
Full fiscal year	91,000	10.2	2,100	(5.6)	1,500	(21.9)	1,400	38.5	61.90

(Note) Revision to most recently announced consolidated earnings forecast: None

(Reference)

・EBITDA Forecast for FY 2018: 4,600 million yen

・EBIT Forecast for FY 2018: 2,700 million yen

※ Notes

(1) Changes in major subsidiaries (changes in specified subsidiaries involving changes in the scope of consolidation) during the fiscal year under review: None

# of subsidiaries newly included: 0 # of subsidiaries excluded: 0

(2) Application of accounting process specific to preparation of quarterly consolidated financial statements: None

(3) Changes in accounting policies, changes in accounting estimates, and retrospective restatements

(i) Changes in accounting policies arising from amendments to accounting standards, etc.: None
(ii) Other changes in accounting policies: None
(iii) Changes in accounting estimates: None
(iv) Retrospective restatements: None

(4) Outstanding (common) shares

(i) Outstanding shares (including treasury stock) at end of period	2QFY2018	23,817,700 shares	FY2017	23,817,700 shares
(ii) Treasury stock at end of period	2QFY2018	1,200,182 shares	FY2017	1,200,062 shares
(iii) Average of outstanding during period (accumulated quarterly)	2QFY2018	22,617,573 shares	2QFY2017	23,398,984 shares

* Flash reports are not subject to audits.

* Explanation about proper use of business forecasts and other special instructions.

(Notice on describing future, etc.)

The business forecasts and other forward-looking statements contained in this material are based on the information currently available to the Company and certain assumptions deemed to be reasonable, and actual business results and the like may substantially differ due to various factors. For the assumptions serving as a basis of the business forecasts and for the instructions for the use of the business results, see Subsection (4) "Future outlook" under Section 1 "Summary of business results, etc." on Page 7 of the attachment.

(Notice on reference of summary information)

1. EBITDA= EBIT + Other finance-related profits (losses) + Depreciation + Amortization of intangible assets + Amortization of long-term prepaid expenses + Non-cash gain and loss
2. EBIT= Net income before taxes and other adjustment ＋ interest paid － interest received

○ Attachment: Table of Contents

1. Qualitative information on the quarterly financial results

(1) Description of business results

In February 2018, OPT Group announced a new medium-term management plan (for the three years from 2018 to 2020) titled “New Stage 2020” with the aim of revenue growth of 16% to 18% (annual rate compared with 2017) and EBITDA growth of 18% to 20% (annual rate compared with 2017). Its policy is to facilitate group cooperation and group optimization, and to maximize cash flows for the purpose of maximizing the medium- and long-term corporate value.

The Group aims to achieve a return on equity (ROE) of more than 10% in the medium to long term through continuous growth of revenue, profits and cash flows as well as creation of an optimal capital structure, in which capital costs are taken into account by proactively allocating the created cash to investments in digital sectors.

The main growth strategy is to address the rapidly progressing digital industrial revolution and lead any and all “digital shifts” in business entities by proactively utilizing abundant digital human resources, sales channels involving thousands of domestic and overseas entities, and group assets including the know-how on investments and services in digital sectors. OPT Group will lead the digital shifts in each and every business field, such as “digital shift in advertising or promotions” arising from people’s less interest in watching TVs and checking flyers, “digital shift in operations or human resources” to handle big data, IoT, artificial intelligence, robots, etc., and “digital shift in business processes or business models.”

As a result of the business promotion based on the management policy stated above, the financial results of the OPT Group during the second quarter consolidated accounting period under review are as follows.

(Yen in millions)

	2Q consolidated accounting period FY2018	Year-on-year growth rate (adjusted ※6)	Year-on-year growth rate
Revenue	20,982	19.9%	9.8%
Gross profit	4,160	14.6%	6.6%
Operating income	81	(72.7)%	(76.4)%
EBITDA (※1)	1,395	69.5%	60.0%
EBIT (※2)	1,127	151.3%	129.0%
Net income attributable to owners of parent	663	420.1%	349.5%
ROE (LTM) (※3, 4)	7.3%	－	－
Free cash flows (※5)	715	－	223.7%
Diluted net income per share	29.07	－	－
Net income per share	29.35	－	－

※1 EBITDA = EBIT + Other finance-related profits (losses) + Depreciation + Amortization of intangible assets + Amortization of long-term prepaid expenses + Non-cash gain and loss

※2 EBIT= Net income before taxes and other adjustment＋interest paid－interest received

※3 LTM = Last twelve months (past twelve months from the end of the last quarter)

※4 (Net income attributable to owners of parent (LTM)) ÷ (Average of the capital amounts as of June 30, 2017 and as of June 30, 2018)

※5 (Operating cash flows) + (Investment cash flows) ± (Temporary cash flow items)

※6 Comparison with the figures where the financial results of Classified Inc. (accounting for approximately 8.3% of the revenue in the previous first half) sold at the end of the preceding fiscal year are excluded from the consolidated business results.

