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Flash Report for the 3rd Quarter of the Fiscal Year Ending December 31, 2018 [Japan GAAP] (on a consolidated basis)

November 8, 2018

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

Securities code: 2389 URL https://www.optholding.co.jp/

Representative: Noboru Hachimine, Founder, President and CEO

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Scheduled submission date of quarterly report: November 13, 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 3rd Quarter of Fiscal 2018 (January 1, 2018 –September 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	%
3QFY2018	64,069	6.3	1,223	(36.4)	1,260	(29.7)	1,236	61.5
3QFY2017	60,278	15.1	1,925	40.4	1,793	25.1	765	0.6

(Note): Comprehensive income: 3QFY 2018: 12,267 million (-%) 3QFY 2017: 905 million (254.4)%

	Net income per share	Diluted net income per share	EBIT ※1		EBITDA ※2	
	Yen	Yen	Yen in millions	%	Yen in millions	%
3QFY2018	54.59	54.13	2,541	38.9	4,837	61.7
3QFY2017	33.09	32.98	1,829	24.0	2,990	9.2

(Note) ※1 EBIT= Net income before taxes and other adjustment＋interest paid－interest received

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

(Reference) Consolidated business results of 3QFY2017 included result of Classified Inc. that was sold at the end of consolidated fiscal year.

For reference, consolidated business results of 3QFY2017 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		EBIT		EBITDA	
	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%	Yen in millions	%
3QFY2018	64,069	15.6	1,223	(31.7)	1,260	(25.2)	1,236	68.1	2,541	49.9	4,837	70.3
3QFY2017	55,407	–	1,791	–	1,686	–	735	–	1,695	–	2,840	–

(2) Consolidated financial position

	Total assets	Net assets	Capital-to-asset ratio	AUM ※3
	Yen in millions	Yen in millions	%	
3QFY2018	61,189	30,523	45.0	26,273
FY2017	46,127	18,813	33.0	—

(Reference) Capital: 3QFY2018: 27,508 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 September 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	61.14

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

(Reference)

・EBIT Forecast for FY 2018: 2,700 million yen
・EBITDA Forecast for FY 2018: 4,600 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	3QFY2018	23,817,700	shares	FY2017	23,817,700	shares
(ii) Treasury stock at end of period	3QFY2018	917,705	shares	FY2017	1,200,062	shares
(iii) Average of outstanding during period (accumulated quarterly)	3QFY2018	22,646,522	shares	3QFY2017	23,135,673	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. EBIT= Net income before taxes and other adjustment ＋ interest paid − interest received
2. EBITDA= EBIT + Other finance-related profits (losses) + Depreciation + Amortization of intangible assets + Amortization of long-term prepaid expenses + Non-cash gain and loss

○ 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 third quarter consolidated accounting period under review are as follows.

(Unit: Yen in millions)

	3Q consolidated accounting period FY2018	Year-on-year growth rate (adjusted ※6)	Year-on-year growth rate
Revenue	20,314	8.4%	0.2%
Gross profit	4,031	6.2%	(0.6)%
Operating income	134	(70.9)%	(72.4)%
EBIT (※1)	520	317.3%	246.8%
EBITDA (※2)	2,176	348.7%	322.7%
Net income attributable to owners of parent (※7)	56	－(※7)	－(※7)
ROE (LTM) (※3, 4)	7.0%	－	－
Free cash flows (※5)	1,554	－	－
Diluted net income per share	2.05	－	－
Net income per share	2.51	－	－

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

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

※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 capital as of September 30, 2017 and capital as of September 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 9.0% of the revenue in the previous third quarter) sold at the end of the preceding fiscal year are excluded from the consolidated business results.

※7 Since the year-earlier result is negative, indication is omitted.

Please note that the reporting segments are different from the fiscal year ending December 31, 2018. The Group formerly had reporting 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.

Performances by segment developed as follows.

Please note that the year-on-year comparison was carried out by replacing the figures for the previous third quarter with those after the reporting segment change.

