

English Translation

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FY2019 Second Quarter Consolidated Financial Results [Japanese GAAP]

April 24, 2019

Listed company name: CyberAgent, Inc.

Listed stock exchange: TSE 1st section

Code No.: 4751

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Quarterly report submission date: April 25, 2019

Dividend payment start date

—

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 2019

(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 FY2019	228,184	10.0	13,949	(29.3)	13,729	(26.1)	1,087	(74.4)
2Q FY2018	207,495	15.3	19,730	37.9	18,574	39.2	4,248	61.6

(Note) Comprehensive income 2Q FY2019 ¥2,509 million(-62.8%) 2Q FY2018 ¥6,738 million (5.1%)

	Basic earnings per share	Diluted earnings per share
	¥	¥
2Q FY2019	8.63	7.91
2Q FY2018	33.77	33.15

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio
	¥ million	¥ million	%
As of 2Q FY2019	224,788	107,518	34.9
As of FY2018	225,484	109,250	36.2

(Reference) Equity capital: As of 2Q FY2019 ¥78,549 million As of FY2018 ¥81,556 million

(Note) "Partial Amendments to Accounting Standard for Tax Effect Accounting"(Accounting Standards Board of Japan (ASBJ) Statement No.28, February 16, 2018) has been applied from the beginning of the first quarter. These figures include the effect of retrospective application for the previous fiscal year.

2. Dividends

	Annual dividends				
	1Q	2Q	3Q	Year end	Total
	¥	¥	¥	¥	¥
FY2018	—	0.00	—	32.00	32.00
FY2019	—	0.00			
FY2019 (Forecast)			—	33.00	33.00

(Note) Revisions to most recent dividend forecast: None

3. Forecast of the Consolidated Results for the Fiscal Year Ending September 2019

(October 1, 2018 - September 30, 2019)

(% = 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	440,000	4.9	20,000	(33.7)	19,000	(33.5)	2,000	(58.8)	15.87

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

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*Notes

(1) Changes in Significant Subsidiaries during the Period: Yes

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

New : 1 company (Zelvia Co., Ltd)

Excluded : —

(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

(1) Number of shares issued and outstanding at end of period (including treasury stock)	
2Q FY2019: 126,426,600 shares	FY2018: 126,426,600 shares
(2) Number of shares of treasury stock issued and outstanding at end of period	
2Q FY2019: 481,742 shares	FY2018: 587,542 shares
(3) Average number of shares during the period (cumulative quarterly period)	
2Q FY2019: 125,922,858 shares	2Q FY2018: 125,798,372 shares

*The Consolidated Financial Results is not subject to audit.

*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. Qualitative Information on the Quarterly Financial Summary (3) Forecast” on page 3.

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1. Qualitative Information on the Quarterly Financial Summary

(1) Overview of Consolidated Financial Results

The scale of the internet ad market focusing on smartphones is estimated to increase steadily by 15.9% to 1,678.1 billion yen (Note 1) in 2019. Especially, the video ad market is expected to grow. Its scale is estimated to be 231.2 billion yen in 2019, up 25.4% from the previous term, and will reach 495.7 billion yen by 2024 (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 increased up-front investments in the video business, such as "AbemaTV" continuously from the previous year, to grow it in the medium to long-term mainstay.

As a result, during the cumulative consolidated second quarter, net sales grew 10.0% year on year to ¥228,184 million, and operating income amounted to ¥13,949 million (29.3% decrease). Ordinary income amounted to ¥13,729 million (26.1% decrease), and profit attributable to shareholders of parent came in at ¥1,087 million (74.4% decrease).

(Note 1) Source: Dentsu Inc./ Cyber communications Inc./ D2C, *Advertising Expenditures in Japan 2018, 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", "Ameba" and "Tapple", etc. While continuing the up-front investment for "AbemaTV" from the previous fiscal year, net sales grew and amounted to ¥19,265 million for the period, a 29.1% year-on-year increase. Operating loss amounted to ¥9,522 million, compared to operating loss of ¥7,554 million for the same period in the prior fiscal year.

(b) Game Business

The Game Business includes Cygames, Inc., Sumzap, Inc., Craft Egg, Inc., etc.

Owing to success on anniversary events of major existing titles, it reported net sales amounting to ¥76,271 million, a 2.8% year-on-year increase. Operating income was posted ¥10,663 million, a 24.9% year-on-year decrease.

(c) Internet Advertisement Business

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

Focusing on developing new advertisers, this segment recorded ¥130,291 million in net sales, up 9.7% year on year. Operating income decrease 15.6%, amounted to ¥10,158 million.