Please note that the reportable segments are different from the fiscal year ending December 31, 2018. The Group formerly had three business segments “Marketing Business,” “Investment & Incubation Business,” and “Overseas Business,” but now has two segments “Marketing Business” and “Synergy Investment Business” as the disclosure of the segment information on each segment is expanded as indicated below. Please refer to “(4) Notes on Quarterly Consolidated Financial Statements (Segment Information, Etc.) under “2. Quarterly Consolidated Financial Statements and Major Notes Thereto.”

Changes in Segments / Disclosure Items

New segments	Old segments	Major business lines	Disclosure items
Marketing Business	Marketing Business	・Digital marketing ・Internet advertising agency business ・Development / provision of solutions ・Support of human resources / IT	Revenue, operating income, EBIT, EBITDA
Synergy Investment Business	Investment & Incubation Business	・Venture capital investment ・Fund management ・AI business	Revenue, operating income, EBIT, EBITDA, AUM (※1), IRR (※2)
	Overseas Business	・Overseas Internet advertising agency business ・China / cross-border EC business	Revenue, operating income, EBIT, EBITDA

※1 AUM: Sum of the book value of shares of subsidiary companies and affiliated companies and the FMV (※3) of operational investment securities and investment securities.

※2 IRR: Internal rate of return.

※3 FMV (fair market value): Amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

OPT Group posted the revenue of ¥20,982 million (9.8% increase YoY), gross profit of ¥4,160 million (6.6% increase YoY), operating income of ¥81 million (76.4% decrease YoY), EBITDA of ¥1,395 million (60.0% increase YoY), EBIT of ¥1,127 million (129.0% increase YoY), and net income attributable to owners of parent ¥663 million (349.5% increase YoY) for the second quarter consolidated accounting period under review.

In addition, Classified, Inc. accounting for approximately 8.3% of the revenue in the previous second quarter consolidated accounting period was sold in December 2017. In terms of the year-on-year percentages calculated based on the financial results excluding Classified, Inc. (in the Marketing Business segment) in the previous second quarter consolidated accounting period, revenue had a 19.9% increase YoY, gross profit a 14.6% increase YoY, operating income a 72.7% decrease YoY, EBITDA a 69.5% increase YoY, EBIT a 151.3% increase YoY, and net income attributable to owners of parent a 420.1% increase YoY.

Major factors for the differences in the year-on-year percentages excluding Classified, Inc. are as follows.

1) Revenue decreased in the Synergy Investment Business due to the impact of the temporary poor performance of overseas marketing subsidiaries, review of the business portfolio, etc., but increased in the Marketing Business by ¥3,601 million due to the retention of existing clients in both the large corporation area and the local / SME area as well as due to the increase in new orders. Consequently, consolidated revenue increased by ¥3,480 million (19.9% increase YoY).
2) Operating income increased by ¥132 million YoY in the Marketing Business due to favorable performance in both the large corporation area and local / SME area, but decreased by ¥179 million in the Synergy Investment Business due to temporary performance of overseas marketing subsidiaries, review of the business portfolio, etc. Head Office costs increased by ¥232 million. Consequently, consolidated operating income decreased ¥ 217 million (72.7% decrease YoY).
3) EBITDA increased by ¥176 million in the Marketing Business due to increased gross profit despite increased labor and outsourcing costs, etc. and increased by ¥980 million in the Synergy Investment Business due to partial sale of shareholdings associated with the listing of Writeup Co., Ltd., which had been a consolidated subsidiary until the first half of the fiscal year under review (gain on sale of approximately ¥1.1 billion) despite some lowering factors such as temporary poor performance in overseas marketing subsidiaries and review of the business portfolio. However, EBITDA decreased by ¥631 million due to the increased costs arising from the personnel growth to enhance the management structure at the Head Office as well as due to the absence of gain on valuation of derivatives for this fiscal year in connection with the discontinuation of derivative transactions, which had been recognized for the previous fiscal year. Consequently, consolidated EBITDA increased by ¥572 million (69.5% increase YoY).

As a result, in terms of the consolidated financial results of OPT Group during the first half of the fiscal year under review (including the financial results of Classified, Inc.), revenue was ¥43,755 million (9.4% increase YoY), gross profit ¥8,801 million (6.6% increase YoY), operating income ¥1,089 million (24.3% decrease YoY), EBITDA ¥2,654 million (7.2% increase YoY), EBIT ¥2,020 million (20.3% increase YoY), net income attributable to owners of parent ¥1,179 million (44.8% increase YoY). As for the consolidated financial results during the same period excluding the financial results of Classified, Inc., revenue had a 19.4% increase YoY, gross profit a 14.5% increase YoY, operating income a 18.1% decrease YoY, EBITDA a 12.7% increase YoY, EBIT a 28.7% increase YoY and net income attributable to owners of parent a 48.4% increase YoY.

Performances by segment developed as follows.

Please note that the year-on-year comparison was carried out by replacing the figures for the previous first half with those after the reportable segment change.

