

Financial Results for the 2nd Quarter of the Fiscal Year Ending December 31, 2020 [Japanese Standards] (Consolidated)

Aug 12, 2020

Listed company name: CARTA HOLDINGS, Inc. Listed stock exchange: TSE first section
 Stock Code No.: 3688 URL: <https://cartaholdings.co.jp/en/ir/>
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Date to submit the Securities Report: Aug 12, 2020
 Scheduled date of dividend payments: Sep 30, 2020
 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 Six Months (January 1, 2020 – June 30, 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 six months	11,113	—	1,992	—	1,874	—	996	—
FY 2019 first six months	9,390	—	2,095	—	2,137	—	1,280	—

(Note) Comprehensive Income: FY 2020 first six months: ¥1,027 million —%

FY 2019 first six months: ¥1,298 million —%

	Net income per share	Diluted net income per share	EBITDA	
	¥	¥	¥million	%
FY 2020 first six months	39.36	39.17	2,453	—
FY 2019 first six months	68.94	68.28	2,470	—

(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 second quarter of the fiscal year ended December 31, 2019 represent October 1, 2018 through March 31, 2019. Consequently, the periods to be compared differ, and as such, the year-on-year change rate for the second quarter of the year ending December 31, 2020 is not stated.

* 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
June 30, 2020	42,517	24,133	56.5	954.47
December 31, 2019	50,621	23,720	46.3	921.43

(Reference) Owned capital: June 30, 2020: ¥24,019 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	—	8.00				
FY 2020 (Forecast)			—	—	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 12, “2. Consolidated Financial Statements (4) Notes to Condensed Interim Consolidated Financial Statements (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)

As of June 30, 2020	25,465,652	As of December 31, 2019	25,444,052
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2) Number of treasury stock issued and outstanding

As of June 30, 2020	301,018	As of December 31, 2019	584
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3) Average number of shares during the period (quarterly consolidated cumulative accounting period)

Six months ended June 30, 2020	25,312,400	Six months ended June 30, 2019	18,579,221
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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

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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 June 30, 2020) covers a different six-month period from the second quarter of the previous fiscal year (October 1, 2018 to March 31, 2019).

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.

Despite the impact from the shift to telecommuting and waning advertising demand due to the novel coronavirus outbreak, the Ad Platform Business remained robust, and cost controls were also fully implemented.

As a result, the Group posted net sales of ¥11,113 million, operating income of ¥1,992 million, ordinary income of ¥1,874 million, and profit attributable to owners of parent of ¥996 million in the period under review.

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 ¥4,320 million, and segment income of ¥896 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. In addition, in May 2020, we started providing “PORTO tv”, a next-generation TV marketing platform that enables users to easily order, produce, and test the effects of TV commercials online, and in June 2020, we made KAIKETSU, Inc., a company developing the social media influencer marketing business, a consolidated subsidiary.

As a result, the Ad Platform Business recorded net sales of ¥3,577 million, and segment income of ¥840 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 ¥3,215 million, and segment income of ¥255 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 ¥42,517 million, a decline of ¥8,103 million from the end of the previous fiscal year. This was mainly attributable to declines in accounts receivable – trade and goodwill.

(Liabilities)

Consolidated liabilities as of the end of the period under review amounted to ¥18,384 million, down ¥8,516 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 ¥24,133 million, an increase of ¥412 million from the end of the previous fiscal year. This was primarily owing to an increase in retained earnings due to the recording of profit attributable to owners of parent, offsetting a decline caused by the purchase of treasury shares.

2) Cash Flows

Cash and cash equivalents at the end of the period under review (hereinafter, “funds”) totaled ¥15,511 million. The following is the status and factors of each cash flow during the period under review.

(Net cash flows from operating activities)

Net cash flows provided by operating activities amounted to ¥1,159 million. The main positive factors included a decrease in notes and accounts receivable – trade, a decrease in accounts payable – other and the recording of profit before income taxes, while the main negative factors included a decrease in notes and accounts payable – trade.

(Net cash flows from investing activities)

Net cash flows provided by investing activities amounted to ¥466 million. The main positive factors included proceeds from sales of investment securities.

