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Consolidated Financial Results for the Fiscal Year Ended July 31, 2019 (Japan GAAP)



September 13, 2019

Company name: Ateam Inc.
Stock exchange listing: Tokyo Stock Exchange
Securities code: 3662
URL: <https://www.a-tm.co.jp/en/>
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Scheduled date of Annual General Shareholders' Meeting: October 25, 2019
Scheduled date of commencing dividend payments: October 4, 2019
Scheduled date of filing securities report: October 25, 2019
Supplementary briefing material for the financial results: Yes
Schedule of financial results briefing: Yes (September 13, 2019, for institutional investors and analysts)

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

1. Consolidated Financial Results for the Fiscal Year Ended July 31, 2019 (August 1, 2018 - July 31, 2019)

(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	%
Fiscal year ended July 31, 2019	37,151	-1.4	2,811	-40.2	2,809	-40.6	1,473	-55.4
Fiscal year ended July 31, 2018	37,674	8.9	4,701	15.3	4,730	14.9	3,306	28.2

Note: Comprehensive income (million JPY)

Fiscal year ended July 31, 2019: 1,444 [-56.4%]

Fiscal year ended July 31, 2018: 3,309 [28.3%]

	Net income per share-basic	Net income per share-diluted	Return on equity	Return on asset	Operating income to revenue ratio
	JPY	JPY	%	%	%
Fiscal year ended July 31, 2019	75.52	75.35	12.3	16.5	7.6
Fiscal year ended July 31, 2018	170.40	169.76	34.9	31.7	12.5

Note: Equity in earnings of affiliates (million JPY)

Fiscal year ended July 31, 2019: -

Fiscal year ended July 31, 2018: -

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million JPY	Million JPY	%	JPY
As of July 31, 2019	17,273	12,511	71.9	636.32
As of July 31, 2018	16,702	11,655	69.3	593.76

Note: Shareholders' equity (million JPY)

As of July 31, 2019: 12,425

As of July 31, 2018: 11,569

(3) Consolidated Cash Flows

	Operating activities	Investing activities	Financing activities	Cash and cash equivalents at end of year
	Million JPY	Million JPY	Million JPY	Million JPY
Fiscal year ended July 31, 2019	3,318	-1,766	-816	6,713
Fiscal year ended July 31, 2018	2,789	-2,257	444	5,984

2. Dividends

	Annual dividend per share					Total dividends paid (annual)	Dividend payout ratio (consolidated)	Dividends on equity attributable to shareholders of parent company (consolidated)
	Q1	Q2	Q3	Q4	Total			
	JPY	JPY	JPY	JPY	JPY	Million JPY	%	%
Fiscal year ended July 31, 2018	—	0.00	—	32.50	32.50	640	19.1	6.6
Fiscal year ended July 31, 2019	—	0.00	—	16.00	16.00	315	21.2	2.6
Fiscal year ending July 31, 2020 (forecast)	—	0.00	—	16.00	16.00		62.6	

3. Forecasts for the Fiscal Year Ending July 31, 2020 (August 1, 2019 - July 31, 2020)

(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	%	JPY
Full year	35,000	-5.8	1,000	-64.4	1,000	-64.4	500	-66.1	25.57

*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) 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 July 31, 2019	19,756,200	As of July 31, 2018	19,738,200
As of July 31, 2019	228,762	As of July 31, 2018	253,762
Fiscal year ended July 31, 2019	19,510,259	Fiscal year ended July 31, 2018	19,401,921

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.

(Reference) Summary of non-consolidated performance

1. Non-consolidated Performance for the Fiscal Year Ended July 31, 2019 (August 1, 2018 - July 31, 2019)

(1) Non-consolidated Operating Results

(Percentages indicate year-on-year changes)

	Revenue		Operating income		Ordinary income		Net income	
	Million JPY	%	Million JPY	%	Million JPY	%	Million JPY	%
Fiscal year ended July 31, 2019	14,955	-21.3	158	-91.1	1,544	-45.8	1,130	-51.5
Fiscal year ended July 31, 2018	19,009	-11.5	1,775	-22.4	2,850	-10.8	2,331	1.9

	Net income per share-basic	Net income per share-diluted
	JPY	JPY
Fiscal year ended July 31, 2019	57.92	57.78
Fiscal year ended July 31, 2018	120.16	119.70

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million JPY	Million JPY	%	JPY
As of July 31, 2019	15,288	9,630	62.4	488.79
As of July 31, 2018	11,129	9,114	81.1	463.39

Note: Shareholders' equity (million JPY) As of July 31, 2019: 9,544
As of July 31, 2018: 9,028

<Reason for Difference Between Non-Consolidated Performance and Previous Results Fiscal Year Results>

In the fiscal year ended July 2018, revenue, operating income, and ordinary income differed from the previous consolidated fiscal year due to the occurrence of revenue decline within the Entertainment Business attributable to non-consolidated performance (a decrease of 16.8% from the previous consolidated fiscal year).

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Explanation of the Proper Use of Financial Results Forecast and Other Notes

The forward-looking statements include forecasts herein are based on information available to the Company 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 "1. Overview of Operating Results, etc. (1) Overview of Operating Results in Fiscal Year Ended July 31, 2019, Outlook for Consolidated Performance in the Next Fiscal Year" on page 3 and 4 of the attachments to this financial results report.

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1. Overview of Operating Results

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

(1) Overview of Operating Results in Fiscal Year Ended July 31, 2019

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”.

In the fiscal year ended July 31, 2019, the results within the Entertainment business was unfavorable due to internal and external factors, thus resulting in a flat consolidated revenue year on year, while the operating income, ordinary income and net income attributable to shareholders of parent company all decreased substantially year on year.