Marketing Business

The financial results (before the allocation of Head Office costs) of the Marketing Business during the second quarter consolidated accounting period under review are as follows.

(Yen in millions)

	2Q consolidated accounting period FY2018	Year-on-year growth rate (adjusted)	Year-on-year growth rate
Revenue	19,861	22.1%	11.0%
Gross profit	3,474	19.5%	8.8%
Operating income	655	25.2%	11.6%
EBITDA	899	24.5%	13.6%
EBIT	660	28.7%	14.5%

In the second quarter consolidated accounting period under review, the Marketing Business had revenue of ¥19,861 million (11.0% increase YoY), gross profit of ¥3,474 million (8.8% increase YoY), operating income of ¥655 million (11.6% increase YoY), EBITDA of ¥899 million (13.6% increase YoY), and EBIT ¥660 million (14.5% increase YoY).

In addition, in terms of the year-on-year percentages calculated based on the financial results excluding Classified, Inc. in the previous second quarter consolidated accounting period, revenue had a 22.1% increase YoY, gross profit a 19.5% increase YoY, operating income a 25.2% increase YoY, EBITDA a 24.5% increase YoY and EBIT a 28.7% increase YoY.

Major factors for the differences in the year-on-year percentages excluding Classified, Inc. are as follows.

1) Revenue increased by ¥2,417 million in the large corporation area due to favorable performance in receiving orders from not only existing customers, but also brand advertisers and new retail / distribution clients, and increased by ¥1,310 million in the local / SME area due to favorable performance in receiving new orders mainly from EC advertisers by successfully spotting a local demand in “digital shifts.” Consequently, revenue had an increase of 22.1% YoY.
2) EBITDA increased by ¥153 million in the large corporation area and increased by ¥23 million in the local / SME area. Consequently, EBITDA had an increase of 24.5% YoY.

As a result, in terms of the consolidated financial results of the Marketing Business during the first half of the fiscal year under review (including the financial results of Classified, Inc.), revenue was ¥41,116 million (8.8% increase YoY), gross profit ¥7,341 million (6.2% increase YoY), operating income ¥2,069 million (8.0% increase YoY), EBITDA ¥2,576 million (10.9% increase YoY), and EBIT ¥2,076 million (8.2% increase YoY). As for the consolidated financial results during the same period excluding the financial results of Classified, Inc., revenue was a 19.4% increase YoY, gross profit a 15.9% increase YoY, operating income a 15.8% increase YoY, EBITDA a 18.0% increase YoY, and EBIT a 16.0% increase YoY.

Major efforts in the Marketing Business during the first half of the fiscal year under review are as follows.

・OPT Inc. played a central role in acquiring large-scale clients located mainly in the Tokyo metropolitan area.
・As an industry-specific effort, carried out sales activities through the omni-channel innovation center focused on the support of “digital shifts” in distribution / retail business. Made progress in new acquisition as a new service utilizing location information has received recognition.
・Accommodated the digital shift needs of an entire company and provided, in addition to digitalized advertising, a complete set of consulting services for the overall digital marketing such as preparation of marketing or CRM

strategies, introduction of systems, research, analysis, and operation.

- Established “Studio Opt,” a professional organization for open innovation to create businesses and services by involving domestic and overseas design firms and creators working as a sole proprietor.
- Won the “Top New Go-to-Market Partner Award” in the IBM Geography Excellence Awards 2018.
- SoldOut, Inc. (securities code: 6553), a consolidated subsidiary in charge of the local / SME client area, played a central role in performing sales activities and acquiring new clients in 21 sites in Japan.
- SoldOut, Inc. started collaboration with Nihon M&A Center Inc. with a proven track record as the top firm in M&A of SMEs.

Synergy Investment Business

The financial results (before the allocation of Head Office costs) of the Synergy Investment Business during the second quarter consolidated accounting period under review are as follows.

(Yen in millions)

	2Q consolidated accounting period FY2018	Year-on-year growth rate
Revenue	1,152	(10.7)%
Gross profit	699	(1.5)%
Operating loss	118	－※
EBITDA	944	－※
EBIT	941	－※

※ No percentage is indicated because the figure of the second quarter consolidated accounting period under review or the previous second quarter consolidated accounting period was negative.

In the second quarter consolidated accounting period under review, the Synergy Investment Business had revenue of ¥1,152 million (10.7% decrease YoY), gross profit of ¥699 million (1.5% decrease YoY), operating loss of ¥118 million (cf. operating income of ¥61 million in the year-ago period), EBITDA of ¥944 million (cf. -¥35 million in the year-ago period), and EBIT ¥941 million (cf. -¥150 million in the year-ago period).

Major factors for the differences in the year-on-year percentages are as follows.

