

Financial Results for the 1st Quarter of the Fiscal Year Ending December 31, 2020 [Japanese Standards] (Consolidated)

May 14, 2020

Listed company name: CARTA HOLDINGS, Inc. Listed stock exchange: TSE first section
 Stock Code No.: 3688 URL: <https://cartaholdings.co.jp/en/ir/>
 Representative: Title Chairman Name: Shinsuke Usami
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Date to submit the Securities Report: May 14, 2020
 Scheduled date of dividend payments: —
 Availability of supplementary information Yes
 Holding investors' meeting: Yes
 (For security analysts and institutional investors)

(Rounded down to million yen)

1. Consolidated Financial Results for FY 2020 First Three Months (January 1, 2020 – March 31, 2020)

(1) Consolidated results of operations (cumulative total)

(The percentage indicates year-on-year change)

	Net sales		Operating income		Ordinary income		Net income	
	¥million	%	¥million	%	¥million	%	¥million	%
FY 2020 first three months	5,944	—	1,263	—	1,186	—	693	—
FY 2019 first three months	7,869	15.7	423	1.9	429	(18.9)	355	0.6

(Note) Comprehensive Income: FY 2020 first three months: ¥168 million —%
 FY 2019 first three months: ¥139 million (44.2)%

	Net income per share	Diluted net income per share	EBITDA	
	¥	¥	¥million	%
FY 2020 first three months	27.26	27.13	1,558	—
FY 2019 first three months	29.84	29.33	674	(0.6)

(Note) The fiscal year ended December 31, 2019 was a transitional period for the change in accounting period, meaning an irregular accounting period that covered 15 months (October 1, 2018 to December 31, 2019), and as such, the consolidated financial results for the first quarter of the fiscal year ended December 31, 2019 represent October 1, 2018 through December 31, 2018. Consequently, the periods to be compared differ, and as such, the year-on-year change rate for the first quarter of the year ending December 31, 2020 is not stated. Moreover, effective on January 1, 2019, CARTA HOLDINGS, Inc. (the “Company”) and Cyber Communications Inc. (“CCI”) carried out a share exchange, with the Company as the share exchange’s wholly owning parent company, and CCI as the wholly owned subsidiary. The share exchange applies reverse acquisition accounting for business combinations, with the Company as the acquired company and CCI as the acquiring company. Given this, the consolidated financial results for the first quarter of the fiscal year ended December 31, 2019 reflect the figures of the Company prior to the share exchange. In addition, the consolidated results for the first quarter of the fiscal year ended December 31, 2019 do not apply the Accounting Standard for Revenue Recognition, etc.

* EBITDA noted above (earnings before interest, tax, depreciation and amortization) is calculated by adding interest expenses, depreciation, amortization, and amortization of goodwill to the Company’s profit before income taxes.

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	¥million	¥million	%	Yen
March 31, 2020	47,462	23,375	49.0	920.14
December 31, 2019	50,621	23,720	46.3	921.43

(Reference) Owned capital: March 31, 2020: ¥23,269 million
 December 31, 2019: ¥23,444 million

2. Dividend status

	Annual dividends					
	1Q end	2Q end	3Q end	4Q end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen	Yen
FY 2019	—	—	8.00	—	8.00	16.00
FY 2020	—					
FY 2020 (Forecast)		8.00	—	—	8.00	16.00

(Note) Revisions to dividend forecast for the current quarter: No

3. Forecast of Consolidated Financial Results for FY 2020 (January 1, 2020 – December 31, 2020)

	Net sales		Operating income		Ordinary income		Net income		Net income per share	EBITDA	
	¥million	%	¥million	%	¥million	%	¥million	%	Yen	¥million	%
Full year	23,000	—	2,500	—	2,500	—	1,600	—	62.88	3,700	—

(Note) Revisions to performance results forecast for the current quarter: No

Since the fiscal year ended December 31, 2019 was an irregular accounting period of 15 months due to the change of fiscal year end, year-on-year change rate is not stated.

