

English Translation

This is a translation of the original release in Japanese. In the event of any discrepancy, the original release in Japanese shall prevail.

FY2018 Second Quarter Consolidated Financial Results [Japanese GAAP]

April 26, 2018

Listed company name: CyberAgent, Inc.

Listed stock exchange: TSE 1st section

Code No.: 4751

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Quarterly report submission date: April 27, 2018

Dividend payment start date

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Preparation of Supplementary Materials for Quarterly Financial Results: Yes

Presentation of Quarterly Financial Results: Yes (for analysts and institutional investors)

(Amounts less than ¥1 million rounded down)

1 Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending September 2018

(1) Consolidated results of operations (cumulative)

(% = Year-on-Year Change)

	Net sales		Operating income		Ordinary income		Profit attributable to shareholders of parent	
	¥ million	%	¥ million	%	¥ million	%	¥ million	%
2Q FY2018	207,495	15.3	19,730	37.9	18,574	39.2	4,248	61.6
2Q FY2017	179,892	21.0	14,306	(41.0)	13,346	(43.8)	2,628	(76.7)

(Note) Comprehensive income 2Q FY2018 ¥6,738 million (5.1%) 2Q FY2017 ¥6,410 million (-52.7%)

	Basic earnings per share	Diluted earnings per share
	¥	¥
2Q FY2018	33.77	33.15
2Q FY2017	20.90	20.81

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	¥ million	¥ million	%
As of 2Q FY2018	216,725	100,900	36.5
As of FY2017	164,009	98,785	48.1

(Reference) Equity capital: As of 2Q FY2018 ¥79,024 million As of FY2017 ¥78,908 million

2 Dividends

	Annual dividends				
	1Q	2Q	3Q	Year end	Total
	¥	¥	¥	¥	¥
FY2017	—	0.00	—	32.00	32.00
FY2018	—	0.00	—	—	—
FY2018 (Forecast)	—	—	—	32.00	32.00

(Note) Revisions to most recent dividend forecast: None

3 Forecast of the Consolidated Results for the Fiscal Year Ending September 2018

(October 1, 2017 - September 30, 2018)

(% = Year-on-Year Change)

	Net sales		Operating income		Ordinary income		Profit attributable to shareholders of parent		Basic earnings per share
	¥ million	%	¥ million	%	¥ million	%	¥ million	%	¥
Full year	420,000	13.1	30,000	(2.3)	28,000	(2.6)	5,000	24.2	39.74

(Note) Revisions to most recent consolidated earnings forecast: None

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*Notes

(1) Changes in Significant Subsidiaries during the Period: None

(Changes in specified subsidiaries due to changes in the scope of consolidation)

New companies: — (Company name: —)

Excluded companies: — (Company name: —)

(2) Application of simplified accounting methods and/or special accounting methods: None

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

i) Changes associated with revisions of accounting standards: None

ii) Changes other than those included in i) : None

iii) Changes in accounting estimates: None

iv) Restatements: None

(4) Number of shares issued

i) Number of shares issued and outstanding at end of period (including treasury stock)	
2Q FY2018: 126,426,600 shares	FY2017: 126,426,600 shares
ii) Number of shares of treasury stock issued and outstanding at end of period	
2Q FY2018: 623,742 shares	FY2017: 637,129 shares
iii) Average number of shares during the period (cumulative quarterly period)	
2Q FY2018: 125,798,372 shares	2Q FY2017: 125,720,553 shares

*The Consolidated Financial Results is not subject to the quarterly review procedures.

*Appropriate Use of Earnings Forecast and Other Matters

The forecast of performance is based on our expectations and assumptions as of the date the forecast was made. Our actual results could differ materially from those listed in this forecast because of various risks and uncertainties. For information related to the forecast indicated above, please refer to “1. Results of Operations (3) Forecast” on page 3.

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1. Results of Operations

(1) Overview of Results of Operations

The scale of the mobile ad market centering on smartphone in 2018 is estimated to increase steadily by 25.2% to 1,041.7 billion yen (Note 1) compared to 2017. Especially, the video ad market (including PCs) is expected to grow rapidly. Its scale is estimated to increase by 34.3% to 184.5 billion yen in 2018, and will reach 348.5 billion yen by 2023 (Note 2).