(Net cash flows from financing activities)

Net cash flows used in financing activities amounted to ¥632 million. The main negative factors included the purchase of treasury shares and the payment of cash dividends.

(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. Results in the period under review progressed steadily. However, given the expectations for a continued impact from the novel coronavirus outbreak and the uncertain effect on the online advertising industry from the restrictions placed on the use of IDFA (Identifier for Advertisers used in advertising distribution in iOS) in iOS 14 that Apple Inc. plans to release in autumn 2020, 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 June 30, 2020
Assets		
Current assets		
Cash and deposits	14,546	15,511
Accounts receivable - trade	18,477	11,580
Securities	—	65
Merchandise	17	21
Supplies	419	505
Other	2,908	1,710
Allowance for doubtful accounts	(86)	(52)
Total current assets	36,283	29,343
Non-current assets		
Property, plant and equipment	1,691	1,618
Intangible assets		
Goodwill	3,021	2,481
Other	3,725	3,386
Total intangible assets	6,747	5,867
Investments and other assets		
Investment securities	4,246	4,108
Deferred tax assets	176	143
Other	1,477	1,437
Allowance for doubtful accounts	(0)	(0)
Total investments and other assets	5,899	5,688
Total non-current assets	14,338	13,174
Total assets	50,621	42,517
Liabilities		
Current liabilities		
Accounts payable - trade	18,110	10,931
Provision for bonuses	1,380	600
Provision for directors' bonuses	27	—
Provision for point card certificates	505	539
Deposits received	2,742	2,675
Short-term loans payable	19	19
Current portion of long-term loans payable	195	103
Other	2,037	1,650
Total current liabilities	25,019	16,520
Non-current liabilities		
Long-term loans payable	208	257
Asset retirement obligations	536	536
Deferred tax liabilities	874	838
Other	262	232
Total non-current liabilities	1,881	1,864
Total liabilities	26,900	18,384

(Millions of yen)

	As of December 31, 2019	As of June 30, 2020
Net assets		
Shareholders' equity		
Capital stock	1,096	1,104
Capital surplus	12,016	12,024
Retained earnings	9,642	10,462
Treasury shares	(0)	(264)
Total shareholders' equity	22,754	23,327
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	704	703
Foreign currency translation adjustment	(15)	(11)
Total accumulated other comprehensive income	689	691
Share acquisition rights	7	7
Non-controlling interests	268	106
Total net assets	23,720	24,133
Total liabilities and net assets	50,621	42,517

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

(Millions of yen)

	Six months ended March 31, 2019	Six months ended June 30, 2020
Net sales	9,390	11,113
Cost of sales	1,034	1,547
Gross profit	8,356	9,566
Selling, general and administrative expenses	6,260	7,573
Operating profit	2,095	1,992
Non-operating income		
Interest income and dividends income	13	16
Gain on investments in partnership	8	5
Business commission fee	12	10
Rent income	9	11
Insurance dividend	21	17
Other	2	9
Total non-operating income	66	69
Non-operating expenses		
Share of loss of entities accounted for using equity method	5	83
Loss on investments in partnership	6	67
Foreign exchange losses	9	35
Other	3	2
Total non-operating expenses	24	188
Ordinary profit	2,137	1,874
Extraordinary income		
Gain on sales of investment securities	—	166
Gain on sales of investments in subsidiaries	—	46
Other	0	14
Total extraordinary income	0	227
Extraordinary losses		
Loss on retirement of non-current assets	7	57
Loss on sales of shares of subsidiaries and associates	54	77
Loss on valuation of investment securities	—	31
Other	1	10
Total extraordinary losses	63	177
Profit before income taxes	2,075	1,924
Income taxes	762	903
Profit	1,312	1,021
Profit attributable to non-controlling interests	31	25
Profit attributable to owners of parent	1,280	996

(Consolidated Statements of Comprehensive Income)

(Millions of yen)

	Six months ended March 31, 2019	Six months ended June 30, 2020
Profit	1,312	1,021
Other comprehensive income		
Valuation difference on available-for-sale securities	(9)	(1)
Foreign currency translation adjustment	—	(0)
Share of other comprehensive income of entities accounted for using equity method	(4)	7
Total other comprehensive income	(13)	6
Comprehensive income	1,298	1,027
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,267	1,002
Comprehensive income attributable to non-controlling interests	31	25