1) Revenue decreased by ¥138 million (10.7% decrease YoY) due to the temporary poor performance in the overseas marketing subsidiaries (decrease of ¥171 million) despite an increase of ¥132 million in the cross-border EC business, which was in good shape.
2) EBITDA increased by ¥980 million to ¥944 million in the Synergy Investment Business due to partial sale of shareholdings associated with the listing of Writeup Co., Ltd., which had been a consolidated subsidiary until the first half of the fiscal year under review (gain on sale of approximately ¥1.1 billion) despite some lowering factors such as temporary poor performance in overseas marketing subsidiaries and review of the business portfolio.

As a result, in terms of the consolidated financial results of the Marketing Business during the first half of the fiscal year under review (including the financial results of Classified, Inc.), revenue was ¥2,698 million (17.0% increase YoY), gross profit ¥1,474 million (10.0% increase YoY), operating loss ¥81 million (cf. operating income of ¥61 million in the year-ago period), EBITDA ¥984 million (cf. ¥23 million in the year-ago period), and EBIT ¥901 million (cf. -¥268 million in the year-ago period).

The definition of AUM has been changed as we started disclosing the valuation of the fair market value (FMV) associated with our investments from the end of the second quarter consolidated accounting period under review to increase transparency of our investment performance. AUM is defined as the "sum of the book value of shares of subsidiary companies and affiliated companies and the FMV of operational investment securities and investment securities" from the second quarter consolidated accounting period under review. AUM was ¥21.1 billion as of the end of the second quarter consolidated accounting period under review. In addition, the consolidated acquisition book value (※) is disclosed for the purpose of reference. The acquisition cost is ¥9.7 billion.

※ Sum of the book value of shares of subsidiary companies and affiliated companies and the acquisition cost of operational investment securities and investment securities, in which impairment is taken into account.

The FMV of operating investment securities and investment securities are calculated on an issue-by-issue basis in the following manner. (With regard to the shares of subsidiaries and affiliated companies, the FMV is the book value)

・Issues with a small investment amount: Acquisition cost.

・Issues of listed companies: Market value as of the end of June 2018.
・Issues with recent financing (equity financing): Valuation amount based on the value of the relevant financing.
・Other issues are calculated based on the comparable multiple valuation method, discounted cash flow (DCF) method, or net asset method according to the condition of the business.

Please note that KPMG AZSA LLC has provided us with guidance and advice in calculating FMV for the investment business.

In addition to AUM, we decided to start disclosing IRR associated with our investments from the end of the second quarter consolidated accounting period under review to increase transparency of our investment performance. The outlines and prerequisites for calculation are as follows and any unsold issues after investment are calculated as if they were collected based on the following prerequisites.

Prerequisites:
・Issues calculated: Issues in which we invested in or after 2003 (including business investments).
・Reference date for calculation: End of June 2018.
・Any issues with no change in their acquisition cost due to sale, impairment, financing (equity financing), IPO or the like are calculated as if they were sold on the reference date at the acquisition cost.
・Handling of impairment issues: Calculated as if they were sold at the net asset value as of impairment.
・Handling of IPO issues: Calculated as if they were sold on the reference date.
・Handling of issues with recent financing (equity financing): Calculated as if they were sold at the valuation amount of the share value at the time of financing.
・Handling of taxes in calculating IRR: Calculation is performed on an after-tax basis.
・Handling of funds: Calculated with the amount collected before the end of June 2018 and the book value as of the end of June 2018.

The after-tax IRR calculated based on the above prerequisites as of the end of June 2018 is a little less than 18%.

Major efforts in the Synergy Investment Business during the first half of the fiscal year under review are as follows Major efforts.
・Established a new company "SIGNATE Inc." in April 2018. Started, in addition to algorithm development through competition on a data analysis contest platform, an IT specialist personnel recruiting service focused on data scientists, high-end engineers and high-class human resources to promote the use of AI and big data in business entities.
・Made a venture capital investment, through the OPT Ventures #1 Investment Limited Partnership, in VAZ, Inc., which engages in the influencer marketing business and non-college graduate job seeker support service business.
・Raksul Inc., an existing investee, became listed on the TSE Mothers on May 31, 2018.
・Writeup Co., Ltd., an existing investee, which had been a consolidated subsidiary until the first half of the fiscal year under review, became listed on the TSE Mothers on June 22, 2018.
・The China / cross-border EC business steadily grew in billings.

In order to achieve the medium-term management plan, OPT Group sees recruiting and developing human resources as an important management issue, and therefore reinforced human resources development as it established a digital marketer development organization, "OPT HR Development Center" to enhance mid-career recruiting. Moreover, the Group plans to introduce the restricted stock compensation plan and an employee shareholding association as an incentive to improve its corporate value as well as a common system to integrate the group headquarters functions. These investments are expected to be made in or after the second half of 2018.

(2) Description of financial position

Assets, liabilities and net assets

Assets:

Total assets increased by ¥9,331 million from the end of the previous fiscal year to ¥55,459 million as of the end of the second quarter consolidated accounting period under review.

Current assets were ¥46,832 million, an increase of ¥10,548 million from the end of the previous fiscal year. This is mainly because operational investment securities increased by ¥10,976 million partly due to the fair market valuation of shareholdings, and cash and deposits increased by ¥1,143 million partly due to the refund of lease and guarantee deposits although other current assets decreased by ¥729 million partly due to the completion of the reserved stock price transaction of own shares.