※ Notes

- (1) Changes in significant subsidiaries during the period : None
(Change of specified subsidiaries that lead to a change in the scope of consolidation)
- (2) Specific accounting procedures : Yes
Please see page 10, “2. Consolidated Financial Statements (3) Notes to Condensed Interim Consolidated Financial (Adoption of Accounting Method Specific to Preparation of Quarterly Consolidated Financial Statements)”.
- (3) Changes in accounting policies, changes in accounting estimates, corrections and restatements and retrospective restatements
- 1) Changes in accounting policy resulting from revisions to accounting standards : None
 - 2) Changes in accounting policy other than above : None
 - 3) Changes in accounting estimates : None
 - 4) Retrospective restatements : None

(4) Number of shares issued (common stock)

1) Number of shares issued and outstanding (including treasury stock)

Year ended March 31, 2020	25,447,052	Year ended December 31, 2019	25,444,052
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2) Number of treasury stock issued and outstanding

Year ended March 31, 2020	156,584	Year ended December 31, 2019	584
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3) Average number of shares during the period (quarterly consolidated cumulative accounting period)

Year ended March 31, 2020	25,424,006	Year ended March 31, 2019	11,912,128
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※ Notice regarding audit procedures

This financial result is excluded from audit procedures.

※ Explanations related to appropriate use of the performance forecast other special instructions

(Note on forward-looking statements)

Earnings forecasts and other forward-looking statements in this report are based on information currently available and certain assumptions judged to be reasonable. Therefore, these statements do not constitute a guarantee of achievement. Actual results may differ materially for various reasons. Please refer to the section of “1. Qualitative Information on Quarterly Financial Results for the Period under Review (3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information” on page 5 of the attached documents.

(Supplementary materials)

Supplementary materials on quarterly financial results are on our website (in English and Japanese).

Attachment

Contents

1. Qualitative Information on Quarterly Financial Results for the Period under Review

- (1) Analysis of Operating Results
- (2) Analysis of Financial Position
- (3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information

2. Consolidated Financial Statements

- (1) Consolidated Balance Sheets
- (2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income
 - (Consolidated Statements of Income)
 - (Consolidated Statements of Comprehensive Income)
- (3) Notes to Condensed Interim Consolidated Financial Statements
 - (Going Concern Assumption)
 - (Notes on Significant Changes in the Amount of Shareholders' Equity)
 - (Adoption of Accounting Method Specific to Preparation of Quarterly Consolidated Financial Statements)
 - (Changes in Accounting Policies)
 - (Changes in Accounting Estimates)
 - (Segment Information)
 - (Business Combinations)

1. Qualitative Information on Quarterly Financial Results for the Period under Review

(1) Analysis of Operating Results

From the fiscal year ended December 31, 2019, the Company changed its fiscal year end from September 30 to December 31. Consequently, the year-on-year change is not stated as the period under review (January 1, 2020 to March 31, 2020) covers a different three-month period from the first quarter of the previous fiscal year (October 1, 2018 to December 31, 2018).

With regard to the online advertising market where the Group operates its mainstay business, according to research by Dentsu Inc., in 2019, internet advertising spending reached ¥2,104.8 billion, buoyed by growth in performance-based advertising costs and market expansion in product sales-based EC platform advertising costs.

Performance-based advertising costs amounted to ¥1,326.7 billion, or 115.2% year on year, representing high growth with a particular focus on large-scale platformers. In addition, costs for digital advertising, which arose from the four traditional types of mass media, amounted to ¥71.5 billion, or 122.9% year on year, in what points to further progress in the digital transformation of mass media companies.

Under these economic circumstances, the Group worked to develop its business in three segments: 1) the “Partner Sales Business” which provides advertising sales and solutions mainly through a media rep; 2) the “Ad Platform Business” which operates ad distribution platforms; and 3) the “Consumer Business” which plans and operates its owned media, its EC-related services, and its HR-related services.

As a result, the Group posted net sales of ¥5,944 million, operating income of ¥1,263 million, ordinary income of ¥1,186 million, and profit attributable to owners of parent of ¥693 million in the period under review. Due to the impact of novel coronavirus outbreak, advertising demand has been waning since March 2020, and in terms of results, expectations are that the impact will come into full force from April 2020.

Financial results for each segment were as follows. Sales of each segment include intersegment sales and transfers.

1) Partner Sales Business

The Partner Sales Business sells advertising space and provides solutions mainly through a media rep. In reserved advertising, as the media’s shift to performance-based advertising accelerates, in addition to working with existing media, the Group actively carried out sales measures etc. to emerging media, including media for the youth demographic. In performance-based advertising, the Group built an optimal trading desk system using abundant audience data in line with targets as well as multiple DSPs and ad exchanges. Furthermore, the Group strengthened its relationships with solution vendors with the goal of more aggressively responding to the diversifying needs of advertisers as well as securing “brand safety” (advertisers’ brand safety by ensuring the quality of advertising sites).