Marketing Business

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

(Unit: Yen in millions)

	3Q consolidated accounting period FY2018	Year-on-year growth rate (adjusted)	Year-on-year growth rate
Revenue	19,423	11.4%	2.4%
Gross profit	3,613	14.4%	5.4%
Operating income	755	(5.0)%	(9.0)%
EBIT	902	15.2%	10.3%
EBITDA	2,444	141.5%	132.4%

In the third quarter consolidated accounting period under review, the Marketing Business had revenue of JPY19,423 million (2.4% increase YoY), gross profit of JPY3,613 million (5.4% increase YoY), operating income of JPY755 million (9.0% decrease YoY), EBIT of JPY902 million (10.3% increase YoY), and EBITDA JPY2,444 million (132.4% increase YoY).

In addition, in terms of the year-on-year percentage changes calculated based on the financial results excluding Classified, Inc. for the previous third quarter consolidated accounting period, revenue had a 11.4% increase, gross profit on sales a 14.4% increase, operating income a 5.0% decrease, EBIT a 15.2% increase and EBITDA a 141.5% increase.

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

1) Revenue increased by JPY937 million in the business for large corporations due to favorable performance in receiving orders from not only existing customers, but also brand sponsors and new retail clients, and increased by JPY1,097 million in the business for local / SME clients 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 11.4% YoY.
2) EBITDA increased by JPY1,394 million in the business for large corporations mainly due to the JPY1,421 million gain on transfer of business of a consolidated subsidiary (relaido, Inc., formerly known as SkillUP Video Technologies Co.,Ltd.) and increased by JPY43 million in the business for local / SME clients. Consequently, EBITDA had an increase of 141.5% YoY.
3) EBIT was JPY902 million (15.2% increase YoY) as its increase is limited compared with EBITDA primarily because of the impairment of goodwill associated with the business transfer of relaido, Inc.,as well as the impairment of capitalized software assets.

As a result, in terms of the consolidated financial results of the Marketing Business during the consolidated cumulative third quarter under review (including the financial results of Classified, Inc.), revenue was JPY60,540 million (6.6% increase YoY), gross profit JPY10,955 million (5.9% increase YoY), operating income JPY2,824 million (2.9% increase YoY), EBIT JPY2,979 million (8.8% increase YoY) and EBITDA JPY5,026 million (48.9% increase YoY). As for the consolidated financial results during the same period excluding the financial results of Classified, Inc., revenue was 16.7% increase YoY, gross profit a 15.4% increase YoY, operating income a 9.4% increase YoY, EBIT a 15.8% increase YoY and EBITDA a 57.3% increase YoY.

Major efforts in the Marketing Business during the third quarter 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.
・Carried out sales activities through the omni-channel innovation center focused on the support of “digital shifts” in 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.
・Established the “Amazon Strategy Department” as a dedicated unit helping business entities make an Amazon channel shift.
・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 through 21 sales offices 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.
・SoldOut, Inc. took a stake in Linkers Corporation operating “Linkers” a business matching service dedicated to the manufacturing industry.

Synergy Investment Business

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

(Unit: Yen in millions)

	3Q consolidated accounting period FY2018	Year-on-year growth rate
Revenue	920	(32.0)%
Gross profit	444	(29.3)%
Operating loss	(154)	-※
EBIT	57	-※
EBITDA	141	-※

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

In the third quarter consolidated accounting period under review, the Synergy Investment Business had revenue of JPY920 million (32.0% decrease YoY), gross profit of JPY444 million (29.3% decrease YoY), operating loss of JPY154 million (cf. operating loss of JPY30 million in the year-ago period), EBIT of JPY57 million (cf. -JPY131 million in the year-ago period), and EBITDA JPY141 million (cf. -JPY40 million in the year-ago period).

