

November 14, 2018

# Non-Consolidated Financial Results for the First Nine Months of Fiscal Year Ending December 31, 2018 [Japanese GAAP]

Company name:	Beagle Inc.	Listed on: Tokyo Stock Exchange
Stock code:	3981	URL: <a href="https://www.beagle.com/">https://www.beagle.com/</a>
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Scheduled date for submission of quarterly report: November 14, 2018

Date for commencement of dividend payments: —

Supplementary notes to financial statements: None

Briefing on quarterly financial statements: None

(Rounded down to nearest million yen)

## 1. Financial Results for the First Nine Months of Fiscal Year Ending December 31, 2018 (January 1 to Sep 30, 2018)

### (1) Operating Results (Cumulative YTD)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
First nine months of fiscal year ending December 31, 2018	6,904	1.3	303	(68.5)	282	(69.6)	169	(70.9)
First nine months of fiscal year ended December 31, 2017	6,817	13.2	962	25.9	929	27.3	581	36.7

	Net income per share	Net income per share fully diluted
	Yen	Yen
First nine months of fiscal year ending December 31, 2018	28.21	27.59
First nine months of fiscal year ended December 31, 2017	98.97	95.67

Note: The Company listed its shares on the Tokyo Stock Exchanges Mothers Index on March 17, 2017. Therefore, net income per share fully diluted for the first nine months of the fiscal year ended December 31, 2017 is calculated based on the average stock price from the share listing date to the end of the third quarter deemed as the average stock price for the fiscal year

### (2) Financial Position

	Total assets	Net assets	Capital-to-asset ratio
	Millions of yen	Millions of yen	%
September 30, 2018	7,215	4,789	66.4
December 31, 2017	7,688	4,974	64.7

For reference: Shareholders' capital:  
 As of September 30, 2018: 4,789 million yen  
 As of December 31, 2017: 4,973 million yen

## 2. Dividends

	Annual dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Full year
Fiscal year ended December 31, 2017	Yen —	Yen 0.00	Yen —	Yen 0.00	Yen 0.00
Fiscal year ending December 31, 2018	—	0.00	—		
Fiscal year ending December 31, 2018 (Forecast)				0.00	0.00

Note: The dividend forecast has not been revised from the most recently announced forecast.

## 3. Earnings Forecast for Fiscal Year Ending December 31, 2018 (January 1 to December 31, 2018)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	9,180	2.3	525	(53.4)	501	(53.9)	312	(54.0)	52.11

Note: The earnings forecast has been revised from the most recently announced forecast.

For the Company's earnings forecast, refer to the timely disclosure issued today entitled "Notice Concerning Revisions to Earnings Forecast and Amount of Officer Remuneration."

\* Notice

(1) Application of special accounting methods in producing the quarterly financial statements: Yes

(2) Changes in accounting policy and changes and restatements of accounting estimates

(a) Changes in accounting policy accompanying the revision of accounting standards: None

(b) Changes in accounting policy other than those listed in (a): None

(c) Changes in accounting estimates: None

(d) Restatements: None

(3) Number of shares issued (common stock)

(a) Number of shares issued at end of period (including treasury shares)

September 30, 2018	6,124,948 shares	December 31, 2017	6,086,226 shares
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(b) Number of treasury shares at end of period

September 30, 2018	250,152 shares	December 31, 2017	95 shares
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(c) Average number of shares during the period

September 30, 2018	5,993,008 shares	September 30, 2017	5,875,308 shares
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\* The Company's quarterly financial statements are not subject to a quarterly review process by certified public accountant or audit corporation.

\* Appropriate use of earnings forecasts and other pertinent information

These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of preparation as well as certain reasonable assumptions. Actual results may differ materially from those expressed or implied by forward-looking statements due to a range of factors. For notices concerning underlying assumptions of the earnings forecast and the use of the earnings forecast, refer to page three of the attachment entitled "1. Qualitative Information Related to Quarterly Financial Results (3) Explanation Concerning Forward-looking Statements including Earnings Forecast."

○ Supplemental Materials

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## 1. Qualitative Information Related to Quarterly Financial Results

### (1) Explanation of Operating Results

Forward-looking statements appearing below are based on the Company's judgments as of the end of the third quarter under review.

