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Consolidated Financial Results for the Three Months Ended October 31, 2018 (Japan GAAP)



December 7, 2018

Company name: Ateam Inc.
Stock exchange listing: Tokyo Stock Exchange
Securities code: 3662
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Scheduled date of filing securities report: December 7, 2018
Scheduled date of commencing dividend payments: -
Supplementary briefing material for the financial results: Yes
Schedule of financial results briefing: Yes (for institutional investors and analysts)

(Amounts of less than one million JPY are rounded off.)

1. Consolidated Financial Results for the Three Months Ended October 31, 2018 (August 1, 2018 - October 31, 2018)

(1) Consolidated Operating Results

(Percentages indicate year-on-year changes)

	Revenue		Operating income		Ordinary income		Net income attributable to shareholders of parent company	
	Million JPY	%	Million JPY	%	Million JPY	%	Million JPY	%
Three months ended October 31, 2018	8,927	0.3	484	(49.7)	507	(48.3)	257	(62.1)
Three months ended October 31, 2017	8,904	24.8	963	228.4	980	235.3	678	390.9

Note: Comprehensive income (million JPY)

Three months ended October 31, 2018: 257 [(62.1)%]

Three months ended October 31, 2017: 679 [391.9%]

	Net income per share-basic	Net income per share-diluted
	JPY	JPY
Three month ended October 31, 2018	13.19	13.16
Three month ended October 31, 2017	35.39	35.23

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million JPY	Million JPY	%
As of October 31, 2018	16,651	11,321	67.5
Fiscal Year ended July 31, 2018	16,702	11,655	69.3

Note: Shareholders' equity (million JPY)

As of October 31, 2018: 11,235

Fiscal Year ended July 31, 2018: 11,569

2. Dividends

	Annual dividend per share				
	Q1	Q2	Q3	Q4	Total
Fiscal year ended July 31, 2018	JPY —	JPY 0.00	JPY —	JPY 32.50	JPY 32.50
Fiscal year ending July 31, 2019	—				
Fiscal year ending July 31, 2019 (forecast)		0.00	—	32.50	32.50

3. Forecasts for the Fiscal Year Ending July 31, 2019 (August 1, 2018 - July 31, 2019)

(Percentages indicate year-on-year changes)

	Revenue		Operating income		Ordinary income		Net income attributable to shareholders of parent company		Net income per share
	Million JPY	%	Million JPY	%	Million JPY	%	Million JPY	%	
Full-year	40,000	6.2	4,000	(14.9)	4,000	(15.4)	2,600	(21.4)	131.70

*Notes

(1) Significant changes in scope of consolidation during the current quarter : No

* Changes in scope of consolidation of specified subsidiaries:

Newly consolidated: (–) Newly excluded companies: (–)

(2) Application of particular account procedures to the preparation of quarterly consolidated financial statements : No

(3) Changes in accounting policies, accounting projections, or restatement

(i) Changes in accounting policies due to revisions in accounting standards, etc. : No

(ii) Changes in accounting policies other than above (i) : No

(iii) Changes in accounting projections : No

(iv) Restatement : No

(3) Number of shares issued (common stock)

(i) Number of shares issued at the end of the period (including treasury stock)

(ii) Number of shares of treasury stock at the end of the period

(iii) Average number of shares during the period

As of October 31, 2018	19,740,000	As of July 31, 2018	19,738,200
As of October 31, 2018	228,762	As of July 31, 2018	253,762
Three months ended October 31, 2018	19,502,227	Three months ended October 31, 2017	19,170,180

Note: The number of shares of common stock at the end of the period used for the calculation of the net assets per share and the average number of shares during the period that forms the basis for the calculation of net income per share-basic are calculated with the shares owned by The Master Trust Bank of Japan, Ltd. (Stock Grant ESOP (Employee Stock Ownership Plan) Trust account and Board Incentive Plan (BIP) Trust account) under the “Stock Grant ESOP Trust” and “Board Incentive Plan (BIP) Trust” included in the treasury stock deducted.