Noncurrent assets were ¥8,626 million, a decrease of ¥1,217 million from the end of the previous fiscal year. This is mainly because goodwill decreased by ¥227 million due to amortization of goodwill, lease and guarantee deposits decreased by ¥837 million partly due to the completion of the reserved stock price transaction of own shares, and shares of subsidiary companies decreased by ¥395 million partly in connection with the sale of shares of subsidiary companies and the inclusion of non-consolidated subsidiaries in the scope of consolidation.

Liabilities:

Total liabilities in the second quarter consolidated accounting period under review increased by ¥2,055 million from the end of the previous consolidated fiscal year to ¥29,370 million.

Current liabilities were ¥24,772 million, an increase of ¥2,807 million from the end of the previous fiscal year. This is mainly because deferred tax liabilities increased by ¥2,980 million in connection with the fair market valuation of operational investment securities.

Noncurrent liabilities were ¥4,597 million, a decrease of ¥752 million from a year earlier. This is mainly because of the decrease of ¥762 million in long-term loans payable due to the transfer to the current portion of long-term loans payable.

Net assets:

Total net assets in the second quarter consolidated accounting period under review increased by ¥7,275 million from the end of the previous consolidated fiscal year to ¥26,089 million.

This is because retained earnings increased by ¥1,179 million due to the net income attributable to owners of parent during the first half of the fiscal year under review and valuation difference on available-for-sale securities increased by ¥7,337 million in connection with the fair market valuation of operational investment securities although retained earnings decreased by ¥271 million in association with dividends of surplus.

(3) Description of cash flows

Cash and cash equivalents (hereinafter referred to as "Cash") were ¥16,666 million as of the end of the second quarter consolidated accounting period under review, an increase of ¥1,249 million from the end of the previous consolidated fiscal year (¥15,417 million) because the Cash earned in operating and investing activities exceeded the Cash spent in financial activities.

The status of each category of cash flows as of the end of the second quarter consolidated accounting period under review and major factors are as follows.

Cash flows from operating activities

The increase in Cash from operating activities was ¥1,341 million (cf., increase of ¥1,083 million in the previous consolidated fiscal year).

This is mainly because of the recognition of ¥1,170 million as the gain on sale of investment securities, the recognition of ¥2,006 million as net income before taxes and other adjustments despite the payment of ¥600 million as income taxes, and the recognition of ¥404 million as depreciation.

Cash flows from investing activities

The increase in Cash from investing activities was ¥739 million (cf., decrease of ¥1,434 million in the previous fiscal year).

This is mainly because of the inflow of ¥783 million due to the collection of lease and guarantee deposits and the inflow of ¥524 million due to the settlement of derivatives associated with reserved stock price transaction of own shares despite the outflow of ¥456 million due to the acquisition of tangible and intangible noncurrent assets partly in connection with the solution development centering on advertising technology and the outflow of ¥171 million due to the acquisition of investment securities including investments in the U.S. investment funds.

Cash flows from financial activities

The decrease in Cash from financial activities was ¥827 million (cf., decrease of ¥3,576 million in the previous fiscal year).

This is mainly because of the outflow of ¥272 million due to dividend payments and the outflow of ¥745 million due to the repayment of long-term loans payable despite the inflow of ¥441 million due to proceeds from stock issuance to non-controlling shareholders.

(4) Description of consolidated business results and other future forecast information

In terms of the full-year consolidated business results for the fiscal year ending December 2018, the full-year forecast figures released on February 8, 2018 have been modified. For the details, please refer to the "Notice of Modification to the Forecast of Consolidated Business Results" released on June 13, 2018.

2. Quarterly consolidated financial statements and major notes thereto

(1) Consolidated balance sheets

(Yen in thousands)

	FY 2017 (December 31, 2017)	2QFY2018 (June 30, 2018)
Assets		
Assets		
Cash and deposits	15,753,327	16,897,122
Notes and accounts receivable-trade	12,888,753	12,179,562
Operational investment securities	5,597,559	16,573,969
Inventories	121,051	375,885
Deferred tax assets	509,631	115,142
Other	1,478,588	748,689
Allowance for doubtful accounts	(64,597)	(57,536)
Total current assets	36,284,315	46,832,834
Noncurrent assets		
Tangible noncurrent assets	464,352	399,565
Intangible noncurrent assets		
Goodwill	1,013,891	786,439
Others	2,222,152	2,288,900
Total intangible noncurrent assets	3,236,044	3,075,340
Investment and other assets		
Shares of subsidiary companies	579,479	183,751
Shares of affiliated companies	953,506	1,200,518
Investment securities	2,516,572	2,399,882
Lease and guarantee deposits	1,593,798	756,053
Others	567,633	674,500
Allowance for doubtful accounts	(67,861)	(63,308)
Total investments and other assets	6,143,129	5,151,398
Total tangible assets	9,843,526	8,626,304
Total assets	46,127,842	55,459,138
Liabilities		
Current liabilities		
Notes and accounts payable-trade	10,951,798	11,012,995
Short-term loans payable	49,200	—
Current portion of long-term loans payable	6,483,531	6,459,996
Income taxes payable	432,899	594,862
Deferred tax liabilities	1,924	2,982,685
Provision for bonuses	568,617	485,220
Other	3,477,067	3,236,901
Total current liabilities	21,965,038	24,772,661
Noncurrent liabilities		
Long-term loans payable	4,992,297	4,230,009
Liabilities on retirement benefits	161,448	183,802
Deferred tax liabilities	73,887	65,555
Asset retirement obligations	116,888	115,621
Other	5,122	2,363
Total noncurrent liabilities	5,349,644	4,597,351
Total liabilities	27,314,683	29,370,013