As a result of the above, during the fiscal year, Ateam posted revenue of 37,151 million JPY (down 1.4% year on year), operating income of 2,811 thousand JPY (down 40.2% year on year), ordinary income of 2,809 million JPY (down 40.6% year on year), and net income attributable to shareholders of parent company of 1,473 million JPY (down 55.4% year on year).

The operating performance by segment for the fiscal year 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 fiscal year ended July 31, 2019, the Entertainment business continued to efficiently manage its existing game apps while releasing the new game app “Revue Starlight Re LIVE” in October 2018. The main existing game apps, “Valkyrie Connect” and “Unison League”, slumped greatly, resulting in an overall revenue decline. In addition, the newly released “Revue Starlight Re LIVE” was unable to make up for the overall decrease, concluding in the Entertainment Business’ total revenue and profit to decrease year on year.

As a result, during the fiscal year, the Entertainment Business posted revenue of 12,577 million JPY (down 22.2% year on year) and operating income of 1,532 million JPY (down 57.3% 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.

All sub-segments generally performed well in the fiscal year ended July 31, 2019. In addition to further developing existing businesses and expanding peripheral services, upfront investments in several new services within new industries were made.

As a result, during the fiscal year, the Lifestyle Support business posted revenue of 22,525 million JPY (up 18.8% year on year) and operating income of 3,137 million JPY (up 2.0% year on year), achieving record highs for both revenue and segment profit.

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.

“Cyma” continued to strengthen fulfillment* by prioritizing system and operational optimization. Although this resulted in a year on year revenue decline, clarification of business issues along with the defining of solutions and approach methods were achieved this year.

(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.

During the fiscal year, the E-Commerce business posted revenue of 2,048 million JPY (down 19.7% year on year) and operating loss of 210 million JPY (compared with an operating loss of 211 million JPY in the previous fiscal year), achieving a record high in segment revenue.

Outlook for Consolidated Performance in the Next Fiscal Year

In the fiscal year ending July 31, 2020, Ateam intends to continue to strengthen and expand its operations across all segments and upgrade its business portfolio through investments in new business creation in pursuit of sustained growth and medium- to long-term corporate value accretion. To do so, Ateam will continue to focus on developing human resources, shaping its environment and strengthening its organizational structure, while limiting the number of recruits.

From the standpoint of pursuing such a strategy, Ateam's consolidated earnings outlook for the fiscal year ending July 31, 2020 reflects that this fiscal year will be a year of preparation spent strengthening our business portfolio and the foundations of all operations that support it through such means as investing in new services and strengthening our human resources and organizational structure in pursuit of re-growth from the following fiscal year onward.

The outlook for business performance by segment is as follows:

The Entertainment business will efficiently manage its core game titles, "Valkyrie Connect", "Unison League" and "Revue Starlight Re LIVE" while focusing on the development collaboration of the new game app scheduled to be released sometime after FY2020.

In regard to the segment forecast of the Entertainment business, the revenue and profit incorporated for the existing game titles are based on the most recent KPI trends, along with the incorporation of expenses for the development costs for the new collaboration game app that can be assumed at the present time.

Additionally, compared to the past collaborations, the majority of one of the new co-development costs will not be capitalized but rather be expensed during the current fiscal year.

In the Lifestyle Support business, we aim to increase the number of users, revenue per user, and profitability for all sub-segments while continuing to focus on acquiring mutual customers between services. Furthermore, in anticipation of medium- to long-term growth, active investments will be made to strengthen and develop new services. Forecasts are based on the profitability and KPI status of each existing service, while also taking into account seasonal factors and internal/external environmental factors to the extent that can be assumed at the present time. With regard to new services, costs assumed at this time are incorporated accordingly, thus estimated revenue is conservative. As for existing services, some investments, including upfront investments, will be made to strengthen competitiveness, resulting in similar revenue and profit growth year on year. However, overall segment profit is expected to decline.

The E-Commerce business will continue to strengthen fulfillment and make fundamental structural reforms to generate sustainable profits over the medium- to long-term. In terms of business results, the forecasts are based on such investments in structural reforms, considering the status of each KPI along with other seasonal factors.

The forward-looking statements mentioned above and the earnings forecasts provided below 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, 2020 (August 1, 2019 - July 31, 2020)

Revenue	35,000 million JPY (down 5.8% year on year)
Operating income	1,000 million JPY (down 64.4% year on year)
Ordinary income	1,000 million JPY (down 64.4% year on year)
Net income attributable to shareholders of parent company	500 million JPY (down 66.1% year on year)

(2) Overview of Financial Position for the Fiscal Year Ended July 31, 2019

(i) Position of Assets, Liabilities and Net Asset

Assets

As of the end of the fiscal year under review, Ateam posted total assets of 17,273 million JPY, an increase of 570 million JPY compared with the end of the previous fiscal year. The increase was mainly attributable to a combined 858 million JPY increase in investment securities.

Liabilities

As of the end of the fiscal year under review, Ateam posted liabilities of 4,761 million JPY, a decrease of 286 million JPY compared with the end of the previous fiscal year. The decrease was largely attributable to a 245 million JPY decrease in income taxes payable.

Net Assets

As of the end of the fiscal year under review, Ateam posted net assets of 12,511 million JPY, an increase of 856 million JPY compared with the end of the previous fiscal year. The increase was largely attributable to an 840 million JPY increase in retained earnings.