During the first nine months of the current fiscal year (January 1 to September 30, 2018), Japan's economy continued to see a moderate recovery. This was underpinned by positive corporate earnings as well as improving capital expenditures and employment environment. Looking at the world economy, trade issues between the United States, EU and Asia along with geopolitical risks could have a negative impact on Japan's economy.

Driven by the growing use of smartphones and tablet devices, the e-book market, mainly comics, continues to see an increase in customer traffic thanks to TV and online advertisements and the spread of manga apps. It also is seeing higher average purchases buoyed by an increase in sales campaigns by e-book stores and publishers along with the growing marketing know-how of e-book stores. There is also a growing number of manga apps monetizing their free services through in-app purchases and advertising. At the same time, publishers are launching their own apps, too.

With smartphones and tablet devices set to evolve and see increased ownership, the e-book and e-comic markets are expected to continue growing. Other factors supporting growth include the growing use from rising visibility and improving convenience, an increase in works being published simultaneously in print and e-book forms, advancements in e-book store marketing know-how, sales of e-books with original content or value-added content, and growth in self-publishing. In fiscal 2017, the e-book market was valued at 224.1 billion yen, with e-comics accounting for 184.5 billion yen, or 82% of the total. This marked a 13.4% annual rate of growth (26.5 billion yen) over fiscal 2016 when the market was valued at 197.6 billion yen. By fiscal 2022, the market is expected to be valued at 315 billion yen, or roughly 1.4 times fiscal 2017. Only 17.7% of users read fee-based e-books. Yet, the number of users reading fee-based e-books increased 1.38 times from fiscal 2015 to fiscal 2018. Subscription-based comics as a genre of e-books see 59.2% of users originate from smartphones and 55.6% from tablet devices. This is the highest of any genre. For this reason, the comic e-book market where the Company focuses offers a great deal of potential. (Source: Impress Corporation estimates, "EBook Marketing Report 2018")

However, the e-book market is expected to gradually become saturated as e-book business models diversify and mature. There are also concerns of pirated sites and other factors inhibiting the sound growth of the e-book market.

Given this market climate, the Company is working to set itself apart from competitors' services by identifying high quality works first and creating original works of its own. Also, the Company continues to make improvements to its services to further enhance customer experience. This includes improving its function for recommending works using AI, expanding payment methods, and automatic purchases of newly published works.

New member acquisition has recovered since the closure of a pirated site that had negatively affected our business since around last summer. However, the Company was unable to increase sales as planned because of the limited effect of TV commercials and because certain measures to diversify promotions did not work out.

As a result, net sales for the first nine months of the current fiscal year totaled 6,904,313 thousand yen (up 1.3% over the first nine months of the previous year). Operating profit came in at 303,322 thousand yen (down 68.5%). Ordinary profit was 282,236 thousand yen (down 69.6%). Profit totaled 169,051 thousand yen (down 70.9%).

The Company engages in the Contents Platform Business only; therefore, there are no individual segments to report. Below is a report on the main business activities for the first nine months of this fiscal year.

#### (Contents Platform Business)

As for the comic distribution service “Manga Kingdom,” the Company implemented measures to encourage repeat visits and in-app purchases. These included uploading a cumulative total of 25 original works, implementing a sales promotion campaign, and enhancing the “Trial Reading” service where customers can read more than 50 pages free. Additionally, the Company worked on increasing the accuracy of its personalization services. This involved improving its conventional recommending function based on customer attribution, such as age and gender. The Company also predicted which customers would become fans of which works by analyzing customer behavior and summary information of works. This enabled the Company to deliver information tailored to individual customers. Furthermore, the Company introduced Apple Pay and Amazon Pay, increasing customer accessibility and convenience. As a result, the number of registered members broke through the 1.5 million mark in September 2018.

In other businesses, the Company continued to expand merchandise available at the FUNDIY STORE. Also, the Company released the first original comic in the “YUSEI HIGH SCHOOL ASTRONOMY CLUB” series, a mixed media project geared toward female readers. The Company is also in production of a number of smartphone app games.

#### (2) Explanation of Financial Condition

##### Status of Assets, Liabilities, and Net Assets

##### (Assets)

Total assets at the end of the third quarter amounted to 7,215,863 thousand yen, down 472,483 thousand yen compared to the previous fiscal year end.