(3) Overview of Cash Flows for the Fiscal Year under Review

(Millions of yen)

	Six months ended March 31, 2019	Six months ended June 30, 2020
Cash flows from operating activities		
Profit before income taxes	2,075	1,924
Depreciation	306	384
Amortization of goodwill	79	143
Increase (decrease) in allowance for doubtful accounts	—	(34)
Share of (profit) loss of entities accounted for using equity method	5	83
Decrease (increase) in notes and accounts receivable - trade	(3,401)	6,784
Decrease (increase) in inventories	164	(91)
Increase (decrease) in notes and accounts payable - trade	4,645	(7,112)
Increase (decrease) in provision for bonuses	334	(746)
Increase (decrease) in provision for directors' bonuses	27	(27)
Increase (decrease) in provision for point card certificates	5	34
Loss (gain) on sales of investment securities	54	(89)
Loss (gain) on sales of investments in subsidiaries	—	(46)
Loss on retirement of non-current assets	7	57
Interest and dividend income	(13)	(16)
Decrease (increase) in accounts receivable - other	(134)	1,056
Other, net	109	(642)
Subtotal	4,265	1,663
Interest and dividend income received	14	16
Interest expenses paid	(0)	(0)
Income taxes (paid) refund	(238)	(519)
Net cash provided by (used in) operating activities	4,040	1,159
Cash flows from investing activities		
Purchase of property, plant and equipment	(151)	(31)
Purchase of intangible assets	(145)	(89)
Purchase of investment securities	(123)	(222)
Proceeds from sales of investment securities	195	480
Payments for lease and guarantee deposits	(485)	(1)
Purchase of loans receivable	(45)	(135)
Proceeds from loans receivable	4,936	11
Proceeds from purchase of shares of subsidiaries resulting in change in scope of consolidation	—	16
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	—	358
Other, net	0	79
Net cash provided by (used in) investing activities	4,180	466

(Millions of yen)

	Six months ended March 31, 2019	Six months ended June 30, 2020
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	5	—
Repayments of long-term loans payable	(122)	(136)
Proceeds from exercise of share options	0	1
Cash dividends paid	(1)	(203)
Purchase of treasury shares	(0)	(265)
Repayments of lease obligations payable	—	(30)
Other, net	—	2
Net cash provided by (used in) financing activities	(118)	(632)
Effect of exchange rate change on cash and cash equivalents	1	(28)
Net increase (decrease) in cash and cash equivalents	8,104	964
Cash and cash equivalents at beginning of period	5,679	14,546
Cash and cash equivalents of acquired company at beginning of period	(5,679)	—
Cash and cash equivalents of acquiring company at beginning of period	238	—
Cash and cash equivalents received by share exchange	4,972	—
Cash and cash equivalents at end of period	13,314	15,511

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

None

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

Based on a Board of Directors' meeting held on February 12, 2020, the Company acquired 300,000 shares of common stock. As a result, in the period under review, treasury shares increased ¥264 million, and as of the end of the period under review, treasury shares had amounted to ¥264 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 six-month period ended March 31, 2019 (October 1, 2018 to March 31, 2019)

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	5,869	1,894	1,626	9,390	—	9,390
Intersegment Sales or Transfer	—	3	—	3	(3)	—
Total	5,869	1,898	1,626	9,394	(3)	9,390
Segment Income	1,928	135	32	2,095	—	2,095

(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 connection with the Management Integration as of January 1, 2019, for goodwill, ¥2,416 million in Ad Platform Business and ¥761 million in Consumer Business were recorded.

(Material profit from negative goodwill)

None

II For the six-month period ended June 30, 2020 (January 1, 2020 to June 30, 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	4,320	3,577	3,215	11,113	—	11,113
Intersegment Sales or Transfer	0	15	—	15	(15)	—
Total	4,320	3,593	3,215	11,129	(15)	11,113
Segment Income	896	840	255	1,992	—	1,992

(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