

Non-Consolidated Financial Results

for the Third Quarter of the Fiscal Year Ending December 31, 2019

[Japanese GAAP]

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Stock code:	3981	URL: https://www.beagle.com
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Scheduled date of quarterly report submission:	November 14, 2019	
Date for commencement of dividend payments:	—	
Supplementary notes to quarterly financial statements:	None	
Briefing on quarterly financial statements:	None	

(Rounded down to nearest million yen)

1. Financial Results for the Third Quarter of the Fiscal Year Ending December 31, 2019 (January 1 to September 30, 2019)

(1) Operating Results (cumulative)

(Percentages represent year-on-year changes)

	Net sales		Operating profit		Ordinary profit		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Third quarter of the fiscal year ending December 31, 2019	7,742	12.1	614	102.5	610	116.2	362	114.7
Third quarter of the fiscal year ended December 31, 2018	6,904	1.3	303	(68.5)	282	(69.6)	169	(70.9)

	Net income per share	Net income per share fully diluted
	Yen	Yen
Third quarter of the fiscal year ending December 31, 2019	61.75	61.04
Third quarter of the fiscal year ended December 31, 2018	28.21	27.59

(2) Financial Position

	Total assets	Net assets	Shareholders' capital ratio
	Millions of yen	Millions of yen	%
As of September 30, 2019	7,643	4,593	60.1
As of December 31, 2018	7,104	4,882	68.7

For reference: Shareholders' equity

As of September 30, 2019	4,593 million yen	
As of December 31, 2018	4,882 million yen	

2. Dividends

	Annual dividends				
	End of 1st quarter	End of 2nd quarter	End of 3rd quarter	Year-end	Full year
Fiscal year ended December 31, 2018	Yen —	Yen 0.00	Yen —	Yen 0.00	Yen 0.00
Fiscal year ending December 31, 2019	—	0.00	—		
Fiscal year ending December 31, 2019 (Forecast)				—	—

Note: Revisions from the most recently announced dividend forecast: None

3. Earnings Forecast for the Fiscal Year Ending December 31, 2019 (January 1 to December 31, 2019)

(*Percentage indicates the rate of change year on year)

	Net sales		Operating profit		Ordinary profit		Profit		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	10,055	9.4	797	54.2	787	58.9	471	80.7	79.05

Note: Revisions from the most recently announced earnings forecast: None

* Notice

(1) Application of special accounting treatment for the preparation of the quarterly financial statements: Yes

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

(a) Changes in accounting policy accompanying the revision of accounting standards: Yes

(b) Changes in accounting policy other than those listed in (a): Yes

(c) Changes in accounting estimates: None

(d) Restatements: None

Note: For details, please refer to “2. Quarterly Financial Statements and Notes (3) Notes to Quarterly Financial Statements (Changes in Accounting Policy)” on page 8.

(3) Number of shares issued (common stock)

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

September 30, 2019	6,132,077 shares	December 31, 2018	6,127,348 shares
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(b) Number of treasury shares at end of period

September 30, 2019	250,223 shares	December 31, 2018	250,180 shares
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(c) Average number of shares during the period (cumulative from the beginning of the fiscal year)

September 30, 2019	5,878,710 shares	September 30, 2018	5,993,008 shares
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* The Company’s quarterly financial statements are not subject to quarterly review by a certified public accountant or audit corporation.

*Appropriate use of earnings forecasts and other pertinent information

These materials contain various forward-looking statements and other forecasts regarding performance and other matters. Such statements are based on information available at the time of preparation as well as certain reasonable assumptions. Actual results may differ materially from those expressed or implied by forward-looking statements due to a range of factors. For notices concerning underlying assumptions of the earnings forecast and the use of the earnings forecast, refer to page 4 of the attachment entitled “1. Qualitative Information on the Quarterly Financial Results (3) Explanation of Forward Looking Information including Earnings Forecast.”

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1. Qualitative Information on the Quarterly Financial Results

(1) Explanation of Operating Results

During the third quarter cumulative period under review, Japan's economy continued to see a moderate recovery. This was underpinned by rising corporate earnings and the improved employment and income environment. However, the future economic outlook remains cloudy due to political instability overseas, and concerns over geopolitical risks.

The e-book market, mainly comics, continues to see growth in the number of users and average spending per user. There is also a growing number of manga apps monetizing through in-app purchases and advertising. At the same time, publishers are launching their own apps, too. The e-book and e-comic markets are expected to continue growing. (Source: Impress Corporation estimates, "eBook Marketing Report 2019")

However, the e-book market is expected to gradually become saturated as e-book business models diversify and mature.