*Quarterly financial results reports are not required to be subjected to quarterly reviews

*Explanation of the proper use of financial results forecast and other notes

- The forward-looking statements including earnings forecasts herein are based on information available to Ateam and certain assumptions deemed reasonable as of the date of publication of this document. They are not intended as the Company's commitment to achieve such forecasts, and actual results may differ significantly from these forecasts due to a wide range of factors. For conditions prerequisite to the financial results forecast, please refer to the “Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements” on page 5 of the attachments to this financial results report.
- The value of other listed within the Quarterly Consolidated Balance Sheets have been recorded in thousand JPY; however,

starting the first quarter of the accounting term and consolidated cumulative period, has been changed to units of million JPY. For ease of comparison, the previous consolidated fiscal year along with the previous first quarter consolidated cumulative period has also been adjusted to units of million JPY.

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1. Qualitative Information Regarding Results for the Three Months

As used herein, “Ateam”, “we”, “our” and similar terms include Ateam Inc. and its subsidiaries, unless indicated otherwise.

(1) Explanation of Operating Results

Ateam Inc. and its consolidated subsidiaries adhere to the corporate philosophy “to produce happiness through business and to grow for the next 100 years”. Operating in various technical and business fields, the corporate officers and employees unite under this corporate philosophy to plan, develop and operate game content, comparison and information websites, and e-commerce sites that are supported and used by individual users via the internet. Specifically, we are operating business in three core segments.

The Entertainment Business engages in the planning, development and operation of game and tool applications primarily for smart devices. The Lifestyle Support Business engages in the planning, development and operation of various online services that allows users to easily gather and compare valuable information. The E-Commerce Business engages in the planning, development and operation of our online bicycle store under the name “cyma”.

During the three months ended October 31, 2018, although revenue for the Entertainment Business and E-Commerce Business declined year on year, the Lifestyle Support Business showed strong performance, thus revenue remained flat from the same quarter of the previous year.

On the contrary, in regard to operating income, ordinary income, and net income attributable to shareholders of parent company, the limited profit contribution from existing game titles within the Entertainment Business in addition to upfront investment in new businesses within the Lifestyle Support Business resulted in an overall year on year decline.

As a result of the above, during the three months ended October 31, 2018, Ateam posted revenue of 8,927 million JPY (up 0.3% year on year), operating income of 484 million JPY (down 49.7% year on year), ordinary income of 507 million JPY (down 48.3% year on year), and net income attributable to shareholders of parent company of 257 million JPY (down 62.1% year on year).

The operating performance by segment for the three months ended October 31, 2018 was as follows:

Entertainment Business

We strive to administer fun to consumers worldwide by providing mobile game and tool applications via platforms specializing in the distributions of such applications (such as App Store and Google Play). Although most of our game and tool products are available for free download, our primary revenue source is through in-app purchases (such as in-game currency, items and bonus content).

In the three months ended October 31, 2018, we released the new game application, "Revue Starlight Re -LIVE-" on October 21, 2018 for Google Play, and October 28, 2018 with App Store. Ranked No. 1 for free app downloads, and Ranked 10th in revenue ranking, the new release is off to a good start. However, revenue declined for existing game titles, resulting in a year on year decrease overall. With "Revue Starlight Re -LIVE-" trending well, along with anticipated revenue contribution from existing titles' seasonal events due to the upcoming holidays, the second quarter (November, December, and January) is expected to improve.

As a result, during the three months ended October 31, 2018, the Entertainment Business posted revenue

of 3,243 million JPY (down 24.8% year on year) and operating income of 274 million JPY (down 68.2% year on year).

Lifestyle Support Business

In the Lifestyle Support Business, we develop various online services to help support individual users throughout their daily lives and specific life events. Made up of several sub-segments, each sub-segment revolves around the same business concept of “Sanpo- Yoshi”, a Japanese saying that means benefiting all three sides involved - the consumer, the partner company and Ateam.

Our sub-segments consist of the Moving-related business, the Automobile-related business, the Bridal-related business, the Financial Media business, and others.