(Yen in thousands)

	FY 2017 (December 31, 2017)	2QFY2018 (June 30, 2018)
Net assets		
Shareholders' equity		
Capital stock	7,835,926	7,835,926
Capital surplus	3,567,434	3,552,232
Retained earnings	4,214,070	4,924,468
Treasury stock	(912,886)	(913,072)
Total shareholders' equity	14,704,545	15,399,555
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(1,389)	7,335,939
Foreign currency translation adjustment	515,583	360,586
Total accumulated other comprehensive income	514,193	7,696,525
Subscription rights to shares	1,244	992
Non-controlling interests	3,593,175	2,992,052
Total net assets	18,813,159	26,089,125
Total liabilities and net assets	46,127,842	55,459,138

(2) Consolidated statements of income and consolidated statements of comprehensive income

(Quarterly consolidated statements of income)

(Second quarter consolidated cumulative period)

(Yen in thousands)

	2QFY 2017 (from January 1, 2017 to June 30, 2017)	2QFY 2018 (from January 1, 2018 to June 30, 2018)
Revenue	39,999,513	43,755,593
Cost of sales	31,740,450	34,954,124
Gross profit	8,259,063	8,801,469
Selling, general and administrative expenses	6,820,262	7,711,948
Operating income	1,438,801	1,089,520
Non-operating income		
Interest income	3,336	2,880
Gain on valuation of derivatives	626,400	56,525
Other	20,499	35,492
Total non-operating income	650,235	94,898
Non-operating expenses		
Interest expenses	19,628	17,046
Foreign exchange losses	51,403	24,807
Loss on investments in partnership	89,171	233,683
Equity in losses of affiliates	255,993	30,901
Other	30,295	35,339
Total non-operating expenses	446,493	341,778
Ordinary income	1,642,543	842,641
Extraordinary income		
Gain on sales of investment securities	24,053	1,185,852
Profit from reversal of new stock acquisition rights	2,389	240
Other	23	1
Total extraordinary income	26,466	1,186,094
Extraordinary losses		
Loss on disposal of fixed assets	5,100	3,560
Impairment loss	—	1,267
Loss of sale of investment securities	—	15,714
Other	346	1,224
Total extraordinary losses	5,447	21,766
Quarterly net income before taxes and other adjustments	1,663,562	2,006,968
Income taxes	691,426	666,097
Quarterly net income	972,135	1,340,871
Net income attributable to non-controlling interests	157,667	161,601
Net income attributable to owners of parent	814,468	1,179,270

(Quarterly consolidated statements of comprehensive income)

(Second quarter consolidated cumulative period)

(Yen in thousands)

	2QFY 2017 (from January 1, 2017 to June 30, 2017)	2QFY 2018 (from January 1, 2018 to June 30, 2018)
Net income	972,135	1,340,871
Other comprehensive income		
Valuation difference on available-for-sale securities	(9,490)	7,334,877
Foreign currency translation adjustment	(94,066)	(139,177)
Share of other comprehensive income of associates accounted for using equity method	1,841	(18,829)
Total other comprehensive income	(101,715)	7,176,869
Quarterly comprehensive income	870,419	8,517,741
Breakdown:		
Comprehensive income attributable to owners of the parent	715,119	8,361,602
Comprehensive income attributable to non-controlling interests	155,300	156,139

(3) Quarterly consolidated statements of cash flows

(Yen in thousands)