Current assets totaled 2,951,371 thousand yen, down 527,286 thousand yen over the previous fiscal year end. This is mainly attributable to increases in securities of 200,000 thousand yen, advance payments - trade of 13,033 thousand yen, income tax receivable of 94,598 thousand yen, and consumption taxes receivable of 69,639 thousand yen, while cash and deposits declined 911,481 thousand yen.

Non-current assets totaled 4,264,492 thousand yen, up 54,803 thousand yen compared to the previous fiscal year end. This is mainly attributable to an increase in intangible assets of 49,993 thousand yen.

##### (Liabilities)

Total liabilities at the end of the third quarter amounted to 2,426,034 thousand yen, down 288,246 thousand yen compared to the previous fiscal year end.

Current liabilities totaled 1,766,034 thousand yen, down 108,246 thousand yen over the previous fiscal year end. This is mainly attributable to an increase in accounts payable - trade of 140,676 thousand yen and short-term loans payable of 200,000 thousand yen, and a decrease in accounts payable - other of 20,439 thousand yen, income taxes payable of 307,959 thousand yen, accrued consumption taxes of 66,242 thousand yen, and provision for point card certificates of 58,085 thousand yen.

Non-current liabilities totaled 660,000 thousand yen, down 180,000 thousand yen compared to the previous fiscal year end. This is attributable to a decrease in long-term loans payable of 180,000 thousand yen.

##### (Net Assets)

Net assets at the end of the third quarter totaled 4,789,828 thousand yen, down 184,236 thousand yen compared to the previous fiscal year end. This is mainly attributable to an increase in retained earnings of 169,051 thousand yen and an increase in treasury shares of 373,108 thousand yen.

(3) Explanation Concerning Forward-looking Statements Including Earnings Forecast

The Company revised its full-year earnings forecast based on its performance during the first nine months of the fiscal year. For details, refer to the timely disclosure issued today (November 14, 2018) entitled “Notice Concerning Revisions to Earnings Forecast and Amount of Officer Remuneration.”

## 2. Quarterly Financial Statements and Notes

### (1) Quarterly balance sheet

(Unit: thousands of yen)

	End of Previous Fiscal Year (As of December 31, 2017)	End of the First Nine Months of the Current Fiscal Year (As of September 30, 2018)
<b>Assets</b>		
Current assets		
Cash and deposits	1,514,146	602,665
Accounts receivable - trade	1,584,940	1,586,303
Securities	300,000	500,000
Merchandise	2,176	5,037
Work in process	105	—
Supplies	112	121
Advance payments - trade	324	13,357
Prepaid expenses	11,149	20,427
Deferred tax assets	59,858	59,858
Accounts receivable from subsidiaries and associates - other	30,192	30,192
Income taxes receivable	—	94,598
Consumption taxes receivable	—	69,639
Other	7,662	923
Allowance for doubtful accounts	(32,011)	(31,752)
Total current assets	3,478,657	2,951,371
Non-current assets		
Property, plant and equipment		
Buildings	14,662	14,662
Facilities attached to buildings	10,964	10,964
Tools, furniture and fixtures	113,973	119,423
Accumulated depreciation	(94,273)	(99,886)
Accumulated impairment loss	(10,371)	(9,557)
Total property, plant and equipment	34,956	35,606
Intangible assets		
Goodwill	3,983,658	3,800,735
Trademark right	170	577
Software	7,242	68,445
Contents assets	136,944	145,341
Software in progress	—	165,000
Other	3,810	1,720
Total intangible assets	4,131,826	4,181,819
Investments and other assets		
Investments in capital	1,000	—
Deferred tax assets	1,760	1,760
Other	40,145	45,305
Total investments and other assets	42,906	47,066
Total non-current assets	4,209,689	4,264,492
Total assets	7,688,346	7,215,863



(Unit: thousands of yen)