The Moving-related business provides users with competitive prices from several moving companies. The Automobile-related business consists of inputting your car information, and receiving quotes from second-hand car dealers. The Bridal-related business assists with finding the perfect wedding chapel that meets the consumers’ financial budget. And lastly, the Financial Media business lets users analyze prices and benefits for financial related needs. Each business allows the user to compare several different offers for free; our primary revenue source is based on commission via referrals we provide to our partnered companies.

In the Moving-related and Automobile-related businesses, we steadily increase users by focusing on daily improvements to the websites and conducting promotional activities, resulting in continued top share within the industry. In the Bridal-related business, we are operating “Hanayume” wedding consultation desks at 12 physical locations in six areas nationwide. While continuing to enhance bridal peripheral services such as “Hanayume Set-Price Wedding Packages” and “Hanayume Photo”, we have been focusing on improving the quality of our services, and are steadily increasing the number of users. In the Financial Media business, in addition to “Navinavi Cashing”, a personal loan comparison site, we are continuing to grow our user base by concentrating on launching new online services including the “Navinavi Credit Card”, a credit card comparison and information site, “Navinavi Mortgage”, a housing loan comparison and information site, and “Navinavi FX”, a foreign exchange comparison and information site.

In the three months ended October 31, 2018, although each sub-segment differed in profit growth, the overall business performed well. While developing and expanding peripheral services within the existing sub-segments, we have launched multiple new services in new business domains, and have continued to invest in medium- to long-term growth.

As a result, during the three months ended October 31, 2018, the Lifestyle Support Business posted revenue of 5,173 million JPY (up 30.8% year on year) and operating income of 642 million JPY (up 16.6% year on year).

E-Commerce Business

Our E-Commerce Business was established in 2013, with “cyma” being our first service stemming from this concept. We currently own warehouses in the Tokai, Kanto and Kansai areas, which are stockpiled with bicycles we purchased from both domestic and oversea manufacturers. Each warehouse employs certified mechanical staff, making it possible to deliver fully assembled bicycles directly to the consumer’s doorstep. Our primary revenue source is through bicycle sales and/or related accessories from our online store.

“Cyma” offers more than 200 bicycle models, a broader lineup than a traditional retailer. We also make sure to offer after-sales services, including a one-year warranty for certain repairs and/or damages.

This specialized service enables us to fully enjoy the combined perks of both a local bicycle shop and a comprehensive e-commerce service. Such service is still considered unrivaled territory, and we are determined to stay on top by implementing staggered investment to strengthen fulfillment* and promotion of our service brand.

(Note) Fulfilment refers to the overall aspects of the most important core process in an online shopping business, including the management of orders received, management of inventory, product picking, assortment and packaging of products, dispatch, invoicing of proceeds and settlement. Fulfilment also encompasses peripheral operations such as customer support, which includes complaint handling and inquiry response, returns and exchange response, as well as customer data management.

In the three months ended October 31, 2018, we have prioritized the restructuring of the organization by improving logistics systems and optimizing operations, in order to make it in the black for the full year. As a result, revenue declined year on year from the same quarter of the previous year.

As a result, during the three months ended October 31, 2018, the E-Commerce Business posted revenue of 510 million JPY (down 19.5% year on year) and operating loss of 63 million JPY (compared with an operating loss of 44 million JPY in the previous fiscal year).

(2) Explanation of Financial Position

(i) Assets

As of the end of the first quarter under review, we posted total assets of 16,651 million JPY, a decrease of 51 million JPY compared with the previous fiscal year. This was due to a decrease of 413 million JPY in cash and deposits and a decrease of 162 million JPY in inventories, despite an increase of 206 million JPY in notes and accounts receivable - trade, and an increase of 248 million JPY in other current assets.

(ii) Liabilities

As of the end of the first quarter under review, we posted liabilities of 5,329 million JPY, an increase of 282 million JPY compared with the previous fiscal year. This was mainly due to an increase of 739 million JPY in accounts payable - other, despite a decrease of 543 million JPY in income taxes payable.

(iii) Net Assets

As of the end of the first quarter under review, we posted net assets of 11,321 million JPY, a decrease of 333 million JPY compared with the previous fiscal year. This was mainly due to a decrease of 377 million JPY in retained earnings.