(d) Investment Development Business

The Investment Development Business consists of the CyberAgent corporate venture capital business and the fund operations of CyberAgent Capital, Inc. (January 2019: CyberAgent Ventures, Inc. changed name to CyberAgent Capital, Inc.) The Investment Development Business recorded net sales of ¥5,027 million (138.1% year-on-year increase) and operating income of ¥4,054 million (a year-on-year increase of 240.2%).

(e) Other Businesses

The Other Businesses segment includes CAM, Inc. (March 2019: CA Mobile, Ltd. changed name to CAM, Inc.), Wedding Park, Ltd., and others.

This segment reported net sales of ¥9,337 million, a 13.6% year-on-year increase. Operating income amounted to ¥214 million (a year-on-year decrease of 82.0%).

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(2) Overview of Consolidated Financial Position

(Financial position)

Total assets at the end of this consolidated second quarter have decreased by ¥696 million compared to the end of the previous fiscal year and amounted to ¥224,788 million. It is mainly due to the decrease in Cash and deposits by corporate tax and dividend paid.

Total liabilities have increased by ¥1,035 million compared to the end of previous fiscal year and amounted to ¥117,269 million. This increase is mainly due to an increase in Accounts payable-trade to sales and business scale increase.

Total net assets have decreased by ¥1,731 million compared to the end of the previous fiscal year and amounted to ¥107,518 million. It is mainly because of the decrease in Retained earnings by dividend payment.

(Cash flows)

As of the end of the consolidated second quarter, cash and cash equivalents decreased by ¥12,132 million from the end of the previous fiscal year to ¥80,247 million.

The following is a summary of the 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 ¥398 million of inflow (¥13,769 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 ¥8,261 million of outflow (¥11,439 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 ¥4,284 million of outflow (¥35,981 million of inflow in the same period of the previous fiscal year). Major outflow included dividend payment.

(3) Forecast

Forecast of FY2019 has not been revised from its original publication on January 30, 2019.

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2. Quarterly Consolidated Financial Statements and Key Notes

(1) Quarterly Consolidated Balance Sheets

	(Unit: ¥ million)	
	FY2018 (As of September 30, 2018)	2Q FY2019 (As of March 31, 2019)
Assets		
Current assets		
Cash and deposits	92,381	80,248
Accounts and notes receivable-trade	49,994	59,131
Inventories	750	1,141
Sales investment securities	14,816	15,260
Other	12,712	13,503
Allowance for doubtful accounts	(243)	(264)
Total current assets	170,411	169,021
Non-current assets		
Property, plant and equipment	10,450	11,211
Intangible assets		
Goodwill	1,578	1,707
Other	27,000	26,959
Total intangible assets	28,579	28,667
Investments and other assets		
Other	16,008	15,855
Allowance for doubtful accounts	(17)	(15)
Total investments and other assets	15,991	15,840
Total non-current assets	55,021	55,719
Deferred assets	51	47
Total assets	225,484	224,788
Liabilities		
Current liabilities		
Accounts payable-trade	38,340	41,797
Short-term loans payable	900	980
Income tax payable	7,069	5,847
Asset retirement obligations	—	440
Other	26,139	24,885
Total current liabilities	72,449	73,951
Non-current liabilities		
Convertible bonds	40,637	40,586
Long-term loans payable	91	120
Accrued long service rewards for employees	1,247	1,369
Asset retirement obligations	1,386	1,217
Other	420	23
Total non-current liabilities	43,784	43,318
Total liabilities	116,234	117,269
Net assets		
Shareholders' equity		
Capital stock	7,203	7,203
Capital surplus	5,758	6,142
Retained earnings	63,789	60,554
Treasury stock	(622)	(510)
Total shareholders' equity	76,129	73,390
Other comprehensive income		
Valuation difference on available-for-sale securities	5,191	4,954
Foreign currency translation adjustments	235	205
Total other comprehensive income	5,427	5,159
Subscription rights to shares	988	851
Non-controlling interests	26,705	28,117
Total net assets	109,250	107,518
Total liabilities and net assets	225,484	224,788

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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 FY2018 (October 1, 2017 - March 31, 2018)	2Q FY2019 (October 1, 2018 - March 31, 2019)
Net sales	207,495	228,184
Cost of sales	139,867	160,297
Gross profit	67,627	67,887
Selling, general and administrative expenses	47,897	53,938
Operating income	19,730	13,949
Non-operating income		
Interest income	25	68
Dividends received	58	59
Gain on valuation of investment securities	32	82
Subsidy income	23	70
Other	35	33
Total non-operating income	174	314
Non-operating expenses		
Interest expenses	5	4
Equity in losses of affiliates	1,201	401
Other	124	127
Total non-operating expenses	1,331	533
Ordinary income	18,574	13,729
Extraordinary income		
Gain on sales of subsidiaries and affiliates' stocks	8	749
Other	114	168
Total extraordinary gain	123	917
Extraordinary loss		
Relocation expenses	77	1,258
Impairment loss	3,689	3,000
Other	166	305
Total extraordinary loss	3,934	4,564
Income before income taxes and non-controlling interests	14,763	10,083
Income taxes-current	9,326	7,386
Income taxes-deferred	(1,190)	(199)
Total income tax	8,135	7,186
Net income	6,627	2,896
Profit attributable to non-controlling interests	2,379	1,809
Profit attributable to shareholders of parent	4,248	1,087