	End of Previous Fiscal Year (As of December 31, 2017)	End of the First Nine Months of the Current Fiscal Year (As of Sep. 30, 2018)
<b>Liabilities</b>		
Current liabilities		
Accounts payable - trade	831,388	972,064
Short-term loans payable	—	200,000
Current portion of long-term loans payable	240,000	240,000
Accounts payable - other	292,480	272,040
Accounts payable - other of affiliates	2,400	2,400
Accrued expenses	18,747	18,039
Income taxes payable	307,959	—
Accrued consumption taxes	66,242	—
Deposits received	5,726	9,697
Provision for point card certificates	109,242	51,157
Other	93	633
Total current liabilities	1,874,281	1,766,034
Non-current liabilities		
Long-term loans payable	840,000	660,000
Total non-current liabilities	840,000	660,000
Total liabilities	2,714,281	2,426,034
<b>Net assets</b>		
Shareholders' equity		
Capital stock	1,852,322	1,862,276
Capital surplus	1,851,822	1,861,776
Retained earnings	1,269,525	1,438,577
Treasury shares	(200)	(373,309)
Total shareholders' equity	4,973,471	4,789,320
Share acquisition rights	594	508
Total net assets	4,974,065	4,789,828
Total liabilities and net assets	7,688,346	7,215,863

(2) Quarterly statement of income

(For the First Nine Months of the Fiscal Period)

(Unit: thousands of yen)

	First Nine Months of the Previous Fiscal Year (January 1 to September 30, 2017)	First Nine Months of the Current Fiscal Year (January 1 to September 30, 2018)
Net sales	6,817,855	6,904,313
Cost of sales	3,434,282	3,754,632
Gross profit	3,383,573	3,149,680
Selling, general and administrative expenses	2,421,193	2,846,358
Operating profit	962,379	303,322
Non-operating income		
Interest income	13	15
Dividend income	7	91
Foreign exchange gains	—	34
Gain on donations of non-current assets	—	2,247
Reimbursement receivables	—	1,593
Miscellaneous income	3	0
Other	6	86
Total non-operating income	30	4,068
Non-operating expenses		
Interest expenses	8,196	5,648
Borrowing expenses	6,694	2,447
Costs related to share listing	15,709	13,759
Commission for purchase of treasury shares	—	3,157
Miscellaneous loss	1,999	—
Other	711	142
Total non-operating expenses	33,311	25,154
Ordinary profit	929,098	282,236
Extraordinary losses		
Loss on valuation of investments in capital	—	1,000
Total extraordinary losses	—	1,000
Profit before income taxes	929,098	281,236
Income taxes	347,630	112,184
Profit	581,467	169,051

### (3) Notes to Quarterly Financial Statements

(Notes on the Going-Concern Assumption)

N/A

(Notes on Significant Changes in Shareholders' Capital)

First Nine Months of the Previous Fiscal Year (January 1 to September 30, 2017)

(Significant Change in the Amount of Shareholders' Equity)

The Company listed its shares on the Tokyo Stock Exchange's Mothers Index on March 17, 2017. Upon the Company's share listing, capital stock and legal capital surplus each increased 332,688 thousand yen, following receipt of the payment for the public offering on March 16, 2017.

In addition, capital stock and legal capital surplus both increased 132,227 thousand yen due to the issuance of new shares attributable to a third-party allocation of shares (third-party allocation of shares related to the over-allotment of the offering) with the payment date of April 19, 2017.

Furthermore, capital stock and legal capital surplus both increased 4,705 thousand yen due to the exercise of share acquisition rights.

As a result of the above, at the end of the third quarter, capital stock totaled 1,843,496 thousand yen and capital surplus totaled 1,842,996 thousand yen.

First Nine Months of the Current Fiscal Year (January 1 to September 30, 2018)

(Significant Change in the Amount of Shareholders' Equity)

The Company acquired 250,000 treasury shares pursuant to the resolution passed at the meeting of the Board of Directors held on May 15, 2018. The acquisition of these treasury shares increased the value of treasury shares 373,108 thousand yen during the first nine months of the fiscal year. The value of treasury shares totaled 373,309 thousand yen at the end of the third quarter.

(Application of Special Accounting Practices for the Preparation of Quarterly Financial Statements)

Calculation of Tax Expenses

Tax expenses are calculated by multiplying profit before taxes by an effective tax rate that was reasonably estimated by applying tax effect accounting to estimated profit before income taxes for the business year including the third quarter under review.

However, in cases where calculating tax expenses using a reasonably estimated effective tax rate yields a result that is notably lacking rationality, then, tax expenses are calculated using the statutory effective tax rate.

(Segment Information, etc.)

The Company has only one business segment, the Contents Platform Business. Due to the insignificance of segments, segment information has been omitted.