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

1) Revenue decreased by JPY433 million (32.0% decrease YoY) mainly due to the temporary poor performance in the overseas marketing subsidiaries (decrease of JPY294 million) and the impact of the exclusion of Writeup Co., Ltd. from the consolidation as a result of the sale of part of its shares held by the Company during the second quarter consolidated accounting period of this year despite an increase of JPY221 million in the cross-border EC business, which was in good shape.
2) EBITDA increased by JPY182 million to JPY141 million due to the investment gains in overseas investment subsidiaries despite some overhanging factors such as temporary poor performance in overseas marketing subsidiaries and the impact of the exclusion of Writeup Co., Ltd. from the consolidation.

As a result, in terms of the consolidated financial results of the Synergy Investment Business during the third quarter of the fiscal year under review, revenue was JPY3,619 million (1.1% decrease YoY), gross profit JPY1,918 million (2.6% decrease YoY), operating loss JPY236 million (cf. operating income of JPY107 million in the year-ago period), EBIT JPY959 million (cf. -JPY400 million in the year-ago period) and EBITDA JPY1,127 million (cf. -JPY15 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 JPY26.2 billion as of the end of the third quarter consolidated accounting period under review. In addition, the consolidated acquisition book value (※) is disclosed for the purpose of reference. The acquisition cost is JPY9.8 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 operational 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 September 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 calculation method for IRR is shown below. IRR for any unsold issues after investment is calculated on the assumption that they were sold based on this calculation method.

Prerequisites:
・Issues calculated: Those issues invested during the period from 2003 until the end of September 2018 (including business investments).
・Reference date for calculation: End of September 2018.
・Calculation method:
1) Handling of impaired issues:
Calculated on the assumption that they were sold at the net asset value at the time of impairment.
2) Handling of issues with recent financing (equity financing):
Calculated on the assumption that they were sold at the valuation amount of the share value at the time of financing.
3) IPO issues:
Calculated on the assumption that they were sold at the market value on the reference date.
4) Fund issues:
Calculated with the amount collected before the end of September 2018 and the book value as of the end of September 2018.
5) Other issues:
As for those issues with no change in their acquisition cost due to sale, impairment, financing (equity financing), IPO, etc., calculation is made on the assumption that they were sold on the reference date at the acquisition cost.
・Income taxes at the time of calculating IRR: Income taxes are taken into account.

The after-tax IRR calculated based on the above prerequisites as of the end of September 2018 is 16.4%.

Major efforts in the Synergy Investment Business during the third quarter 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 an 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. Took a stake in Linkers Corporation operating "Linkers" a business matching service dedicated to the manufacturing industry.
・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 second quarter of the fiscal year under review, became listed on the TSE Mothers on June 22, 2018.

<Consolidated Results>
OPT Group posted the revenue of JPY20,314 million (0.2% increase YoY), gross profit of JPY4,031 million (0.6% decrease YoY), operating income of JPY134 million (72.4% decrease YoY), EBIT of JPY520 million (246.8% increase YoY), EBITDA of JPY2,176 million (322.7% increase YoY), and net income attributable to owners of parent JPY56 million (cf. net loss of JPY48 million in the year-earlier period) for the third quarter consolidated accounting

period under review. Please note that there is a large difference between EBIT and EBITDA as the non-cash gain of JPY1,394 million was posted due to the impairment of goodwill associated with the business transfer in relaido, Inc., formerly known as SkillUP Video Technologies Corporation, and the impairment of capitalized software assets.

In addition, Classified, Inc. accounting for approximately 9.0% of the revenue in the previous third 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 previous third quarter consolidated accounting period, revenue had an 8.4% increase YoY, gross profit a 6.2% increase YoY, operating income a 70.9% decrease YoY, EBIT a 317.3% increase YoY, EBITDA a 348.7% increase YoY, and net income attributable to owners of parent a JPY116 million increase YoY (cf. net loss of JPY59 million in the year-earlier period).