Seizing on this trend, the CyberAgent Group has taken advantage of the growth of the smartphone market. At the same time, the group has regarded “Abema TV” as investing phase as same as the previous year, to grow it for the medium to long-term mainstay.

As a result, during the cumulative consolidated second quarter, net sales increased 15.3% year-on-year reach ¥207,495 million. Operating income increased 37.9% to ¥19,730 million, and ordinary income increased 39.2% to ¥18,574 million, and profit attributable to shareholders of parent increased 61.6% to ¥4,248 million.

(Note 1) Source: Dentsu Inc./ cyber communications Inc./ D2C, *Advertising Expenditures in Japan 2017, Detail analysis of Internet Advertising Medium Expenditures*

(Note 2) Source: CyberAgent/ Digital Infact, *The Survey on Japanese video advertising market trends*

Earnings by business segments are discussed below.

(a) Media Business

The Media Business includes “AbemaTV”, “FRESH!”, “Ameba” and “Tapple”, etc. Due to the upfront investment for video business such as “AbemaTV”, it reported net sales of ¥14,925 million (20.9% year-on-year increase). Operating loss amounted to ¥7,554 million, compared to the operating loss of ¥9,722 million for the same period in the previous fiscal year.

(b) Game Business

The Game Business includes Cygames, Inc. Sumzap, Inc., and Craft Egg, Inc., etc. Succeeded in creating new hit titles while major existing titles remained strong, it reported net sales of ¥74,171 million (5.2% year-on-year increase) and operating income of ¥14,197 million (1.2% year-on-year decrease).

(c) Internet Advertisement Business

The Group's Internet Advertisement Business includes Internet Advertisement Division, CyberZ, Inc. and others.

Because of strong sales of the video ads for smartphones etc, this segment recorded net sales of ¥118,726 million (17.1% year-on-year increase) and operating income of ¥12,034 million (19.9% year-on-year increase).

(d) Investment Development Business

The Investment Development Business consists primarily of the CyberAgent corporate venture capital business and the fund operations of CyberAgent Ventures, Inc. It reported net sales of ¥2,111 million (135.2% year-on-year increase) and operating income of ¥1,191 million (3,897.4% year-on-year increase).

(e) Other Businesses

Segment of the Other Businesses includes CA Mobile, Ltd., Wedding Park, Ltd., and others, it reported net sales of ¥8,218 million (37.3% year-on-year increase) and operating income of ¥1,194 million (54.5% year-on-year increase).

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(2) Overview of Financial Position

(Financial position)

Total assets at the end of the consolidated second quarter increased by ¥52,716 million compared to the end of the previous fiscal year and amounted to ¥216,725 million. It is mainly due to an increase in cash and deposits related to the issuance of the convertible bonds.

Total liabilities increased by ¥50,601 million compared to the previous fiscal year to ¥115,824 million. This increase is mainly due to the convertible bond issuance.

Total net assets increased by ¥2,115 million compared to the previous fiscal year to ¥100,900 million. It is mainly due to an increase in valuation difference on available-for-sale securities and non-controlling interests.

(Cash flows)

As of the end of the consolidated second quarter, cash and cash equivalents increased by ¥38,169 from the end of the previous fiscal year to ¥84,782 million.

The following is a summary of major factor affecting the cash flow in the cumulative consolidated second quarter.

i) Cash flow from operating activities

Net cash provided by operating activities was ¥13,769 million of inflow (¥326 million of inflow in the same period of the previous fiscal year). The major inflow included net income gains, and the major outflow included income tax payments.

ii) Cash flow from investing activities

Net cash used in investing activities amounted to ¥11,439 million of outflow (¥9,904 million of outflow in the same period of the previous fiscal year). Major outflow mainly included acquisition of fixed assets.

iii) Cash flow from financing activities

Net cash provided by financing activities was ¥35,981 million of inflow (¥3,639 million of outflow in the same period of the previous fiscal year). Major inflow included the convertible bond issuance.