As a result, the Partner Sales Business recorded net sales of ¥2,476 million, and segment income of ¥708 million in the period under review.

2) Ad Platform Business

The Ad Platform Business operates the SSP “fluct”, the services for advertisers “Zucks” and “BEYOND X”, as well as “PORTO”, an ad platform for brand advertising, among others. Results for “Zucks” were robust, thanks to efforts to expand functions and services in the business and also capture demand from corporate clients.

As a result, the Ad Platform Business recorded net sales of ¥1,753 million, and segment income of ¥463 million in the period under review.

3) Consumer Business

In the Consumer Business, in addition to the operation of its owned media that utilizes points, primarily “EC Navi” and “PeX”, the Group is aggressively investing in the EC and HR fields as growth areas in order to create businesses that will be the next pillar in the medium- to long-term.

As a result, the Consumer Business recorded net sales of ¥1,720 million, and segment income of ¥90 million in the period under review.

(2) Analysis of Financial Position

1) Assets, Liabilities and Net Assets

(Assets)

Consolidated assets as of the end of the period under review totaled ¥47,462 million, a decline of ¥3,159 million from the end of the previous fiscal year. This was mainly attributable to declines in cash and deposits, goodwill and investment securities.

(Liabilities)

Consolidated liabilities as of the end of the period under review amounted to ¥24,087 million, down ¥2,813 million from the end of the previous fiscal year. This was mainly attributable to declines in accounts payable – trade and provision for bonuses.

(Net Assets)

Consolidated net assets as of the end of the period under review stood at ¥23,375 million, a decline of ¥345 million. This was primarily on account of an increase in treasury shares and lower valuation difference on available-for-sale securities.

(3) Explanation of Consolidated Performance Forecast and Other Forward-looking Information

No revisions have been made to the full-year consolidated performance forecast announced in “Financial Results for the Fiscal Year Ended December 31, 2019” on February 12, 2020. Although the novel coronavirus outbreak is showing some impact on the Company’s business, results in the period under review progressed steadily. Given that various measures will be implemented including cost reduction going forward, the Company has decided to maintain its consolidated performance forecast for the full fiscal year.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of December 31, 2019	As of March 31, 2020
Assets		
Current assets		
Cash and deposits	14,546	13,897
Accounts receivable - trade	18,477	18,449
Securities	—	60
Merchandise	17	9
Supplies	419	782
Other	2,908	1,918
Allowance for doubtful accounts	(86)	(33)
Total current assets	36,283	35,084
Non-current assets		
Property, plant and equipment	1,691	1,647
Intangible assets		
Goodwill	3,021	2,347
Other	3,725	3,505
Total intangible assets	6,747	5,853
Investments and other assets		
Investment securities	4,246	3,274
Deferred tax assets	176	166
Other	1,477	1,436
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	5,899	4,877
Total non-current assets	14,338	12,378
Total assets	50,621	47,462
Liabilities		
Current liabilities		
Accounts payable - trade	18,110	16,175
Provision for bonuses	1,380	376
Provision for directors' bonuses	27	19
Provision for point card certificates	505	554
Deposits received	2,742	2,941
Short-term loans payable	19	19
Current portion of long-term loans payable	195	139
Other	2,037	2,324
Total current liabilities	25,019	22,551
Non-current liabilities		
Long-term loans payable	208	183
Asset retirement obligations	536	536
Deferred tax liabilities	874	574
Other	262	241
Total non-current liabilities	1,881	1,535
Total liabilities	26,900	24,087

(Millions of yen)

	As of December 31, 2019	As of March 31, 2020
Net assets		
Shareholders' equity		
Capital stock	1,096	1,096
Capital surplus	12,016	12,016
Retained earnings	9,642	10,159
Treasury shares	(0)	(145)
Total shareholders' equity	22,754	23,127
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	704	154
Foreign currency translation adjustment	(15)	(12)
Total accumulated other comprehensive income	689	142
Share acquisition rights	7	7
Non-controlling interests	268	97
Total net assets	23,720	23,375
Total liabilities and net assets	50,621	47,462