As a result, in terms of the consolidated financial results of OPT Group during the third quarter of the fiscal year under review (including the financial results of Classified, Inc.), revenue was JPY64,069 million (6.3% increase YoY), gross profit JPY12,833 million (4.2% increase YoY), operating income JPY1,223 million (36.4% decrease YoY), EBIT JPY2,541 million (38.9% increase YoY), EBITDA JPY4,837 million (61.7% increase YoY), net income attributable to owners of parent JPY1,236 million (61.5% increase YoY). As for the consolidated financial results during the same period excluding the financial results of Classified, Inc., revenue had a 15.6% increase YoY, gross profit a 11.7% increase YoY, operating income a 31.7% decrease YoY, EBIT a 49.9% increase YoY, EBITDA a 70.3% increase YoY and net income attributable to owners of parent a 68.1% increase YoY.

As for corporate functions, OPT Group sees recruiting and developing human resources as an important management agenda to realize the medium-term management plan, and therefore, reinforced human resources development by enhancing mid-career recruiting. Moreover, in September 2018, the Group introduced the restricted stock compensation plan and an employees' shareholding association as an incentive to improve its corporate value, and started introducing a common system to support corporate functions.

(2) Description of financial position

Assets, liabilities and net assets

Assets:

Total assets increased by JPY15,061 million from the end of the previous fiscal year to JPY61,189 million as of the end of the third quarter consolidated accounting period under review.

Current assets were JPY53,894 million, an increase of JPY17,610 million from the end of the previous fiscal year. This is mainly because operational investment securities increased by JPY16,299 million partly due to the fair market valuation of shareholdings, and cash and deposits increased by JPY2,372 million partly due to the refund of lease and guarantee deposits and the partial business transfer through an absorption-type demerger of a consolidated subsidiary.

Noncurrent assets were JPY7,295 million, a decrease of JPY2,548 million from the end of the previous fiscal year. This is mainly because: (i) goodwill decreased by JPY1,013 million due to the impairment and amortization of goodwill associated with the partial business transfer through an absorption-type demerger of a consolidated subsidiary; (ii) lease and guarantee deposits decreased by JPY862 million partly due to the completion of the reserved stock price transaction of own shares; and (iii) shares of subsidiary companies decreased by JPY559 million partly in connection with the sale of shares of subsidiaries and the inclusion of non-consolidated subsidiaries in the scope of consolidation.

Liabilities:

Total liabilities in the third quarter consolidated accounting period under review increased by JPY3,351 million from the end of the previous consolidated fiscal year to JPY30,666 million.

Current liabilities were JPY21,342 million, a decrease of JPY622 million from the end of the previous fiscal year. This is mainly because of the decrease of JPY5,033 million in current portion of long-term loans payable due to repayment and refinancing despite the increase of JPY4,540 million in deferred tax liabilities in connection with the fair market valuation of operational investment securities.

Noncurrent liabilities were JPY9,324 million, an increase of JPY3,974 million from a year earlier. This is mainly because of the increase of JPY3,957 million in long-term loans payable due to repayment and refinancing.

Net assets:

Total net assets in the third quarter consolidated accounting period under review increased by JPY11,710 million from the end of the previous consolidated fiscal year to JPY30,523 million.

This is mainly because: (i) capital stock increased by JPY376 million in connection with the issuance of new shares as restricted stock compensation; (ii) capital surplus increased by JPY332 million partly due to the issuance of new shares as restricted stock compensation and the acquisition of additional shares of subsidiaries; and (iii) valuation difference on available-for-sale securities increased by JPY10,860 million in connection with the fair market valuation of operational investment securities.

(3) Description of cash flows

Cash and cash equivalents (hereinafter referred to as “Cash”) were JPY17,887 million as of the end of the third quarter consolidated accounting period under review, an increase of JPY2,470 million from the end of the previous consolidated fiscal year (JPY15,417 million) because the Cash earned in operating and investing activities exceeded the Cash spent in financial activities, etc.

The status of each category of cash flows as of the end of the third 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 JPY529 million (cf., increase of JPY993 million in the previous consolidated fiscal year).

This is mainly because of the recognition of JPY1,203 million as the gain on sale of investment securities, the recognition of JPY2,520 million as net income before taxes and other adjustments despite the payment of JPY1,019 million as income taxes, and the recognition of JPY594 million as depreciation.

Cash flows from investing activities

The increase in Cash from investing activities was JPY3,105 million (cf., decrease of JPY1,815 million in the previous fiscal year).