(ii) Cash Flows

As of the end of the fiscal year under review, cash and cash equivalents (“cash”) increased by 729 million JPY from the end of the previous fiscal year to 6,713 million JPY. The respective statuses of cash flows during the fiscal year under review and their contributing factors are as follows:

Cash Flows from Operating Activities

Cash provided by operating activities during the fiscal year under review was 3,318 million JPY, a year on year increase of 529 million JPY. This was mainly due a decrease of 2,354 million JPY in income before income taxes and interests, 620 million JPY in depreciation and 624 million JPY in trade receivables, despite income taxes paid of 1,429 million JPY.

Cash Flows from Investing Activities

Cash used in investing activities during the fiscal year under review was 1,766 million JPY, a year on year decrease of 490 million JPY. The main factor was 1,100 million JPY used for the acquisition of investment securities during the fiscal year under review.

Cash Flows from Financing Activities

Cash provided by financing activities during the fiscal year under review was 816 million JPY (compared to 444 million JPY in the previous consolidated fiscal year). This was mainly due to dividend payments of 632 million JPY.

(Reference) Trends in cash flow indicators

	Fiscal year ended July 31, 2016	Fiscal year ended July 31, 2017	Fiscal year ended July 31, 2018	Fiscal year ended July 31, 2019
Equity ratio (%)	51.9	56.0	69.3	71.9
Market value equity ratio (%)	389.3	408.06	273.67	126.62
Cash flow to interest-bearing liabilities ratio (years)	0.6	0.1	0.1	0.0
Interest coverage ratio (times)	316.24	1,113.29	1,945.66	19,158.79

Equity ratio: equity / total assets

Market value equity ratio: market capitalization / total assets

Cash flow to interest-bearing debt ratio: interest-bearing debt / cash flow

Interest coverage ratio: cash flow / interest expenses paid

(Notes 1) Market capitalization is calculated based on the number of shares issued excluding treasury stock.

(Notes 2) Cash flow from operating activities is used for cash flow.

(Notes 3) Interest-bearing debt includes all debt reported on the consolidated balance sheets on which interest is paid.

(3) Basic Policy Regarding Profit Distribution, and Dividend Payments for Current and Next Fiscal Year

Ateam believes that it is important to solidify the financial base and upgrade its business portfolio through upfront investments in new business creation in pursuit of sustained growth. At the same time, we consider the return of earnings to shareholders to be an important issue and set a dividend policy of providing continuous and stable shareholder returns.

Based on this policy, after comprehensively considering factors such as performance in the fiscal year under review, we will pay a year-end dividend of 16.0 JPY per share. In regard to dividend payments for the next fiscal year (fiscal year ending July 31, 2020), aiming to provide continuous and stable shareholder returns and based on the full-year forecasts, we expect a year-end dividend of 16.0 JPY per share.

(4) Risk Factors

Listed below are the main factors that could pose a risk to the Ateam's business condition. Certain matters that do not constitute risk factors but could be important considerations in investors' investment decisions are also disclosed below from the standpoint of proactively disclosing information to investors. Our policy is to sufficiently recognize the potential for these risks to arise and to work to prevent them from arising and respond swiftly in cases where they do arise.

Among the matters listed below, those that relate to the future, unless otherwise provided, were determined by Ateam as of the date of submission of this report and, as there is inherent uncertainty, actual results may differ. Also, this is not an exhaustive list of all risks that may arise in the future.

1) Risks Related to the Business Environment

The mobile game and internet market, the two business areas that we operate in, have continued to grow significantly due to the spread of smartphones and the increase of internet users.

We expect such trends to persist but if markets' growth rates slow and are affected by deterioration in economic sentiment or actual economic volatility, Ateam's performance and financial position may be affected.

2) Risks Related to Business

(i) Competition

Ateam provides various content and services for the internet. To improve competitiveness, we strive to provide unique content and create websites in pursuit of optimal usability, and work to diversify services and enhance customer support, among other efforts.

However, intensifying competition with corporations providing similar services and/or new up-and-coming business operators may affect Ateam's business and performance.

(ii) Relations with Business Partners (Platform Operation Businesses, Service Alliance Businesses and Business Collaborators)

Ateam's Entertainment business provides content to users through platforms dedicated to distributing game apps such as App Store operated by Apple Inc. and Google Play operated by Google Inc. We entrust the collection of sales payment from content users and pay the agent commission fees for payment collection and system usage fees to the businesses that operate these services.

Also, Ateam is involved in business collaborations with overseas game publishers and sales include revenue

distributed from these business collaborators. At the same time, revenue for the Lifestyle Support business includes fee revenue and advertisement revenue from referrals of expected customers and advertisements for service alliance businesses. Ateam complies with contracts with business partners and strives to maintain friendly relations. We also aim for management that keeps portfolio balance of business partners and services in mind so as not to rely too heavily on a specific business partner. However, in the event that, changes to a business partner's policies or business strategies or situations such as rate changes or the dissolution of an alliance were to occur, Ateam's performance and business development may be affected.

(iii) Effect from Foreign Exchange

For Ateam's Entertainment business, some content is provided to overseas users through overseas digital distribution services or through overseas local publishers, and proceeds from the sale of in-content items are collected in local currencies by the overseas platform operation businesses.

In addition, Ateam's E-Commerce business imports bicycle products from overseas manufactures, primarily in China. Ateam will hedge foreign currency exposure with forward exchange contracts and other such instruments as necessary while keeping in mind the balance of its entire revenue and expenditure in foreign currencies, but if Ateam incurs losses as a result of effective exchange rates deviating materially from initially anticipated exchange rates, Ateam's financial position and performance may be affected.