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

(Millions of yen)

	Three months ended December 31, 2019	Three months ended December 31, 2020
Net sales	7,869	5,944
Cost of sales	5,380	855
Gross profit	2,488	5,088
Selling, general and administrative expenses	2,065	3,825
Operating profit	423	1,263
Non-operating income		
Interest income and dividends income	0	14
Gain on investments in partnership	—	5
Business commission fee	—	5
Rent income	—	1
Insurance dividend	—	17
Share of gain of entities accounted for using equity method	10	—
Other	1	7
Total non-operating income	12	51
Non-operating expenses		
Interest expenses	1	0
Share of loss of entities accounted for using equity method	—	55
Loss on investments in partnership	—	63
Foreign exchange losses	2	8
Miscellaneous losses	1	0
Other	0	0
Total non-operating expenses	6	128
Ordinary profit	429	1,186
Extraordinary income		
Gain on change in equity	119	—
Gain on sales of investment securities	—	166
Gain on sales of investments in subsidiaries	—	46
Other	1	14
Total extraordinary income	120	227
Extraordinary losses		
Loss on retirement of non-current assets	0	43
Loss on sales of shares of subsidiaries and associates	—	77
Other	—	1
Total extraordinary losses	0	123
Profit before income taxes	550	1,290
Income taxes	161	578
Profit	389	711
Profit attributable to non-controlling interests	33	18
Profit attributable to owners of parent	355	693

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Three months ended December 31, 2019	Three months ended December 31, 2020
Profit	389	711
Other comprehensive income		
Valuation difference on available-for-sale securities	(249)	(550)
Share of other comprehensive income of entities accounted for using equity method	0	7
Foreign currency translation adjustment	—	(0)
Total other comprehensive income	(249)	(543)
Comprehensive income	139	168
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	105	149
Comprehensive income attributable to non-controlling interests	33	18

**(3) Notes to Condensed Interim Consolidated Financial Statements
(Going Concern Assumption)**

None

(Notes on Significant Changes in the Amount of Shareholders' Equity)

At a Board of Directors' meeting held on February 12, 2020, the Company resolved to acquire a total of 300,000 outstanding shares of common stock, as well as treasury shares not exceeding a total acquisition price of ¥290 million, from February 23, 2020 to April 30, 2020. Following this resolution, the Company has acquired 156,000 shares at ¥145 million over the course of February to March 2020. As a result, in the period under review, treasury shares increased ¥145 million, and as of the end of the period under review, treasury shares had amounted to ¥145 million.

(Adoption of Accounting Method Specific to Preparation of Quarterly Consolidated Financial Statements)

Tax expenses for the period are calculated by multiplying net income before income taxes for the period by the reasonably estimated annual effective tax rate after applying tax effect accounting which is calculated based on the estimated net income before income taxes for the entire fiscal year.

(Changes in Accounting Policies)

None

(Changes in Accounting Estimates)

None

(Segment Information)

I For the three-month period ended December 31, 2018 (October 1, 2018 to December 31, 2018)

1. Information on sales and income or loss by reportable business segment

(millions of yen)

	Reportable Segments				Adjustment	Consolidation (Note)
	Ad Platform Business	Points Media Business	Incubation Business	Total		
Sales						
Outside Sales	4,926	1,688	1,254	7,869	—	7,869
Intersegment Sales or Transfer	9	1	50	62	(62)	—
Total	4,935	1,690	1,305	7,931	(62)	7,869
Segment Income	242	101	79	423	—	423

(Note) Segment income is adjusted with operating income on the quarterly consolidated statements of income.

2. Information concerning impairment loss on non-current assets, goodwill and other items by reportable business segment

(Material impairment loss on non-current assets)

None

(Material changes in goodwill)

None

(Material profit from negative goodwill)

None

II For the three-month period ended March 31, 2020 (January 1, 2020 to March 31, 2020)

1. Information on sales and income or loss by reportable business segment

(millions of yen)

	Reportable Segments				Adjustment	Consolidation (Note)
	Partner Sales Business	Ad Platform Business	Consumer Business	Total		
Sales						
Outside Sales	2,476	1,746	1,720	5,944	—	5,944
Intersegment Sales or Transfer	—	6	—	6	(6)	—
Total	2,476	1,753	1,720	5,951	(6)	5,944
Segment Income	708	463	90	1,263	—	1,263

(Note) Segment income is adjusted with operating income on the quarterly consolidated statements of income.