This is mainly because of the inflow of JPY2,164 million due to partial business transfer through an absorption-type demerger of a consolidated subsidiary, the inflow of JPY784 million due to the refund of lease and guarantee deposits and the inflow of JPY524 million due to the settlement of derivatives associated with reserved stock price transaction of own shares despite the outflow of JPY678 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 JPY321 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 JPY1,224 million (cf., decrease of JPY2,394 million in the previous fiscal year).

This is mainly because of the outflow of JPY272 million due to dividend payments and the outflow of JPY6,535 million due to the repayment of long-term loans payable despite the inflow of JPY 5,500 million from long-term loans and the inflow of JPY 454 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

(Unit: Yen in thousands)

	FY 2017 (December 31, 2017)	3QFY2018 (September 30, 2018)
Assets		
Assets		
Cash and deposits	15,753,327	18,126,296
Notes and accounts receivable-trade	12,888,753	12,212,634
Operational investment securities	5,597,559	21,896,859
Inventories	121,051	351,944
Deferred tax assets	509,631	157,434
Other	1,478,588	1,202,388
Allowance for doubtful accounts	(64,597)	(53,099)
Total current assets	36,284,315	53,894,459
Noncurrent assets		
Tangible noncurrent assets	464,352	247,049
Intangible noncurrent assets		
Goodwill	1,013,891	—
Others	2,222,152	1,430,248
Total intangible noncurrent assets	3,236,044	1,430,248
Investment and other assets		
Shares of subsidiary companies	579,479	20,205
Shares of affiliated companies	953,506	1,196,313
Investment securities	2,516,572	2,489,757
Lease and guarantee deposits	1,593,798	730,926
Others	567,633	1,244,006
Allowance for doubtful accounts	(67,861)	(63,308)
Total investments and other assets	6,143,129	5,617,901
Total tangible assets	9,843,526	7,295,199
Total assets	46,127,842	61,189,658
Liabilities		
Current liabilities		
Notes and accounts payable-trade	10,951,798	10,683,080
Short-term loans payable	49,200	—
Current portion of long-term loans payable	6,483,531	1,450,000
Income taxes payable	432,899	813,168
Deferred tax liabilities	1,924	4,542,782
Provision for bonuses	568,617	396,933
Other	3,477,067	3,456,076
Total current liabilities	21,965,038	21,342,041
Noncurrent liabilities		
Long-term loans payable	4,992,297	8,950,000
Liabilities on retirement benefits	161,448	202,193
Deferred tax liabilities	73,887	65,352
Asset retirement obligations	116,888	104,705
Other	5,122	2,179
Total noncurrent liabilities	5,349,644	9,324,430
Total liabilities	27,314,683	30,666,472

(Unit: Yen in thousands)

	FY 2017 (December 31, 2017)	3QFY2018 (September 30, 2018)
Net assets		
Shareholders’ equity		
Capital stock	7,835,926	8,212,254
Capital surplus	3,567,434	3,899,709
Retained earnings	4,214,070	4,766,468
Treasury stock	(912,886)	(698,241)
Total shareholders’ equity	14,704,545	16,180,190
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(1,389)	10,859,006
Foreign currency translation adjustment	515,583	469,193
Total accumulated other comprehensive income	514,193	11,328,199
Subscription rights to shares	1,244	992
Non-controlling interests	3,593,175	3,013,804
Total net assets	18,813,159	30,523,185
Total liabilities and net assets	46,127,842	61,189,658

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

(Quarterly consolidated statements of income)

(Third quarter consolidated cumulative period)

(Unit: Yen in thousands)