(3) Explanation of Consolidated Earnings Forecasts and Other Forward-Looking Statements

In the fiscal year ending July 31, 2019, Ateam will continue to strengthen and expand each business segment, while pushing forward with upfront investment to create new businesses and enhance business portfolio to achieve sustainable growth and improve corporate value over the medium- to long-term. As part of these measures, we will focus on acquiring talented personnel, developing human resources, improving work environments and improving organizational structure.

With this in mind, we forecast consolidated earnings for the fiscal year ending July 31, 2019 as mentioned below.

In regard to revenue, although the EC Business fell somewhat short of target, the Entertainment Business and Lifestyle Support Business proceeded as originally expected, thus results were in line with forecasted expectations. On the contrary, operating income, ordinary income and net income attributable to shareholders of parent company exceeded original forecasts. This was mainly due to an increase in the number of users for the Lifestyle Support Business that resulted in profit contribution, in addition to a strong start for the new October 2018 game release, "Revue Starlight Re -LIVE-", within the Entertainment Business leading to unused promotional expenses.

In the second quarter of the fiscal year ending July 31, 2019, our new game "Revue Starlight Re -LIVE-" along with other existing major game titles are preparing for holiday promotions within the Entertainment Business.

Due to the nature of business, the Lifestyle Support Business and E-Commerce Business will hit their busy season in the third quarter, thus resulting in a forecast of higher revenue and profit contribution in the latter half of the fiscal year. Along with investment in multiple new services, mainly within the Lifestyle Support Business, focused in the first half of the fiscal year, operating income, ordinary income and net income attributable to shareholders of parent company is estimated to be higher in the second half.

For these reasons mentioned above, no changes will be made to the consolidated financial forecast for the full fiscal year at this time, and if any change in forecast is to occur, a prompt announcement will be made via public notice.

The aforementioned forward-looking statements and the earnings forecasts provided have been prepared based on information readily available to Ateam as of the date of this material's release. Actual results may differ due to the effect of various factors in the future.

Performance outlook for the fiscal year ending July 31, 2019 (August 1, 2018 - July 31, 2019)

Revenue	40,000 million JPY (up 6.2% year on year)
Operating income	4,000 million JPY (down 14.9% year on year)
Ordinary income	4,000 million JPY (down 15.4% year on year)
Net income attributable to shareholders of parent company	2,600 million JPY (down 21.4% year on year)

2. Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Quarterly Consolidated Balance Sheets

(Million JPY)

	As of July 31, 2018	As of October 31, 2018
Assets		
Current assets		
Cash and deposits	5,984	5,570
Notes and accounts receivable - trade	4,128	4,335
Inventories	679	516
Other	706	955
Allowance for doubtful accounts	(10)	(6)
Total current assets	11,488	11,372
Non-current assets		
Property, plant and equipment		
Buildings, net	1,285	1,296
Other, net	398	391
Total property, plant and equipment	1,684	1,688
Intangible assets		
Goodwill	1,109	1,076
Other	961	1,077
Total intangible assets	2,070	2,154
Investments and other assets		
Investment securities	374	367
Lease and guarantee deposits	686	773
Other	407	305
Allowance for doubtful accounts	(8)	(8)
Total investments and other assets	1,459	1,437
Total non-current assets	5,214	5,279
Total assets	16,702	16,651
Liabilities		
Current liabilities		
Accounts payable - trade	465	356
Short-term loans payable	100	100
Current portion of long-term loans payable	33	33
Accounts payable - other	2,417	3,157
Income taxes payable	718	175
Provision for bonuses	—	25
Provision for sales promotion expenses	12	12
Provision for stocks payment	43	—
Provision for management board incentive plan trust	—	5
Other	672	888
Total current liabilities	4,464	4,754
Non-current liabilities		
Long-term loans payable	52	45
Asset retirement obligations	484	485
Other	45	44
Total non-current liabilities	583	575
Total liabilities	5,047	5,329