Given this market climate, the Company is working to shore up its product lineup and strengthen its editing functions by creating original content and being the first to distribute exclusive titles. The Company has also worked to improve services that customers will continue using over the long term, including improving data analysis and product recommendations using AI and refreshing the website.

In the games business, the Company focused on joint development for the release of RenCa:A/N as well as promoted new joint development projects. Furthermore, there were multiple releases of titles from projects the Company is participating in.

As a result, the monthly sales record was broken in August 2019, and net sales for the third quarter reached a record high.

The following section discusses the main activities of the Company's Contents Platform Business in the third quarter cumulative period of the year under review.

Through the comic distribution service "Manga Kingdom," a mainstay service in the e-book business, the Company has uploaded a cumulative total of 62 original titles while promoting enhancement of content, including distribution of original labels such as exclusive first-release titles. Furthermore, the Company made improvements for even easier access, such as introducing a deferred payment option given strong demand from customers to address the needs of customers without credit cards or customers who have been reluctant to use the service. Also, the Company rolled out several measures for improving services based on analysis of past data and promoting use tailored to each segment (customer attribution) as part of its measures to increase business with customers, which increased site traffic. In addition to these measures, several original contents turned into hits. As a result, in August 2019 "Manga Kingdom" posted record high net sales and in September 2019 cumulative downloads broke through 1.1 billion works, illustrating that growth continues. As for free manga app "Comic every," the Company expanded content, including by uploading the manga works of Futabasha Publishers, Ltd. in July 2019. The Company has a broad offering of contents after increasing the number of titles that can be read for free to 1,100 covering more than 30,000 stories, from new releases to previously released works. In the digital novel service "novelba," the Company is working to expand a broad range of contents during this fiscal year.

In the games business, the Company held a number of events as part of the project for roll playing game (RPG) "RenCa:A/N" for smartphones currently under development with Alt Plus Inc., including fan meetings and a radio broadcast on the official website. The Company is actively working to release this game before the end of 2019. Additionally, the Company launched pre-orders for the game at the end of September 2019, which broke through the 50,000 mark at the end of October 2019.

In other businesses, the Company was commissioned to produce the PR video for app game “Samurai Spirits Online – Legend of Oborozuki,” and engaged movie director Takashi Miike. Consequently, the Company worked not only on contents development, but also production activities, including promotion support.

As a result, net sales for the third quarter cumulative period totaled 7,742,759 thousand yen (up 12.1% over the previous year), operating profit came at 614,258 thousand yen (up 102.5% over the previous year), ordinary profit was 610,145 thousand yen (up 116.2% over the previous year) and profit totaled 362,997 thousand yen (up 114.7% over the previous year). Additionally, the application of “Accounting Standard on Revenue Recognition” will only have a minimal impact on the Company’s business results.

The Company engages in the Contents Platform Business only; therefore, there are no individual segments to report.

(2) Explanation of Financial Condition

(Assets)

Total assets at the end of third quarter amounted to 7,643,099 thousand yen, up 538,496 thousand yen compared to the previous fiscal year end.

Current assets totaled 3,171,135 thousand yen, up 536,331 thousand yen over the previous fiscal year end. This is mainly attributable to increases in cash and deposits of 568,969 thousand yen, and accounts receivable - trade of 150,240 thousand yen, while consumption taxes receivable declined 125,161 thousand yen.

Non-current assets totaled 4,471,964 thousand yen, up 2,165 thousand yen compared to the previous fiscal year end. This is mainly attributable to an increase in intangible assets of 208,462 thousand yen, while investments and other assets declined 206,220 thousand yen.

(Liabilities)

Total liabilities at the end of third quarter amounted to 3,049,510 thousand yen, up 827,863 thousand yen compared to the previous fiscal year end.

Current liabilities totaled 2,629,510 thousand yen, up 1,007,863 thousand yen over the previous fiscal year end. This is mainly attributable to increases in accounts payable - trade of 143,139 thousand yen, accounts payable - other of 94,815 thousand yen, income taxes payable of 131,275 thousand yen and deferred revenue of 736,567 thousand yen, and a decrease in provision for point card certificates of 81,755 thousand yen. Part of deferred revenue that was recorded as net sales according to the previous accounting standard has been newly recognized as contract liabilities according to the application of the “Accounting Standard on Revenue Recognition.”

Non-current liabilities totaled 420,000 thousand yen, down 180,000 thousand yen compared to the previous fiscal year end. This is attributable to a decrease in long-term loans payable of 180,000 thousand yen.

(Net assets)

Net assets at the end of the third quarter totaled 4,593,589 thousand yen, down 289,366 thousand yen compared to the previous fiscal year end. This is mainly attributable to an increase in retained earnings of 362,997 thousand yen and recording of profit, while beginning balance fell 655,227 thousand yen due to the application of “Accounting Standard on Revenue Recognition.”