	3QFY 2017 (from January 1, 2017 to September 30, 2017)	3QFY 2018 (from January 1, 2018 to September 30, 2018)
Revenue	60,278,879	64,069,761
Cost of sales	47,963,937	51,236,337
Gross profit	12,314,942	12,833,424
Selling, general and administrative expenses	10,389,401	11,609,710
Operating income	1,925,540	1,223,714
Non-operating income		
Interest income	4,549	3,965
Dividends income	40	160
Gain on investments in partnership	–	37,513
Gain on valuation of derivatives	387,000	56,525
Other	26,323	50,930
Total non-operating income	417,913	149,095
Non-operating expenses		
Interest expenses	29,432	25,134
Commission fees	15,440	15,638
Loss on investments in partnership	113,310	–
Equity in losses of affiliates	328,321	50,268
Other	63,621	21,061
Total non-operating expenses	550,125	112,103
Ordinary income	1,793,328	1,260,706
Extraordinary income		
Gain on sales of investment securities	24,210	1,219,212
Gain on transfer of business	–	506,749
Profit from reversal of new stock acquisition rights	2,389	240
Other	23	1
Total extraordinary income	26,622	1,726,204
Extraordinary losses		
Loss on disposal of fixed assets	14,641	62,015
Impairment loss	–	377,204
Loss on valuation of investment securities	–	10,264
Loss of sale of investment securities	–	15,714
Other	367	1,673
Total extraordinary losses	15,009	466,873
Quarterly net income before taxes and other adjustments	1,804,941	2,520,037
Income taxes	831,931	1,066,478
Quarterly net income	973,010	1,453,558
Net income attributable to non-controlling interests	207,365	217,326
Net income attributable to owners of parent	765,645	1,236,232

(Quarterly consolidated statements of comprehensive income)

(Third quarter consolidated cumulative period)

(Unit: Yen in thousands)

	3QFY 2017 (from January 1, 2017 to September 30, 2017)	3QFY 2018 (from January 1, 2018 to September 30, 2018)
Net income	973,010	1,453,558
Other comprehensive income		
Valuation difference on available-for-sale securities	(7,522)	10,860,921
Foreign currency translation adjustment	(62,365)	(37,852)
Share of other comprehensive income of associates accounted for using equity method	2,571	(8,996)
Total other comprehensive income	(67,317)	10,814,072
Quarterly comprehensive income	905,693	12,267,631
Breakdown:		
Comprehensive income attributable to owners of the parent	699,713	12,050,238
Comprehensive income attributable to non-controlling interests	205,980	217,392

(3) Quarterly consolidated statements of cash flows

(Unit: Yen in thousands)

	3QFY 2017 (from January 1, 2017 to September 30, 2017)	3QFY 2018 (from January 1, 2018 to September 30, 2018)
Cash flows from operating activities		
Net income before taxes and other adjustments	1,804,941	2,520,037
Depreciation	561,746	594,382
Amortization of goodwill	254,918	237,232
Loss (gain) on investments in partnership	113,310	(37,513)
Loss (gain) on sale of investment securities	(24,210)	(1,203,498)
Loss (gain) on valuation of investment securities	–	10,264
Equity in (gain) losses of affiliates	328,321	50,268
Loss (gain) on valuation of derivatives	(387,000)	(56,525)
Impairment loss	–	377,204
Loss on retirement of noncurrent assets	14,641	62,015
Loss (gain) on transfer of business	–	(506,749)
Increase (decrease) in allowance for doubtful accounts	(76,476)	7,441
Increase (decrease) in provision for bonuses	(84,213)	(160,650)
Increase (decrease) in liabilities on retirement benefits	20,771	45,222
Interest and dividends income	(4,589)	(4,126)
Interest expenses	29,432	25,134
Decrease (increase) in trade receivable	(1,304,101)	382,781
Decrease (increase) in operational investment securities	(679,252)	(401,906)
Decrease (increase) in inventories	(68,653)	(343,184)
Decrease (increase) in notes and accounts receivable-trade	1,379,209	(189,436)
Increase (decrease) in accrued consumption taxes	423,866	(20,980)
Other	278,824	142,305
Subtotal	2,581,486	1,529,720
Interest and dividends income received	3,272	3,575
Interest expenses paid	(28,739)	(24,800)
Income taxes paid	(1,576,692)	(1,019,372)
Income taxes refund	14,660	40,064
Cash flows from operating activities	993,987	529,186
Cash flows from investing activities		
Payments into time deposits	(17)	(198,597)
Proceeds from withdrawal of time deposits	–	285,908
Purchase of property, plant and equipment	(62,935)	(31,765)
Purchase of intangible assets	(858,303)	(646,614)
Purchase of investment securities	(370,787)	(321,715)
Proceeds from sale of investment securities	50,546	238,576
Proceeds from redemption of investment securities	139,470	378,023
Proceeds from transfer of business	–	2,164,000
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	(3,755,700)	(33,339)
Proceeds from refund of lease and guarantee deposits	3,013,001	784,466
Payment of loans receivable	(101,817)	(15,287)
Proceeds from collection of loans receivable	79,130	73,414
Other	(5,244)	(38,524)
Cash flows from investing activities	(1,815,768)	3,105,226