Net assets		
Shareholders' equity		
Capital stock	835	835
Capital surplus	829	829
Retained earnings	10,383	10,006
Treasury shares	(481)	(438)
Total shareholders' equity	11,566	11,232
Accumulated other comprehensive income		
Foreign currency translation adjustment	2	2
Total accumulated other comprehensive income	2	2
Share acquisition rights	85	85
Total net assets	11,655	11,321
Total liabilities and net assets	16,702	16,651

(2) Quarterly Consolidated Statements of Income and Comprehensive Income

Quarterly Consolidated Statements of Income (Cumulative)

(Million JPY)

	Three months ended October 31, 2017	Three months ended October 31, 2018
Revenue	8,904	8,927
Cost of sales	1,476	1,765
Gross profit	7,428	7,162
Selling, general and administrative expenses	6,464	6,677
Operating income	963	484
Non-operating income		
Interest income	0	0
Gain on investments in partnership	9	17
Foreign exchange gains	0	5
Other	6	7
Total non-operating income	17	30
Non-operating expenses		
Interest expenses	0	0
Commission fee	—	7
Other	0	0
Total non-operating expenses	0	8
Ordinary income	980	507
Extraordinary income		
Gain on reversal of share acquisition rights	2	—
Total extraordinary income	2	—
Income before income taxes	982	507
Income taxes	304	250
Net income	678	257
Net income attributable to shareholders of parent company	678	257

Quarterly Consolidated Statements of Comprehensive Income (Cumulative)

(Million JPY)

	Three months ended October 31, 2017	Three months ended October 31, 2018
Net income	678	257
Other comprehensive income		
Foreign currency translation adjustment	1	0
Total other comprehensive income	1	0
Comprehensive income	679	257
Comprehensive income attributable to		
Comprehensive income attributable to shareholders of parent company	679	257

5) Notes on Quarterly Consolidated Financial Statements

Notes on Premise of Going Concern

Not applicable.

Notes on Substantial Changes in the Amount of Shareholder's Equity

Not applicable.

Additional Information

Application of "Partial Amendments to the Accounting Standard for Tax Effect Accounting"

Starting the first quarter of this fiscal year, "Partial Amendments to the Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, Feb 16, 2018) is applied, causing category change from "Deferred Tax Assets" to "Investments and Other Assets".

Segment Information

Three months ended October 31, 2017 (from August 1, 2017 to October 31, 2017)

1. Information regarding the amounts of revenue, and income or loss by reportable segment

(Million JPY)

	Reportable segment				Adjustment (Note) 1	Amount on the quarterly consolidated statements of income (Note) 2
	Entertainment Business	Lifestyle Support Business	E-Commerce Business	Total		
Revenue						
Outside customers	4,315	3,954	634	8,904	–	8,904
Inter-segment sales and transfers	–	–	–	–	–	–
Total	4,315	3,954	634	8,904	–	8,904
Segment profit (loss)	865	550	(44)	1,371	(407)	963

(Notes)1. Adjustment of negative 407 million JPY for segment profit (loss) is corporate expenses not attributable to reportable segments.

2. Adjustments are made between segment profit (loss) and operating income reported in the quarterly consolidated statements of income.

2. Impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

Three months ended October 31, 2018 (from August 1, 2018 to October 31, 2018)

1. Information regarding the amounts of revenue, and income or loss by reportable segment

(Million JPY)

	Reportable segment				Adjustment (Note) 1	Amount on the quarterly consolidated statements of income (Note) 2
	Entertainment business	Lifestyle Support business	E-Commerce business	Total		
Revenue						
Outside customers	3,243	5,173	510	8,927	–	8,927
Inter-segment sales and transfers	–	–	–	–	–	–
Total	3,243	5,173	510	8,927	–	8,927
Segment profit (loss)	274	642	(63)	853	(368)	484

(Notes)1. Adjustment of negative 368 million JPY for segment profit (loss) is corporate expenses not attributable to reportable segments.

2. Adjustments are made between segment profit (loss) and operating income reported in the quarterly consolidated statements of income.

2. Impairment loss on non-current assets and goodwill by reportable segment

Not applicable.