(iv) Collection of Accounts Receivable - Trade

In developing its business and services, Ateam makes transactions with various businesses. Those businesses may follow through with management decisions such as reviewing business strategies, withdrawing from business and business integrations with other companies depending primarily on the market environment and the current state of competition for each business. Ateam accordingly endeavors to partner with businesses able to stably and soundly operate on an ongoing basis, but if a business partner discontinues its operations for an aforementioned or other reason, receivables due from the business partner may fall into arrears or become uncollectible. In such an event, Ateam's performance may be affected.

(v) Product Quality Assurance

Ateam's E-Commerce business sources bicycles from domestic and overseas (mainly Chinese) suppliers. After receiving an order from a user, a bicycle undergoes additional assembly and maintenance and is shipped to the user. If a user or third party is involved in an accident, is injured or otherwise suffers damages due to a cause directly or indirectly related to the assembly or maintenance of, or a defect in, a bicycle sold by the E-Commerce business, Ateam may be subject to claims for damages or other compensation.

Additionally, Ateam imports, purchases and sells certain merchandise manufactured to Ateam's specifications by contract manufacturers. Japan's Product Liability Act may apply to such merchandise. When ordering such merchandise to be manufactured to our specifications, we are required to comply with Japanese Industrial Standards (JIS) both in Japan and overseas, procure high-quality parts, and select trustworthy manufacturers. Ateam is striving for thorough quality assurance by checking specification details for sample products, requiring final inspections when shipping completed products and inspections of overall quality and function, strengthening ties to contract manufacturers, and, when needed, sending employees for in-person inspections.

Moreover, although Ateam has purchased product liability (PL) insurance for product liability compensation in preparation for the unforeseen scenario, in the event that an accident occurs related to product liability, aside from

the amount for damage compensation, there may be costs such as those related to the recall of products, exchanges and repairs, and design changes, and said accident could harm the business' or Ateam's reputation in society. As a result, Ateam's performance and the brand image for services may be affected.

(vi) Investment and Nurturing

Ateam contributes capital in venture investment and investment limited partnerships with the aim of nurturing and supporting companies with high growth potential from an early stage. Of the recipients of such capital contribution, those companies that have yet to make an initial public offering carry uncertainties with respect to their future, including changes in the market environment, and insufficiencies in their development or management capabilities. If such uncertainties manifest and preclude an investee company from achieving expected results and the company's operating performance stagnates or deteriorates, such investment may not be recoverable, and Ateam's business and performance may be affected.

3) Risk Related to Impairment Losses on Non-current Assets

Ateam's Entertainment business records personnel expenses and subcontracting expenses related to developing game apps for smart devices as assets on the consolidated balance sheets, and depreciates these assets over an appropriate number of years.

However, some game titles may not be as successful as expected. Ateam's investment in such a title may no longer be recoverable within the anticipated timeframe as a result of a decrease in the asset's utility. In such an event, Ateam may book an impairment loss to reduce the asset's carrying amount to reflect the asset's diminished value. As a result, Ateam's performance may be affected and actual results may differ from the results forecast announced at the beginning of the fiscal year.

4) Risks Related to the Organizational Structure

(i) Over-reliance on a Specific Executive

The President of the Company is the founder of the Group, and, because he possesses abundant experience as an engineer, he has, since the establishment of Ateam, supported Ateam's growth and fulfilled an extremely important role involving corporate strategy and various other areas. Ateam is striving to create a management structure that doesn't rely too heavily on him. However, if for any reason he was no longer able to participate in the management, Ateam's performance and future business development may be affected.

(ii) Securing and Training Personnel

While continuing to carry out smooth business expansion and execution of corporate management, it is extremely important for us to secure excellent personnel. However, in the event that it is not possible to secure the necessary personnel in a timely and appropriate manner or in the event that skilled personnel leave Ateam, ordinary business operations and business development may be hindered and Ateam's performance may be affected.

(iii) Internal Control Management System

To achieve sustained growth and medium- to long-term corporate value accretion, Ateam plans to continuously strengthen its management foundation in tandem with expansion of its scale of operations while restructuring its organization and implementing and augmenting an internal control management system in the aim of strengthening its organizational structure to manage its operations more efficiently and appropriately.

However, in the event that an adequate internal control management system is not established in time following

rapid business expansion, Ateam's performance and business development may be affected.

(iv) Computer Systems and Communication Networks

Ateam's business includes providing services to users through communication networks that connect computer systems such as mobile devices and PCs. To promote stable system operations, Ateam strives for early prevention and avoidance of system trouble primarily by decentralizing servers, making periodic backups and monitoring the operational status of systems. However, in the event of a communication network outage or disruption due to an unforeseen incident (including human error on the part of people within Ateam or not within Ateam) or any other reason, Ateam's business and performance may be significantly affected.

Also, in the event that systems become inoperable for various unforeseeable reasons such as servers being overloaded by a sudden increase in traffic for our sites, or interruptions in the power supply, it is possible that services will be suspended. As a result, Ateam's performance and the brand image for services may be affected.

5) Risks Related to Compliance

(i) Laws and Regulations

Ateam strictly complies with the laws and regulations that are applicable to the business areas that it operates in and is strengthening initiatives related to preventing occurrences such as information leakage, wrongful acquisition of information and virus infection, particularly those that occur by way of the internet. However, depending on the status and details of new legal restrictions and the industry's voluntary regulations that are designed to prevent the above, our future business development may be affected.

Additionally, if new laws or regulations are enacted or legal interpretations change in response to the social climate or other factors and services or content provided by Ateam are affected by the enactment or change, Ateam's performance and corporate image may be affected.