(Unit: Yen in thousands)

	3QFY 2017 (from January 1, 2017 to September 30, 2017)	3QFY 2018 (from January 1, 2018 to September 30, 2018)
Cash flows from financial activities		
Net increase (decrease) in short-term loans payable	(155,900)	(16,200)
Proceeds from long-term loans payable	1,650,000	5,500,000
Repayment of long-term loans payable	(2,207,359)	(6,535,492)
Proceeds from issuance of common stock	301,599	—
Proceeds from stock issuance to non-controlling shareholders	1,509,508	454,328
Repayments of finance lease obligations	(46,893)	(44,556)
Repurchase of shares	(2,868,273)	(318)
Repurchase of shares by subsidiaries in consolidation	(110,000)	(146,551)
Cash dividends paid	(416,899)	(272,369)
Cash dividends paid to non-controlling shareholders	(47,800)	(24,309)
Purchase of investments in subsidiaries not resulting in change in scope of consolidation	—	(135,450)
Other	(2,223)	(3,234)
Cash flows from financial activities	(2,394,244)	(1,224,153)
Effect of exchange rate change on cash and cash equivalents	(42,979)	(14,183)
Net increase (decrease) in cash and cash equivalents	(3,259,004)	2,396,077
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	14,975,070	17,887,447

(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:

Capital stock and capital surplus increased by JPY376,327 thousand each in the consolidated cumulative third quarter under review as the Company issued new shares on September 3, 2018 as restricted stock compensation to the directors and employees of the Company and its subsidiaries in accordance with the resolution by the board of directors on August 17, 2018.

Retained earnings and treasury stock decreased by JPY214,963 thousand each as the Company retired 282,528 shares of treasury stock on September 3, 2018 in accordance with the resolution by the board of directors on August 17, 2018.

Consequently, as of the end of the third quarter consolidated accounting period, capital stock was JPY8,212,254 thousand, capital surplus JPY3,899,709 thousand, retained earnings JPY4,766,468 thousand and treasury stock JPY698,241 thousand.

(Segment Information, etc.)

【Segment Information】

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

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

(Unit: Yen in thousands)

	Reporting Segment			Adjustment (Note) 1	Amount recognized in consolidated financial statements
	Marketing Business	Synergy Investment Business	Total		
Revenue					
Revenue to external customers	56,714,816	3,564,062	60,278,879	–	60,278,879
Internal revenue or transfers between segments	53,158	95,091	148,249	(148,249)	–
Total	56,767,975	3,659,153	60,427,129	(148,249)	60,278,879
Profit (loss) of segment (Note) 2	2,737,346	(400,195)	2,337,150	(507,366)	1,829,784
EBITDA (Note) 3	3,376,038	(15,324)	3,360,714	(369,809)	2,990,904
Interest paid – Interest received					24,842
Quarterly net income before taxes and other adjustments					1,804,941
Total income taxes					831,931
Income taxes – current					749,659
Income taxes - deferred, etc.					82,271
Quarterly net income attributable to non-controlling shareholders					207,365
Quarterly net income attributable to owners of parent					765,645

(Notes) 1. The adjustment amount of JPY(507,366 thousand) for segment profit and loss includes elimination of intersegment transaction, headquarter management cost of JPY(779,532 thousand) that is not allocated to each reporting segment and profit from valuation of derivatives of JPY387,000 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 3QFY2017 included business results of Classified Inc. that was sold at the end of last fiscal year. Revenue, profit and loss of each reporting segment of 3QFY2017 excluding the impact of Classified Inc. is as follows.