	2QFY 2017 (from January 1, 2017 to June 30, 2017)	2QFY 2018 (from January 1, 2018 to June 30, 2018)
Cash flows from operating activities		
Net income before taxes and other adjustments	1,663,562	2,006,968
Depreciation	362,709	404,494
Amortization of goodwill	171,470	165,738
Loss (gain) on investments in partnership	89,171	233,683
Loss (gain) on sale of investment securities	(24,053)	(1,170,138)
Equity in (earnings) losses of affiliates	255,993	30,901
Loss (gain) on valuation of derivatives	(626,400)	(56,525)
Impairment loss	—	1,267
Loss on retirement of noncurrent assets	5,100	3,560
Increase (decrease) in allowance for doubtful accounts	(76,123)	11,992
Increase (decrease) in provision for bonuses	37,977	(80,914)
Increase (decrease) in liabilities on retirement benefits	23,561	33,753
Interest and dividends income	(3,375)	(3,040)
Interest expenses	19,628	17,046
Decrease (increase) in trade receivable	(427,948)	370,808
Decrease (increase) in operational investment securities	(534,254)	(177,026)
Decrease (increase) in inventories	49,606	(298,137)
Decrease (increase) in notes and accounts receivable-trade	824,183	165,460
Increase (decrease) in accrued consumption taxes	316,925	(164,575)
Other	(35,691)	420,608
Subtotal	2,092,042	1,915,926
Interest and dividends income received	2,667	2,596
Interest expenses paid	(19,701)	(17,217)
Income taxes paid	(993,748)	(600,298)
Income taxes refund	1,950	40,064
Cash flows from operating activities	1,083,211	1,341,071
Cash flows from investing activities		
Payments into time deposits	(17)	(199,784)
Proceeds from withdrawal of time deposits	—	287,616
Purchase of property, plant and equipment	(46,885)	(22,077)
Purchase of intangible assets	(577,176)	(434,467)
Purchase of investment securities	(294,824)	(171,867)
Proceeds from sale of investment securities	50,220	58,576
Proceeds from redemption of investment securities	140,031	—
Proceeds from acquisition of shares in subsidiaries accompanying change in scope of consolidation	56,888	—
Payments for sales of investments in subsidiaries resulting in change in scope of consolidation	—	(57,995)
Proceeds from settlement of derivatives	—	524,678
Payments of lease and guarantee deposits	(3,746,340)	(27,658)
Proceeds from refund of lease and guarantee deposits	3,012,236	783,220
Payment of loans receivable	(85,367)	(15,287)
Proceeds from collection of loans receivable	64,675	66,770
Other	(7,813)	(52,584)
Cash flows from investing activities	(1,434,372)	739,140

(Yen in thousands)

	2QFY 2017 (from January 1, 2017 to June 30, 2017)	2QFY 2018 (from January 1, 2018 to June 30, 2018)
Cash flows from financial activities		
Net increase (decrease) in short-term loans payable	(172,100)	(16,200)
Proceeds from long-term loans payable	650,000	—
Repayment of long-term loans payable	(902,259)	(745,487)
Proceeds from issuance of common stock	301,599	—
Proceeds from stock issuance to non-controlling shareholders	—	441,182
Repayments of finance lease obligations	(32,049)	(30,157)
Repurchase of shares	(2,868,273)	(186)
Repurchase of shares by subsidiaries in consolidation	(87,844)	(88,047)
Cash dividends paid	(416,899)	(272,369)
Cash dividends paid to non-controlling shareholders	(47,797)	(24,278)
Purchase of investments in subsidiaries not resulting in change in scope of consolidation	—	(90,300)
Other	(650)	(2,011)
Cash flows from financial activities	(3,576,275)	(827,855)
Effect of exchange rate change on cash and cash equivalents	(66,590)	(77,277)
Net increase (decrease) in cash and cash equivalents	(3,994,027)	1,175,079
Cash and cash equivalents at beginning of period	18,234,074	15,417,161
Increase (decrease) in cash and cash equivalents resulting from Change of scope of consolidation	—	74,208
Cash and cash equivalents at end of period	14,240,047	16,666,449

(4) Notes on Quarterly Consolidated Financial Statements

Notes on going concern assumptions:

Not applicable.

Notes if there is significant change in the amount of shareholders' equity:

Not applicable.

(Segment Information, etc.)

【Segment Information】

I　Second quarter of consolidated cumulative period of last fiscal year　(From January 1, 2017 to June 30, 2017)

1　Information on amount of revenue, profit or loss of each reportable segment

(Yen in thousands)

	Reportable Segment			Adjustment (Note) 1	Amount recognized in consolidated financial statements
	Marketing Business	Synergy Investment Business	Total		
Revenue					
Revenue to external customers	37,752,704	2,246,809	39,999,513	－	39,999,513
Internal revenue or transfers between segments	42,186	59,115	101,301	(101,301)	－
Total	37,794,890	2,305,925	40,100,815	(101,301)	39,999,513
Profit (loss) of segment (Note) 2	1,918,620	(268,876)	1,649,743	30,071	1,679,814
EBITDA　(Note) 3	2,323,836	23,526	2,347,363	128,867	2,476,230
Interest paid – Interest received					16,252
Quarterly net income before taxes and other adjustments					1,663,562
Total income taxes					691,426
Income taxes – current, deferred					671,375
Income tax adjustment, etc.					20,051
Quarterly net income attributable to non-controlling shareholders					157,667
Quarterly net income attributable to owners of parent					814,468

(Notes) 1. The adjustment amount of ¥30,071 thousand for segment profit and loss includes elimination of intersegment transaction, headquarter management cost of ¥(513,574 thousand) that is not allocated to each reportable segment and profit from valuation of derivatives of ¥626,400 thousand that is related to forward stock transaction of the Company's own shares.