(ii) Intellectual Property Rights

Ateam actively strives to acquire trademark registration for the names of the sites and services that it operates and pays adequate attention to not infringing on the intellectual property rights of third parties. Also, in relation to the services that we provide, there are times when intellectual property rights held by us are licensed to a third party and times when intellectual property rights held by a third party are licensed to Ateam. In situations such as these, Ateam strengthens its management structure primarily by entering into trademark license agreements.

However, in the event that Ateam unintentionally infringes on the intellectual property rights of a third party due mainly to discrepancy in the interpretation of the scope of intellectual property rights or contract terms, we may be sued by the third party regarding the infringement of intellectual property rights, or receive a demand to cease the use of said intellectual property. As a result, resolving such an issue could take a large amount of costs and time, and Ateam's performance and future business development may be affected.

(iii) Management of Personal Information

Ateam, at times, will obtain personal information from the users of the services and content that it provides. To prevent external leakage and falsification of personal information, Ateam is thorough in regard to work flow and authorization systems when handling personal information and carries out strict management in compliance with the "Act on the Protection of Personal Information".

However, in the event that there is trouble such as the leakage or unauthorized use of personal information due to

a computer virus, unauthorized access, intentional actions or an accident, we may receive a claim for compensation for damages, the perceived trustworthiness of Ateam may decrease, its corporate image may deteriorate, and more. As a result, Ateam's performance and business development may be affected.

(iv) Safety and Soundness of Services

Using the content that Ateam provides, an indeterminably large number of private users can communicate with each other independently. To protect youth, and to maintain and improve soundness, we strive to ensure the safety and soundness of services by clearly indicating in the user agreement that inappropriate use is prohibited, acquiring EMA certification^(Note), and performing continuous monitoring. Ateam also responds to those who breach the user agreement with measures such as requesting improvement or cancelling subscriptions.

However, in the event that there is trouble originating from a user's inappropriate behavior as a result of it being difficult to be fully aware of what users are doing while using the content, as a result of a sudden increase in content users, regardless of the details of the user agreement, our legal responsibility may come into question. Also, even if our legal responsibility does not come into question, its business and performance may be affected by factors such as deterioration of the content's brand image.

(Note) EMA certification certifies that a community is wholesome by using the Content Evaluation and Monitoring Association's (EMA) system for certifying the operational management structure of a community site.

(v) Litigation

Ateam strives to prevent legal violations by promoting compliance that is based on adhering to laws and regulations. However, regardless of whether or not legal violations have been made by Ateam's officers or employees, we believe there is a risk of unforeseen trouble and litigation, involving users, business partners, and other third parties and litigation regarding the above-mentioned intellectual property rights, personal information, and safety and soundness of services.

Depending on the content and result of such litigations, Ateam's business and performance may be affected. Also, as a result of a large amount of costs for responding to litigations or deterioration of corporate image, Ateam's performance and business development may be affected.

6) Risks Related to Dilution of Shares upon Exercising Share Acquisition Rights

To improve Ateam's corporate value in the long term, share acquisition rights are granted to officers and employees as incentives. It is possible that, to secure excellent officers and employees, share acquisition rights will be granted as incentives in the future as well.

In addition, Ateam carried out financing by issuing share acquisition rights with exercise price amendment clause by third-party allotment in August 2017 to appropriate funds for development funding, including new establishment expenses and personnel expenses for future development bases; for advertising and promotion for global distribution of existing and new game apps; and for M&A (such as business acquisition).

In the event that these share acquisition rights are exercised, the total number of issued shares would increase, and the value of shares held by existing shareholders and the ratio of voting rights may be diluted.

7) Risks Related to Disasters, Disputes and Accidents

In the event of an earthquake, a typhoon, a tsunami or other natural disaster, a fire, a power outage, an infectious disease outbreak, an international conflict, or the occurrence of some other serious contingency, Ateam's business

operations may be severely affected.

In the event that there is a large-scale natural disaster in the areas that we operate services in, an unavoidable temporary suspension of the provision of services is a possibility. Furthermore, in the event of occurrences that hinder the continuation of business such as damage to facilities or power supply restrictions, or in the event of serious material and human losses primarily resulting from various natural disasters or international disputes, the continuation of business itself may become difficult or impossible. In the event that such circumstances arise, Ateam's performance may be affected.

2. Status of Corporate Group

Ateam is currently comprised of Ateam Inc. and eight wholly owned subsidiaries.