(Unit: Yen in thousands)

	Reporting Segment			Adjustment	Amount recognized in consolidated financial statements
	Marketing Business	Synergy Investment Business	Total		
Revenue					
Revenue to external customers	51,819,547	3,587,939	55,407,486	–	55,407,486
Internal revenue or transfers between segments	53,158	90,225	143,383	(143,383)	–
Total	51,872,706	3,678,164	550,550,870	(143,383)	55,407,486
Profit (loss) of segment (Note) 2	2,572,709	(381,184)	2,191,525	(496,241)	1,695,283
EBITDA (Note)3	3,195,379	3,686	3,199,066	(358,683)	2,840,382
Interest paid – Interest received					(3,018)
Quarterly net income before taxes and other adjustments					1,698,302

Total income taxes, etc.	785,682
Income taxes – current	706,260
Income taxes - deferred	79,422
Quarterly net income attributable to non-controlling shareholders	177,382
Quarterly net income attributable to owners of parent	735,237

2　Information concerning loss on impairment of noncurrent assets and goodwill by reporting 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　Third quarter of consolidated cumulative period of last fiscal year (From January 1, 2018 to September 30, 2018)

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

(Unit: Yen in thousands)

	Reporting Segment			Adjustment (Note) 1	Amount recognized in consolidated financial statements
	Marketing Business	Synergy Investment Business	Total		
Revenue					
Revenue to external customers	60,512,467	3,557,294	64,069,761	—	64,069,761
Internal revenue or transfers between segments	28,441	61,752	90,193	(90,193)	—
Total	60,540,908	3,619,047	64,159,955	(90,193)	64,069,761
Profit of segment (Note) 2	2,979,180	959,300	3,938,481	(1,397,435)	2,541,045
EBITDA　(Note) 3	5,026,295	1,127,925	6,154,220	(1,316,466)	4,837,753
Interest paid – Interest received					21,008
Quarterly net income before taxes and other adjustments					2,520,037
Total income taxes					1,066,478
Income taxes – current					1,280,459
Income taxes, deferred					(213,980)
Quarterly net income attributable to non-controlling shareholders					217,326
Quarterly net income attributable to owners of parent					1,236,232

(Notes) 1. The adjustment amount of JPY(1,397,435 thousand) for segment profit includes elimination of intersegment transaction, headquarter management cost of JPY(1,273,611 thousand) that is not allocated to each reporting segment and profit from valuation of derivatives of JPY56,525 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 reporting segment

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

In the Synergy Investment Business, segment assets increased by JPY14,621,822 thousand due to the impact of the fair market valuation of shares associated with new listing of Raksul Inc. an investee of the

Company during the second quarter consolidated accounting period.

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

(Significant loss on impairment of noncurrent assets)

In the Marketing Business segment, the Company posted impairment loss of software and others. The amount posted as such impairment loss was JPY341,558 thousand in the consolidated cumulative third quarter under review.

In the Synergy Investment Business, the Company posted impairment loss of software and others. The amount posted as such impairment loss was JPY35,646 thousand in the consolidated cumulative third quarter under review.

(Significant change in the amount of goodwill)

In the Marketing Business, goodwill decreased by JPY714,945 thousand as the Company transferred the video delivery solution business of relaido, Inc. (formerly known as SkillUP Video Technologies Corporation) a consolidated subsidiary of the Company on September 1, 2018.

(Significant gain on negative goodwill)

Not applicable

4 Item concerning change of reporting segment, etc.

(Change of classification method of reporting segment)

The company have changed classification method of reporting 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 reporting 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 third quarter consolidated cumulative period, the company listed based on classification of revised reporting segment.

(Material subsequent events)

Not applicable