As a result, the shareholders’ capital ratio came to 60.1%.

(3) Explanation of Forward-Looking Information including Earnings Forecast

There are no changes to the full-year earnings forecast that was announced on February 14, 2019 with the Summary of Financial Results for the Fiscal Year Ended December 31, 2018. In the fourth quarter, the Company will actively consider investments aimed at growth in the next fiscal year and beyond, while continuing to carry out advertising activities with an emphasis on efficiency.

2. Quarterly Financial Statements and Notes

(1) Quarterly Balance sheet

(Unit: thousands of yen)

	End of Previous Fiscal Year (As of December 31, 2018)	Third Quarter (As of September 30, 2019)
Assets		
Current assets		
Cash and deposits	574,075	1,143,044
Accounts receivable - trade	1,550,087	1,700,328
Securities	300,000	300,000
Merchandise	2,747	2,424
Supplies	81	95
Advance payments - trade	12,673	10,463
Prepaid expenses	19,782	16,435
Accounts receivable from subsidiaries and associates - other	199	–
Consumption taxes receivable	125,161	–
Other	52,076	145
Allowance for doubtful accounts	(2,080)	(1,801)
Total current assets	2,634,804	3,171,135
Non-current assets		
Property, plant and equipment		
Buildings	14,662	14,662
Facilities attached to buildings	10,964	11,655
Tools, furniture and fixtures	119,434	125,206
Accumulated depreciation	(100,912)	(107,452)
Accumulated impairment loss	(9,426)	(9,426)
Total property, plant and equipment	34,722	34,645
Intangible assets		
Goodwill	3,739,761	3,790,054
Trademark right	546	461
Software	98,785	168,932
Contents assets	149,282	208,879
Software in progress	4,288	4,379
Content assets in progress	155,272	183,693
Total intangible assets	4,147,937	4,356,399
Investments and other assets		
Shares of subsidiaries and associates	205,388	–
Deferred tax assets	36,722	36,722
Other	45,028	44,196
Total investments and other assets	287,139	80,918
Total non-current assets	4,469,798	4,471,964
Total assets	7,104,602	7,643,099

(Unit: thousands of yen)

	End of Previous Fiscal Year (As of December 31, 2018)	Third Quarter (As of September 30, 2019)
Liabilities		
Current liabilities		
Accounts payable - trade	992,278	1,135,417
Current portion of long-term loans payable	240,000	240,000
Accounts payable - other	224,726	319,541
Accrued expenses	14,973	18,637
Income taxes payable	14,156	145,431
Accrued consumption taxes	26,119	27,571
Deferred revenue	–	736,567
Deposits received	6,973	5,487
Provision for bonuses	20,663	–
Provision for point card certificates	81,755	–
Other	–	854
Total current liabilities	1,621,646	2,629,510
Non-current liabilities		
Long-term loans payable	600,000	420,000
Total non-current liabilities	600,000	420,000
Total liabilities	2,221,646	3,049,510
Net assets		
Shareholders' equity		
Capital stock	1,862,936	1,864,400
Capital surplus	1,862,436	1,863,900
Retained earnings	1,530,424	1,238,194
Treasury shares	(373,348)	(373,392)
Total shareholders' equity	4,882,448	4,593,103
Share acquisition rights	508	486
Total net assets	4,882,956	4,593,589
Total liabilities and net assets	7,104,602	7,643,099

(2) Quarterly Statement of Income

Third Quarter Cumulative Period

(Unit: thousands of yen)

	Previous Third Quarter Cumulative Period (January 1 to September 30, 2018)	Current Third Quarter Cumulative Period (January 1 to September 30, 2019)
Net sales	6,904,313	7,742,759
Cost of sales	3,754,632	4,317,798
Gross profit	3,149,680	3,424,961
Selling, general and administrative expenses	2,846,358	2,810,703
Operating profit	303,322	614,258
Non-operating income		
Interest income	15	550
Dividend income	91	65
Foreign exchange gains	34	–
Gain on donation of non-current assets	2,247	–
Reversal of provision for bonuses	–	408
Interest on refund	–	508
Reimbursement receivables	1,593	1,231
Penalty income	–	1,000
Miscellaneous income	0	–
Other	86	787
Total non-operating income	4,068	4,551
Non-operating expenses		
Interest expenses	5,648	3,730
Borrowing expenses	2,447	3,354
Costs related to share listing	13,759	–
Commission for purchase of treasury shares	3,157	–
Other	142	1,580
Total non-operating expenses	25,154	8,665
Ordinary profit	282,236	610,145
Extraordinary losses		
Loss on valuation of investments in capital	1,000	–
Total extraordinary losses	1,000	–
Profit before income taxes	281,236	610,145
Income taxes	112,184	247,147
Profit	169,051	362,997