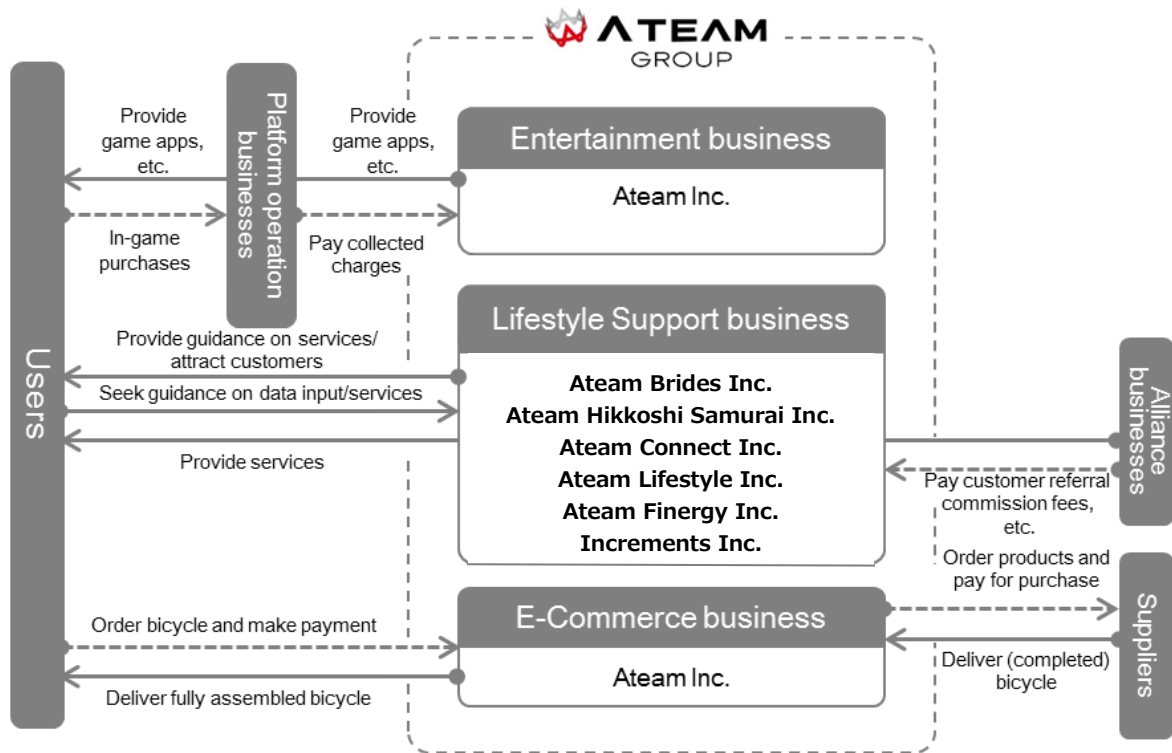
As for reportable segments, Ateam is expanding business in three core segments. The Entertainment business plans, develops and operates games and tool applications for smart devices. These games and tool applications provide amusement to people around the world with the theme of “making connections between people a reality”. The Lifestyle Support business plans, develops and operates various online services including comparison and information sites that deliver valuable information both for major life events and for daily living. The E-Commerce business plans, develops and operates an e-commerce site specializing in bicycle sales. The site sells fully assembled bicycles online and realizes the convenience of home delivery.

In principle, all three businesses develop products in-house and have accumulated know-how that ranges from planning to operations, which they utilize to develop various services.

Company name	Segment	Businesses description	Relationship with the Company
Ateam Inc.	Entertainment business E-Commerce business	Planning, development and operation of games and tool applications for smart devices Planning, operation and development of an online bicycle shop	–
Ateam Brides Inc.	Lifestyle Support business	Bridal-related business	Wholly owned subsidiary
Ateam Hikkoshi Samurai Inc.	Lifestyle Support business	Moving-related business	Wholly owned subsidiary
Ateam Connect Inc.	Lifestyle Support business	Telemarketing business	Wholly owned subsidiary
Ateam Lifestyle Inc.	Lifestyle Support business	Automobile-related business, Women’s Health Consultation business	Wholly owned subsidiary
Ateam Finergy Inc.	Lifestyle Support business	Financial Media business	Wholly owned subsidiary
Increments Inc.	Lifestyle Support business	Technical information sharing service for programmers	Wholly owned subsidiary

2 other wholly owned subsidiaries

Schematic overview of Ateam's business



3. Business Policies

Fundamental Business Policies

Based on the corporate philosophy which is expressed as “Our mission is to produce happiness through business and to grow for the next 100 years”, Ateam has a basic policy of providing content and services that continue to be supported and utilized by users through PCs and smart devices in various technical and business fields that are focused on the internet.

Aiming to be a company that will last indefinitely by repeating the phrase “for the next 100 years”, we operate with a focus on sustainable growth and medium- to long-term improvement in corporate value, more so than on short-term or one-time revenue.

4. Basic Rationale for Selecting the Accounting Standards

Ateam chooses to use Japanese accounting standards based on comprehensive consideration of the business environment encompassing the Group, the current deployment of business operations, and other factors.

Ateam plans to appropriately consider adopting International Financial Reporting Standards (IFRS) in the future, comprehensively taking into account its internal environment, external environment and Group’s management strategy.

5. Consolidated Financial Statements and Significant Notes Thereto

(1) Consolidated Balance Sheets

(Million JPY)

	As of July 31, 2018	As of July 31, 2019
Assets		
Current assets		
Cash and deposits	5,984	6,713
Notes and accounts receivable - trade	4,128	3,503
Merchandise	662	332
Supplies	16	27
Other	706	997
Allowance for doubtful accounts	△10	△31
Total current assets	11,488	11,543
Non-current assets		
Property, plant and equipment		
Buildings	1,672	1,844
Accumulated depreciation	△386	△520
Buildings, net	1,285	1,323
Tools, furniture and fixtures	669	771
Accumulated depreciation	△270	△386
Tools, furniture and fixtures, net	398	385
Other, net	—	2
Total property, plant and equipment	1,684	1,711
Intangible assets		
Goodwill	1,109	978
Software	590	398
Software in progress	221	13
Other	149	131
Total intangible assets	2,070	1,522
Investments and other assets		
Investment securities	374	1,232
Deferred tax assets	358	444
Leasehold and guarantee deposits	686	795
Other	49	32
Allowance for doubtful accounts	△8	△10
Total investments and other assets	1,459	2,495
Total non-current assets	5,214	5,729
Total assets	16,702	17,273

(Million JPY)