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Quarterly Consolidated Statements of Comprehensive Income (Cumulative consolidated second quarter)

(Unit: ¥ million)

	2Q FY2018 (October 1, 2017 - March 31, 2018)	2Q FY2019 (October 1, 2018 - March 31, 2019)
Net income	6,627	2,896
Other comprehensive income		
Valuation difference on available-for-sale securities	252	(332)
Foreign currency translation adjustment	(131)	(49)
Share of other comprehensive income of associates accounted for using equity method	(9)	(5)
Total other comprehensive income	111	(387)
Comprehensive income	6,738	2,509
(Comprehensive income attributable to)		
Shareholders of the parent	4,396	819
Non-controlling interests	2,342	1,689

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(3) Quarterly Consolidated Statements of Cash Flows

(Unit: ¥ million)

	2Q FY2018 (October 1, 2017 - March 31, 2018)	2Q FY2019 (October 1, 2018 - March 31, 2019)
Cash flow from operating activities		
Income before income taxes and non-controlling interests	14,763	10,083
Depreciation	4,105	4,967
Impairment loss	3,689	3,000
Relocation expenses	77	1,258
Decrease (increase) in notes and accounts receivable-trade	(9,485)	(9,240)
Decrease (increase) in investment securities for sale	163	(935)
Increase (decrease) in accounts payable-trade	6,190	3,551
Increase (decrease) in accounts payable-other	826	(1,020)
Increase (decrease) in accrued consumption taxes	(676)	(2,218)
Other, net	1,042	(461)
Sub-total	20,697	8,983
Interest and dividends income received	88	76
Interest expenses paid	(5)	(4)
Income taxes paid	(7,011)	(8,656)
Net cash provided by (used in) operating activities	13,769	398
Cash flow from investing activities		
Purchase of property, plant and equipment	(1,905)	(1,919)
Purchase of intangible assets	(7,247)	(5,960)
Payments for loans	(1,096)	(762)
Proceeds from sales of stocks of subsidiaries and affiliates	140	981
Other, net	(1,330)	(598)
Net cash provided by (used in) investing activities	(11,439)	(8,261)
Cash flow from financing activities		
Proceeds from issuance of bonds with share acquisition rights	40,576	—
Cash dividends paid	(4,020)	(4,024)
Payments of dividends to investment partners	(243)	(626)
Other, net	(331)	366
Net cash provided by (used in) financing activities	35,981	(4,284)
Effect of exchange rate change on cash and cash equivalents	(179)	(28)
Net increase (decrease) in cash and cash equivalents	38,131	(12,175)
Cash and cash equivalents at beginning of period	46,613	92,379
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	37	42
Cash and cash equivalents at the end of period	84,782	80,247

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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.

(Additional Information)

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No.28, February 16, 2018) has been applied from the beginning of the first quarter. Accordingly, deferred tax assets have been classified as investment and other assets, and deferred tax liabilities have been classified as non-current liabilities.

(Segment Information)

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

1. Sales and Income (Loss) by Reportable Segment

(Unit: ¥ million)

	Reportable Segment						Adjustments [*]	Quarterly Consolidated Statements of Income
	Media	Game	Internet Advertisement	Investment Development	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.

II. Cumulative Second Quarter of the Fiscal Year Ending September 2019 (October 1, 2018 to March 31, 2019)

1. Sales and Income (Loss) by Reportable Segment

(Unit: ¥ million)

	Reportable Segment						Adjustments [*]	Quarterly Consolidated Statements of Income
	Media	Game	Internet Advertisement	Investment Development	Other	Total		
Net sales								
Sales to external customers	14,980	76,057	123,520	5,027	8,599	228,184	—	228,184
Inter-segment sales or transfers	4,285	214	6,771	—	738	12,009	(12,009)	—
Total	19,265	76,271	130,291	5,027	9,337	240,194	(12,009)	228,184
Segment income (loss)	(9,522)	10,663	10,158	4,054	214	15,568	(1,619)	13,949

*Adjustment of ¥ -1,619 million represents corporate general and administrative expenses not allocable to a reportable segment.