(3) Notes to Quarterly Financial Statements

(Notes on the Going-Concern Assumption)

N/A

(Notes on Significant Changes in the Amount of Shareholders' Equity)

Third quarter cumulative period of the previous fiscal year (January 1 to September 30, 2018)

(Significant Changes in the Amount of Shareholders' Equity)

The Company acquired 250,000 treasury shares based on a resolution at the meeting of the board of directors held on May 15, 2018. As a result, treasury shares increased by 373,108 thousand yen in the third quarter cumulative period of the year under review to 373,309 thousand yen at the end of the period.

Third quarter cumulative period of the fiscal year under review (January 1 to September 30, 2019)

N/A

(Application of Special Accounting Treatment for Preparation of Quarterly Financial Statements)

(Calculation of Tax Costs)

Tax costs are calculated by reasonably estimating the effective tax rate for each business year's profit before income taxes, including this third quarter under review, after application of tax effect accounting and then multiplying this estimated effective tax rate by profit before income taxes.

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

(Changes in Accounting Policy)

(Application of "Accounting Standard on Revenue Recognition")

"Accounting Standard on Revenue Recognition" (ASBJ Accounting Standard No. 29; March 30, 2018; hereinafter, "Revenue Recognition Accounting Standard") and "Implementation Guidance on Accounting Standard on Revenue Recognition (ASBJ Implementation Guidance No. 30; March 30, 2018) can be applied from the start of business years beginning on or after April 1, 2018. As a result, the Company has applied Revenue Recognition Accounting Standard from the start of the first quarter under review, and recognizes revenue in the amount estimated to be received in exchange for the promised property or service, at the point in time when control of said property or service is transferred to the customer.

The application of the Revenue Recognition Accounting Standard follows the provisional treatment stipulated in the proviso of Paragraph 84 of the Revenue Recognition Accounting Standard. The cumulative total affect in case of retroactively applying the new accounting standard to before the start of the first quarter is adjusted in retained earnings at the start of the first quarter and the new accounting policy is applied from this initial balance. However, the Company applies the method stipulated in Paragraph 86 of the Revenue Recognition Accounting Standard and does not retroactively apply the new accounting policy to contracts for which the nearly all revenue is recognized following the previous treatment up to the start of the first quarter. In addition, the Company applies the method stipulated in proviso (1) of Paragraph 86 of the Revenue Recognition Accounting Standard, and for contract changes made prior to the start of the first quarter, the Company will carry out (1) to (3) below and adjust the cumulative total affect in retained earnings of the first quarter, based on contract provisions after reflecting all contract changes.

- (1) Classification of met and unmet performance obligations
- (2) Estimation of transaction price
- (3) Allocation of met and unmet portion of performance obligation to transaction price

Conventionally, for its service “Manga Kingdom,” the Company has recognized the entire amount of points at the time of purchase as revenue. However, the Company changed to a method of recognizing revenue related to points as contract liabilities by deferring it until the points are used or expire. These contract liabilities are presented in the quarterly balance sheet as “Deferred revenue.”

As a result, the balance of retained earnings at the beginning of the year declined 655,227 thousand yen. Furthermore, this will have minimal impact on the Company’s net sales, operating profit, ordinary profit and profit before income taxes for the third quarter cumulative period under review.

(Application of Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions, etc.)

The Company applied “Practical Solution on Transactions Granting Employees and Others Stock Acquisition Rights, which Involve Considerations, with Vesting Conditions, etc.” (Practical Solution No. 36; January 12, 2018; hereinafter “Practical Solution No. 36”) starting January 1, 2019. The Company decided to perform accounting treatment on transactions granting employees and others stock acquisition rights, which involve considerations, with vesting conditions, etc. in accordance with “Accounting Standard on Stock Options (ASBJ Accounting Standard No. 8; December 27, 2005).

However, the application of Practical Solution No. 36 follows the transitional treatment stipulated in Paragraph 10 (3) of Practical Solution No. 36, and the previous accounting treatment will continue to be used for transactions where employees are granted stock acquisition rights which involve considerations with vesting conditions prior, etc., to the application date of Practical Solution No. 36.

(Segment Information, etc.)

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

(Additional Information)

(Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.”)

The Company applied “Partial Amendments to Accounting Standard for Tax Effect Accounting, etc.” (ASBJ Accounting Standard No. 28; February 16, 2018) from the start of the first quarter. As a result, deferred tax assets are presented in investments and other assets and deferred tax liabilities are presented in non-current liabilities.