2. Segment profit and loss is denoted in EBIT (Net income before taxes and other adjustment ＋ interest paid －interest received)

3. EBITDA = EBIT + Other finance-related profits (losses) + Depreciation + Amortization of intangible assets + Amortization of long-term prepaid expenses + Non-cash gain and loss

4. Business results of 2Q FY2017 included business results of Classified Inc. that was sold at the end of last fiscal year. Revenue, profit and loss of each reportable segment of 2QFY2017 excluding the impact of Classified Inc. is as follows.

(Yen in thousands)

	Reportable Segment			Adjustment	Amount recognized in consolidated financial statements
	Marketing Business	Synergy Investment Business	Total		
Revenue					
Revenue to external customers	34,395,979	2,263,581	36,659,561	－	36,659,561
Internal revenue or transfers between segments	42,186	55,530	97,716	(97,716)	－
Total	34,438,165	2,319,112	36,757,277	(97,716)	36,659,561
Segment profit and loss (Note)2	1,789,115	(255,689)	1,533,425	37,232	1,570,658
EBITDA　(Note)3	2,182,814	36,714	2,219,528	136,028	2,355,557
Interest paid – Interest received					(11,594)
Quarterly net income before taxes and other adjustments					1,582,253
Total income taxes, etc.					654,123

Income taxes – current and deferred	632,577
Income tax adjustments	21,546
Quarterly net income attributable to non-controlling shareholders	133,253
Quarterly net income attributable to owners of parent	794,875

2 Information concerning loss on impairment of noncurrent assets and goodwill by reportable segment

(Significant loss on impairment of noncurrent assets)

Not applicable

(Significant change in the amount of goodwill)

Not applicable

(Significant gain on negative goodwill)

Not applicable

II Second quarter of consolidated cumulative period of last fiscal year (From January 1, 2018 to June 30, 2018)

1 Information on amount of revenue, profit or loss of each reportable segment

(Yen in thousands)

	Reportable Segment			Adjustment (Note) 1	Amount recognized in consolidated financial statements
	Marketing Business	Synergy Investment Business	Total		
Revenue					
Revenue to external customers	41,110,785	2,644,807	43,755,593	–	43,755,593
Internal revenue or transfers between segments	6,194	54,188	60,383	(60,383)	–
Total	41,116,980	2,698,995	43,815,976	(60,383)	43,755,593
Profit of segment (Note) 2	2,076,193	901,438	2,977,631	(956,656)	2,020,974
EBITDA (Note) 3	2,576,596	984,018	3,560,614	(906,542)	2,654,071
Interest paid – Interest received					14,006
Quarterly net income before taxes and other adjustments					2,006,968
Total income taxes					666,097
Income taxes – current, deferred					737,298
Income tax adjustment, etc.					(71,201)
Quarterly net income attributable to non-controlling shareholders					161,601
Quarterly net income attributable to owners of parent					1,179,270

(Notes) 1. The adjustment amount of ¥(956,656 thousand) for segment profit includes elimination of intersegment transaction, headquarter management cost of ¥(837,209 thousand) that is not allocated to each reportable segment and profit from valuation of derivatives of ¥56,525 thousand that is related to forward stock transaction of the Company's own shares.

2. Segment profit is denoted in EBIT (Net income before taxes and other adjustment ＋ interest paid －interest received)

3. EBITDA = EBIT + Other finance-related profits (losses) + Depreciation + Amortization of intangible assets + Amortization of long-term prepaid expenses + Non-cash gain and loss

2 Information on assets of each reportable segment

The assets of each reportable segment for the second quarter consolidated accounting period under review significantly changed from the end of the previous consolidated fiscal year. This is outlined as follows.

The major factor is that the segment assets increased by ¥9,046,607 thousand due to the fair market valuation associated with new listing of Raksul Inc. an investee of the Company during the second quarter consolidated accounting period under review.

3 Information concerning loss on impairment of noncurrent assets and goodwill by reportable segment

(Significant loss on impairment of noncurrent assets)

Not applicable

(Significant change in the amount of goodwill)

Not applicable

(Significant gain on negative goodwill)

Not applicable

4 Item concerning change of reportable segment, etc.

(Change of classification method of reportable segment)

The company have changed classification method of reportable segment from the first quarter consolidated accounting period FY2018. The company had formerly three business segments "Marketing

Business”, “Investment & Incubation Business”, “Overseas Business”. The company formulated new medium term business plan “THE LEADER in DIGITAL SHIFT: NEW STAGE 2020” with targeted period from January 2018 to December 2020 and changed reportable segment to two business segments “Marketing Business”, “Synergy Investment Business” accompanying revision of allocation of management resources and performance evaluation from first quarter consolidated accounting period.

Regarding segment information of previous second quarter consolidated cumulative period, The company listed based on classification of revised reportable segment.

(Material subsequent events)

Not applicable