	As of July 31, 2018	As of July 31, 2019
Liabilities		
Current liabilities		
Accounts payable - trade	465	285
Short-term loans payable	100	—
Current portion of long-term loans payable	33	—
Accounts payable - other	2,417	2,380
Income taxes payable	718	472
Provision for sales promotion expenses	12	189
Provision for stocks payment	43	40
Other	672	661
Total current liabilities	4,464	4,031
Non-current liabilities		
Long-term loans payable	52	—
Deferred tax liabilities	45	40
Asset retirement obligations	484	488
Other	—	201
Total non-current liabilities	583	730
Total liabilities	5,047	4,761
Net assets		
Shareholders' equity		
Capital stock	835	836
Capital surplus	829	830
Retained earnings	10,383	11,223
Treasury shares	△481	△438
Total shareholders' equity	11,566	12,452
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	—	△26
Foreign currency translation adjustment	2	△0
Total accumulated other comprehensive income	2	△26
Share acquisition rights	85	85
Total net assets	11,655	12,511
Total liabilities and net assets	16,702	17,273

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

(Million JPY)

	Fiscal year ended July 31, 2018	Fiscal year ended July 31, 2019
Revenue	37,674	37,151
Cost of sales	6,960	7,518
Gross profit	30,713	29,632
Selling, general and administrative expenses	26,012	26,820
Operating income	4,701	2,811
Non-operating income		
Interest income	0	1
Gain on investments in partnership	53	—
Commission income	5	22
Subsidy income	8	11
Other	18	7
Total non-operating income	85	42
Non-operating expenses		
Interest expenses	1	0
Loss on valuation of investment securities	50	—
Loss on investments in partnership	—	16
Foreign exchange losses	1	19
Commission expenses	—	7
Other	2	1
Total non-operating expenses	56	45
Ordinary income	4,730	2,809
Extraordinary income		
Gain on reversal of share acquisition rights	2	—
Total extraordinary income	2	—
Extraordinary losses		
Impairment loss	—	300
Loss on valuation of investment securities	—	155
Total extraordinary losses	—	455
Profit before income taxes	4,732	2,354
Income taxes - current	1,422	972
Income taxes - deferred	3	△91
Total income taxes	1,426	880
Net income	3,306	1,473
Net income attributable to owners of parent	3,306	1,473

Consolidated Statements of Comprehensive Income

(Million JPY)

	Fiscal year ended July 31, 2018	Fiscal year ended July 31, 2019
Net income	3,306	1,473
Other comprehensive income		
Valuation difference on available-for-sale securities	—	△26
Foreign currency translation adjustment	3	△2
Total other comprehensive income	3	△29
Comprehensive income	3,309	1,444
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	3,309	1,444

(3) Consolidated Statement of Changes in Equity

Fiscal year ended July 31, 2018

(Million JPY)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	535	509	7,493	△1,177	7,361
Changes of items during period					
Issuance of new shares	299	299			599
Dividends of surplus			△416		△416
Profit attributable to owners of parent			3,306		3,306
Disposal of treasury shares		19		695	715
Net changes of items other than shareholders' equity					
Total changes of items during period	299	319	2,889	695	4,204
Balance at end of current period	835	829	10,383	△481	11,566

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	—	△0	△0	96	7,456
Changes of items during period					
Issuance of new shares					599
Dividends of surplus					△416

Profit attributable to owners of parent					3,306
Disposal of treasury shares					715
Net changes of items other than shareholders' equity		3	3	△10	△6
Total changes of items during period	—	3	3	△10	4,198
Balance at end of current period	—	2	2	85	11,655

Fiscal year ended July 31, 2019

(Million JPY)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	835	829	10,383	△481	11,566
Changes of items during period					
Issuance of new shares	0	0			1
Dividends of surplus			△633		△633
Profit attributable to owners of parent			1,473		1,473
Disposal of treasury shares				43	43
Net changes of items other than shareholders' equity					
Total changes of items during period	0	0	840	43	885
Balance at end of current period	836	830	11,223	△438	12,452

	Accumulated other comprehensive income			Share acquisition rights	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income		
Balance at beginning of current period	—	2	2	85	11,655
Changes of items during period					
Issuance of new shares					1
Dividends of surplus					△633
Profit attributable to owners of parent					1,473

Disposal of treasury shares					43
Net changes of items other than shareholders' equity	△26	△2	△29	—	△29
Total changes of items during period	△26	△2	△29	—	856
Balance at end of current period	△26	△0	△26	85	12,511

(4) Summary of Consolidated Statements of Cash Flows

(Million JPY)

	Fiscal year ended July 31, 2018	Fiscal year ended July 31, 2019
Cash flows from operating activities		
Income before income taxes	4,732	2,354
Depreciation	432	620
Impairment loss	—	300
Amortization of goodwill	65	130
Increase (decrease) in allowance for doubtful accounts	0	22
Increase (decrease) in provision for sales promotion expenses	8	199
Increase (decrease) in provision for stocks payment	2	△3
Increase (decrease) in provision for management board incentive plan trust	△8	—
Interest income	△0	△1
Interest expenses	1	0
Foreign exchange losses (gains)	0	3
Loss (gain) on valuation of investment securities	50	155
Loss (gain) on investments in partnership	△53	16
Subsidy income	△8	△9
Decrease (increase) in notes and accounts receivable - trade	△329	624
Decrease (increase) in inventories	△312	319
Increase (decrease) in notes and accounts payable – trade	2	△123
Increase (decrease) in accounts payable – other	△18	4
Other, net	23	124
Subtotal	4,589	4,737
Interest income received	0	1
Interest expenses paid	△1	△0
Income taxes paid	△1,806	△1,429
Proceeds from subsidy income	8	9
Net cash provided by (used in) operating activities	2,789	3,318
Cash flows from investing activities		
Purchase of property, plant and equipment	△418	△308
Purchase of intangible assets	△424	△270

Purchase of investment securities	△20	△1,100
Purchase of shares of subsidiaries resulting in change in scope of consolidation	△1,296	—
Payments for leasehold and guarantee deposits	△149	△132
Proceeds from collection of leasehold and guarantee deposits	16	34
Other, net	35	11
Net cash provided by (used in) investing activities	△2,257	△1,766
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	△532	△100
Proceeds from long-term loans payable	100	—
Repayments of long-term loans payable	△13	△86
Proceeds from issuance of common shares	586	1
Proceeds from issuance of share acquisition rights	7	—
Proceeds from disposal of treasury shares	713	—
Cash dividends paid	△417	△632
Net cash provided by (used in) financing activities	444	△816
Effect of exchange rate change on cash and cash equivalents	3	△6
Net increase (decrease) in cash and cash equivalents	980	729
Cash and cash equivalents at beginning of period	5,004	5,984
Cash and cash equivalents at end of period	5,984	6,713

(5) Notes to Consolidated Financial Statements

Notes on Premise of Going Concern

Not applicable.