(3) Forecast

Forecast of FY2018 has not been revised from its original publication on October 26, 2017.

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2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

	(Unit: ¥ million)	
	FY2017 (As of September 30, 2017)	2Q FY2018 (As of March 31, 2018)
Assets		
Current assets		
Cash and deposits	46,614	84,784
Accounts and notes receivable-trade	47,452	57,048
Inventories	476	749
Sales investment securities	14,109	13,902
Other	8,646	11,159
Allowance for doubtful accounts	(288)	(110)
Total current assets	117,010	167,532
Non-current assets		
Property, plant and equipment	8,667	9,312
Intangible assets		
Goodwill	1,652	1,572
Other	22,870	23,699
Total intangible assets	24,523	25,271
Investments and other assets		
Other	14,293	14,562
Allowance for doubtful accounts	(486)	(9)
Total investments and other assets	13,807	14,552
Total non-current assets	46,998	49,137
Deferred assets	—	56
Total assets	164,009	216,725
Liabilities		
Current liabilities		
Notes and accounts payable-trade	34,339	40,539
Short-term loans payable	895	895
Income tax payable	5,374	7,511
Other	22,191	23,724
Total current liabilities	62,799	72,670
Non-current liabilities		
Convertible bonds	100	40,689
Long-term loans payable	224	77
Allowance for continuous service	1,014	1,084
Asset retirement obligations	1,063	1,282
Other	21	20
Total non-current liabilities	2,423	43,154
Total liabilities	65,223	115,824
Net assets		
Shareholders' equity		
Capital stock	7,203	7,203
Capital surplus	4,827	4,785
Retained earnings	63,316	63,312
Treasury stock	(674)	(660)
Total shareholders' equity	74,672	74,641
Other comprehensive income		
Valuation difference on available-for-sale securities	4,085	4,309
Foreign currency translation adjustment	149	73
Total other comprehensive income	4,235	4,383
Subscription rights to shares	769	881
Non-controlling interests	19,108	20,994
Total net assets	98,785	100,900
Total liabilities and net assets	164,009	216,725

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

Quarterly Consolidated Statements of Income

(Cumulative consolidated second quarter)

(Unit: ¥ million)

	2Q FY2017 (October 1, 2016 - March 31 2017)	2Q FY2018 (October 1, 2017 - March 31, 2018)
Net sales	179,892	207,495
Cost of sales	119,908	139,867
Gross profit	59,984	67,627
Selling, general and administrative expenses	45,677	47,897
Operating income	14,306	19,730
Non-operating income		
Interest income	7	25
Dividends received	53	58
Foreign exchange gains	154	—
Other	58	90
Total non-operating income	274	174
Non-operating expenses		
Interest expenses	7	5
Equity in losses of affiliates	1,181	1,201
Other	46	124
Total non-operating expenses	1,234	1,331
Ordinary income	13,346	18,574
Extraordinary income		
Gain on sales of non-current assets	269	—
Other	51	123
Total extraordinary gain	320	123
Extraordinary loss		
Impairment loss	1,086	3,689
Other	428	244
Total extraordinary loss	1,515	3,934
Income before income taxes and non-controlling interests	12,151	14,763
Income taxes-current	7,357	9,326
Income taxes-deferred	(686)	(1,190)
Total income tax	6,671	8,135
Net income	5,480	6,627
Profit attributable to non-controlling interests	2,851	2,379
Profit attributable to shareholders of parent	2,628	4,248

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Quarterly Consolidated Statements of Comprehensive Income

(Cumulative consolidated second quarter)

(Unit: ¥ million)

	2Q FY2017 (October 1, 2016 - March 31, 2017)	2Q FY2018 (October 1, 2017 - March 31, 2018)
Net income	5,480	6,627
Other comprehensive income		
Valuation difference on available-for-sale securities	512	252
Foreign currency translation adjustment	344	(131)
Share of other comprehensive income of associates accounted for using equity method	73	(9)
Total other comprehensive income	930	111
Comprehensive income	6,410	6,738
(Comprehensive income attributable to)		
Shareholders of the parent	3,310	4,396
Non-controlling interests	3,099	2,342