2. Information concerning impairment loss on non-current assets, goodwill and other items by reportable business segment

(Material impairment loss on non-current assets)

None

(Material changes in goodwill)

In line with the partial sale of shares in CMerTV, Inc., which had been a consolidated subsidiary, the amount of goodwill in the Ad Platform Business declined.

The amount of decline in goodwill resulting from the event is ¥601 million in the period under review.

(Material profit from negative goodwill)

None

3. Matters concerning changes etc. in reportable segments

In line with Management Integration as of January 1, 2019, the Company changed its reportable segments from “Ad Platform Business”, “Points Media Business” and “Incubation Business” to “Partner Sales Business”, “Ad Platform Business”, and “Consumer Business” from the second quarter of the previous consolidated fiscal year (January 1, 2019 to March 31, 2019).

In addition, the fiscal year ended December 31, 2019 was a transitional period for the change in accounting period, meaning an irregular accounting period that covered 15 months (October 1, 2018 to December 31, 2019), and as such, consolidated financial results for the first quarter of the fiscal year ended December 31, 2019 represent October 1, 2018 through December 31, 2018. Moreover, effective on January 1, 2019, the Company and Cyber Communications Inc. (“CCI”) carried out a share exchange, with the Company as the share exchange’s wholly owning parent company, and CCI as the wholly owned subsidiary. The share exchange applies reverse acquisition accounting for business combinations, with the Company as the acquired company and CCI as the acquiring company. For this reason, segment information for the first quarter of the fiscal year ended December 31, 2019 reflects the figures of the Company prior to the share exchange. In addition, the segment information for the first quarter of the previous fiscal year does not apply Accounting Standard for Revenue Recognition, etc.

With regard to segment information from the first quarter of the previous fiscal year, the method for measuring profit or loss changed significantly due to the management integration and changes in accounting policies in the previous fiscal year. This makes it difficult to develop such information from the segment classification of the period under review, and therefore they have been prepared using the segment classifications prior to the change.

(Business Combinations)

Business Divestiture (sale of subsidiary's shares)

At a Board of Directors' meeting held on December 17, 2019, the Company resolved to sell a portion of the shares it held in CMerTV, Inc., a consolidated subsidiary of the Company, to Shogakukan Inc., Mynavi Corporation and KAGA ELECTRONICS CO., LTD. These shares were transferred on January 15, 2020. Accordingly, CMerTV, Inc. was removed from the scope of the Company's consolidation.

1. Overview of the business divestiture

(1) Names of successor enterprises

Shogakukan Inc., Mynavi Corporation and KAGA ELECTRONICS CO., LTD.

(2) Name of divested subsidiary company and its business content

Subsidiary name: CMerTV, Inc.

Business content: Operation, planning and production of video advertisement portal sites, video advertising distribution, video production and editing

(3) Reason for business divestiture

In light of expressed intention by Shogakukan Inc., Mynavi Corporation and KAGA ELECTRONICS CO., LTD. to transfer their shares in CMerTV, Inc., and as a result of comprehensive consideration by the Company with regard to optimum distribution of management resources and intra-Group synergies, it came to the conclusion that the transfer of shares would be the optimal way of contributing to an increase in the Group's corporate value.

(4) Date of business divestiture

January 15, 2020

(5) Matters concerning overview of other transactions, including legal form

Transfer of shares with only cash equivalent assets as compensation

2. Overview of accounting method implemented

(1) Amount of gains or losses related to the transfer

Gain on sales of investment securities ¥46 million

(2) Book values and major breakdown of the assets and liabilities of the transferred business

Current assets	¥473 million
Non-current assets	¥726 million
Total assets	¥1,200 million
Current liabilities	¥195 million
Total liabilities	¥195 million

(3) Accounting method

The difference between the sale value of the transferred shares and the book value (equity value) is posted as gain on sales of investment securities under extraordinary income.

3. Reportable segment that included the divested business

Ad Platform Business

4. Approximate amounts of profit or loss of the divested business included in the quarterly consolidated financial statements for the period under review

The business divestiture was conducted with the beginning of the fiscal year under review as the deemed sale date. Profit or loss associated with the divested business is not included in the consolidated statements of income for the fiscal year under review.