Segment Information

1. Overview of reportable segments

The reportable segments of Ateam are constituent units of the Group whose separate financial information is available and which are periodically examined by the Board of Directors in deciding the allocation of management resources and in evaluating performance.

Ateam is composed of segments classified according to services based on the business divisions. It has three reportable segments: Entertainment business, Lifestyle Support business and E-Commerce business. The Entertainment business mainly plans, develops and operates games and tool applications mainly for smart devices (smartphones and tablets); and the Lifestyle Support business mainly plans, develops and operates comparison sites, information sites, e-commerce sites and other websites primarily for daily living; and the E-Commerce business mainly plans, develops and operates an online bicycle shop that delivers fully assembled bicycles.

2. Calculation method for the amounts of revenue, income or loss, assets, liabilities and other items by reportable segment

The accounting method for the business segments that are reported is largely the same as the description in “Significant matters forming the basis of preparing the consolidated financial statements”. The income from reportable segments is the figure based on operating income.

3. Information regarding the amounts of revenue, income or loss, assets, liabilities, and other items by reportable segment

Fiscal year ended July 31, 2018 (from August 1, 2017 to July 31, 2018)

(Million JPY)

	Reportable segment				Adjustment (Note) 1	Amount on the consolidated statements of income (Note) 2
	Entertainmen t business	Lifestyle Support business	E-Commerce business	Total		
Revenue						
Outside customers	16,168	18,955	2,550	37,674	–	37,674
Inter-segment sales and transfers	–	–	–	–	–	–
Total	16,168	18,955	2,550	37,674	–	37,674
Segment profit (loss)	3,587	3,076	-211	6,452	-1,751	4,701
Other items						
Depreciation	267	109	6	384	48	432
Impairment loss	–	65	–	65	–	65

(Notes)

1. Adjustment of 1,751 million JPY is corporate expenses not attributable to reportable segments.
2. Adjustments are made between segment profit (loss) and operating income reported in the consolidated statements of income.
3. Segment assets have not been shown, as they are not used as the basis for deciding the allocation of management resources and evaluating performance.

Fiscal year ended July 31, 2019 (from August 1, 2018 to July 31, 2019)

(Million JPY)

	Reportable segment				Adjustment (Note) 1	Amount on the consolidated statements of income (Note) 2
	Entertainmen t business	Lifestyle Support business	E-Commerce business	Total		
Revenue						
Outside customers	12,577	22,525	2,048	37,151	–	37,151
Inter-segment sales and transfers	–	–	–	–	–	–
Total	12,577	22,525	2,048	37,151	–	37,151
Segment profit (loss)	1,532	3,137	-210	4,460	-1,648	2,811
Other items						
Depreciation	396	157	8	562	57	620
Impairment loss	–	130	–	130	–	130

(Notes)

1. Adjustment of 1,648 million JPY is corporate expenses not attributable to reportable segments.
2. Adjustments are made between segment profit (loss) and operating income reported in the consolidated statements of income.
3. Segment assets have not been shown, as they are not used as the basis for deciding the allocation of management resources and evaluating performance.

Per Share Information

(JPY)

	Fiscal year ended July 31, 2018 (from August 1, 2017 to July 31, 2018)	Fiscal year ended July 31, 2019 (from August 1, 2018 to July 31, 2019)
Net assets per share	593.76	636.32
Net income per share-basic	170.40	75.52
Net income per share-diluted	169.76	75.35

(Note) The basis of calculating net income per share-basic and net income per share-diluted is as follows:

	Fiscal year ended July 31, 2018 (from August 1, 2017 to July 31, 2018)	Fiscal year ended July 31, 2019 (from August 1, 2018 to July 31, 2019)
Net income per share-basic		
Net income attributable to shareholders of parent company (Thousand JPY)	3,306	1,473
Net income attributable to shareholders of parent company regarding common stock (Thousand JPY)	3,306	1,473
Average number of shares of common stock during period (Shares)	19,401,921	19,510,259
Net income per share-diluted		
Adjustment of net income attributable to shareholders of parent company (Thousand JPY)	-	-
Increase in number of shares of common stock (Shares)	73,889	45,157
Share acquisition rights of the above (Shares)]	-73,889	-45,157
Dilutive shares not included in calculation of net income per share- diluted due to being non-dilutive	Seventh series of share acquisition rights: 500,000 shares Eighth series of share acquisition rights: 800,000 shares	Fifth series of share acquisition rights: 69,000 shares Seventh series of share acquisition rights: 500,000 shares Eighth series of share acquisition rights: 800,000 shares

(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” (218,200 shares at the end of the previous fiscal year and an average of 220,570 shares during the previous period, 193,200 shares at the end of the current fiscal year and an average of 195,323 shares during the current period) included in the treasury stock deducted.

Significant Subsequent Events

Not applicable.