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(3) Quarterly Consolidated Statements of Cash Flows

(Unit: ¥ million)

	2Q FY2017 (October 1, 2016 - March 31, 2017)	2Q FY2018 (October 1, 2017 - March 31, 2018)
Cash flow from operating activities		
Income before income taxes and non-controlling interests	12,151	14,763
Depreciation	4,050	4,105
Equity in losses (earnings) of affiliates	1,181	1,201
Impairment loss	1,086	3,689
Decrease (increase) in notes and accounts receivable-trade	(5,496)	(9,485)
Increase (decrease) in notes and accounts payable-trade	5,468	6,190
Increase (decrease) in accounts payable-other	(3,185)	826
Increase (decrease) in accrued consumption taxes	(1,593)	(676)
Other, net	(1,957)	83
Sub-total	11,706	20,697
Interest and dividends income received	61	88
Interest expenses paid	(7)	(5)
Income taxes paid	(11,433)	(7,011)
Net cash provided by (used in) operating activities	326	13,769
Cash flow from investing activities		
Purchase of property, plant and equipment	(1,481)	(1,905)
Purchase of intangible assets	(6,861)	(7,247)
Purchase of investment securities	—	(835)
Payments for loans	(1,291)	(1,096)
Other, net	(270)	(354)
Net cash provided by (used in) investing activities	(9,904)	(11,439)
Cash flow from financing activities		
Proceeds from issuance of convertible bonds	—	40,576
Cash dividends paid	(3,136)	(4,020)
Other, net	(502)	(574)
Net cash provided by (used in) financing activities	(3,639)	35,981
Effect of exchange rate change on cash and cash equivalents	277	(179)
Net increase (decrease) in cash and cash equivalents	(12,940)	38,131
Cash and cash equivalents at beginning of period	51,767	46,613
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	55	37
Cash and cash equivalents at end of period	38,882	84,782

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(4) Notes to Quarterly Consolidated Financial Statements

(Notes Regarding the Going Concern Assumption)

No applicable items.

(Notes Regarding Significant Changes in Shareholders' Equity)

No applicable items.

(Segment Information)

I. Cumulative Second Quarter of the Fiscal Year Ended September 2017 (October 1, 2016 to March 31, 2017)

Sales and Income (Loss) by Reportable Segment

(Unit: ¥ million)

	Reportable Segment						Adjust- ments*	Quarterly Consolidated Statement of Income
	Media	Game	Internet Advertise- ment	Investment Develop- ment	Other	Total		
Net sales								
Sales to external customers	8,947	70,221	94,415	897	5,410	179,892	—	179,892
Inter-segment sales or transfers	3,393	292	6,934	—	576	11,197	(11,197)	—
Total	12,341	70,514	101,350	897	5,986	191,090	(11,197)	179,892
Segment income (loss)	(9,722)	14,370	10,040	29	773	15,492	(1,185)	14,306

*Adjustment of ¥ -1,185 million represents corporate general and administrative expenses not allocable to a reportable segment.

II. Cumulative Second Quarter of the Fiscal Year Ending September 2018 (October 1, 2017 to March 31, 2018)

Sales and Income (Loss) by Reportable Segment

(Unit: ¥ million)

	Reportable Segment						Adjust- ments*	Quarterly Consolidated Statements of Income
	Media	Game	Internet Advertise- ment	Investment Develop- ment	Other	Total		
Net sales								
Sales to external customers	11,731	73,958	112,296	2,111	7,396	207,495	—	207,495
Inter-segment sales or transfers	3,193	212	6,429	—	821	10,657	(10,657)	—
Total	14,925	74,171	118,726	2,111	8,218	218,152	(10,657)	207,495
Segment income (loss)	(7,554)	14,197	12,034	1,191	1,194	21,063	(1,332)	19,730

*Adjustment of ¥ -1,332 million represents corporate general and administrative expenses not allocable to a reportable segment.